TFSA Investors: 2 Stocks I'd Buy Now With an Extra $10,000

Description

Once in a while Tax-Free Savings Accounts (TFSA) investors find they have some extra cash to put into their personal pension fund.

The windfall might come from a year-end bonus at work, a gift from a generous relative, a lucky lottery ticket, or the proceeds from the sale of the old sailboat that sat in the back yard for the past five years.

Regardless of the source, it makes sense to use the money wisely. Paying off credit card debt should be the first priority as that translates into an effective after tax gain of up to 20% depending on your card rates. Investing in upgrades at the house is also a good idea, especially for people who are now working from home.

People who are in a high marginal tax bracket might want to maximize their RRSP contributions to reduce their taxable income for the year.

Otherwise, a smart option is to invest the funds in top dividend stocks inside a TFSA. The distributions and capital gains remain beyond the reach of the CRA, providing investors with an opportunity to use the dividends to buy more shares or create a tax-free income stream.

Let's take a look at two stocks that might be attractive picks for a TFSA dividend fund heading into 2021.

Is Enbridge stock a top buy for a TFSA?

Enbridge (TSX:ENB)(NYSE:ENB) had a rough ride in 2020. The energy infrastructure giant saw throughput fall on its main oil pipeline network due to the crash in demand for fuel. Refineries use crude oil as the feedstock to produce jet fuel, gasoline, and diesel fuel. With airline capacity down 90% and commuters stuck at home, fuel consumption tanked.

Air travel will take longer to recover, but gasoline and diesel demand is expected to reach 2019 levels by the end of 2021. Enbridge's oil pipelines typically operate near capacity and that should be the case as the economy returns to normal activity in the back half of next year.

Enbridge just raised the dividend and anticipates 5-7% annual gains in distributable cash flow over the coming years. The stock appears cheap right now near $43 per share and provided a 7.8% dividend yield. A surge back above $50 per share wouldn't be a surprise in 2021.

Should BCE stock be on your TFSA buy list?

BCE (TSX:BCE)(NYSE:BCE) stock tends to find strong support when interest rates are low or falling.

Why?

Investors who would otherwise put their money in GICs buy BCE stock to get better yield. BCE is a long-term favourite among retirees for its reliable and generous dividend. Low rates also help BCE fund capital expenditures at cheap borrowing costs, potentially freeing up more cash to distribute to shareholders.

The Bank of Canada and the U.S. Federal Reserve have indicated that rates won't be headed higher for some time. In fact, there could still be more moves to the downside. As a result, BCE stock should see strong demand in the medium term.

The business generated solid free cash flow in Q3 2020 despite the challenges faced by the media division. As the pandemic ends, the impacted revenue streams should recover. In the meantime, investors can pick up the stock for less than $56 per share and pocket a 6% dividend yield.

With 2021 likely to be another volatile year for stock markets it makes sense to add a stable high-yield pick to the TFSA portfolio.

The bottom line

Enbridge and BCE offer above-average dividends that should continue to grow. The stocks appear cheap right now and investors get paid well to wait for the rebound. If you have some cash available for a TFSA investment, these stocks deserve to be on your radar.

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