



TFSA Investors: Where to Invest \$6,000 Today

Description

When it comes to long-term investing, I prefer stability. Even if I have to sacrifice a few percentage points return, that's okay. But I can't hold a stock for five or 10 years if it is giving me sleepless nights. Decent dividends and stable stock appreciation will be rewarding enough in the long term.

Top utility stock for your TFSA

We do have some high-quality names in Canada that check all the above boxes. But **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)) should be an apt pick for long-term investors.

It is a \$12 billion utility that distributes natural gas and electricity and also operates renewable assets. The company makes a large portion of its earnings from regulated operations, which offer earnings stability and predictability.

Some might think that utilities are boring investments and they lag broad markets in the long term. That could be true for peer utilities. However, Algonquin has a growth tilt when it comes to its market performance.

It has returned 560% in the last decade, absolutely thrashing the **TSX Index** and even the **S&P 500**. In the same period, top utilities **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) and **Canadian Utilities** ([TSX:CU](#)) returned 195% and 170%, respectively.

Algonquin witnessed notable changes in power consumption patterns this year amid the pandemic. While there was a significant drop in power consumption among the commercial customers, it was offset by residential customers to some extent. It had a nominal impact on the utility's financials because of its diversified revenue base.

Earnings and dividend stability

Algonquin does not rely solely on regulated operations. Its large renewable operations have given its

earnings a much-necessary nudge in the last few years. More than 35% of its [earnings](#) come from renewables, much larger than peers.

Many utility companies reward their shareholders with [handsome dividends payments](#). Algonquin distributes almost 55% of its earnings in the form of dividends. That is still lower than the industry average, which indicates room for further dividend growth.

Algonquin stock currently yields 4%, in-line with Fortis, but lower than CU's 5.5%. If you invest \$10,000 in AQN stock today, you will generate \$400 in dividends for the next year. It aims to increase dividends by 7% per year for the next few years.

AQN stock was also in free-fall during the pandemic-driven selloff in March. However, it soon recovered as investors rushed to relatively safer bets. It has returned 12% so far this year.

Algonquin stock for the longer term

If you are looking for a high-growth stock that will make you a millionaire in the next few years, Algonquin is not an apt pick for you. However, if you want decent, low-risk, market-beating returns consistently over the years, Algonquin should be your bet.

If you invest via Tax-Free Savings Account (TFSA), the stock appreciation and dividends will be tax-free, irrespective of when you sell it. It would help if you considered more than one stock to invest in in order to diversify.

The contribution room for this year in the TFSA is \$6,000. If you invest \$6,000 per year in AQN stock for the next 10 years, based on historical return trends, the reserve will likely grow to \$180,000 in a decade.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:FTS (Fortis Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:CU (Canadian Utilities Limited)
5. TSX:FTS (Fortis Inc.)

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