A Dividend Stock I'd Buy With $6,000 in 2021 TFSA Contributions

Description

As the clock strikes midnight on the new year, you'll be able to contribute another $6,000 to your TFSA. While it may be tempting to time your entry into the next big dip, which we seem overdue for, given the amount of froth on the tech-driven **S&P 500**, it's probably a better idea to scoop up the bargains that exist today, most notably the ones on the **TSX Index**.

Where should you invest your next TFSA contribution?

Stocks have really heated up since the start of November. But the sentiment isn't as greedy as you'd think, even with the big 2021 recovery on the horizon. Fear and greed indicators such as the CBOE five-day put/call ratio suggest that TFSA investors aren't yet pounding the table on this market. In addition, the recent uptick in the junk bond yield spread seems to suggest a greater degree of prudence and risk aversion. At the time of writing, the CNN Fear and Greed Index has a neutral rating, indicating that now is as good a time as any to put your 2021 TFSA contribution to work, rather than sitting on the sidelines.

The Santa Claus Rally could very well continue into the early part of January, as TFSA investors look to invest their latest $6,000 contribution, while various American investors look to put stimulus cash to work in stocks now that there's greater clarity with the vaccine timeline. This piece will have a closer look at two hot dividend stocks that still look cheap, given their longer-term earnings growth prospects beyond 2021.

Remember, valuation always matters, and with the following names, you'll be able to profit big without risking your shirt if we're due for a correction in the first quarter of 2021. Consider shares of **Bank of Montreal** (TSX:BMO)(NYSE:BMO), a cheap Canadian value stock that's coming in hot.

Bank of Montreal: "Big Blue" is one of the bluest blue-chip stocks out there

Bank of Montreal is the Big Six Canadian bank that took a brunt of the damage back when the markets crumbled in February and March. If you tuned out the noise, held your nose, parted with history and bought shares of the Dividend Aristocrat on the dip, you locked in a huge dividend yield, which swelled above the 7% mark at the bottom in March, alongside fast-and-furious capital gains.

Today, BMO stock is down just 7% from its pre-pandemic high, after surging over 73% since the ominous depths of March. Shares of Big Blue are no longer a steal at nearly 13 times trailing earnings, and the dividend yield has compressed to 4.4%. But BMO stock is still relatively cheap when you consider the potential magnitude of EPS growth in the post-pandemic environment. As the weight is lifted off the shoulders of many industries, most notably the energy space, BMO will shift gears from provisioning and damage control to full-on EPS growth.

BMO stock trades at 1.2 times book value, which is still considerably lower than that of the stock's five-year historical average price-to-book (P/B) of 1.44. As macro conditions improve in the new year, TFS investors should look to BMO stock to continue correcting upwards such that its P/B hits that of normalized levels.

Stay Foolish, my friends.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Investing
5. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Investing

5. Stocks for Beginners

Date
2025/08/22
Date Created
2020/12/29
Author
joefrenette