It's TFSA Top-Up Time! Forget Bitcoin and Gold — Buy These TSX Stocks Instead

Description

It's Tax-Free Savings Account (TFSA) top-up time, with another $6,000 worth of contributions that investors will be able to make right now.

After such a brutal year, things definitely look brighter in 2021, with a handful of COVID-19 vaccines that could put an end to this horrific pandemic. With a profound amount of stimulus delivered last year and swelling savings accounts, the odds of a post-pandemic discretionary spending boom is high, as savers turn to spenders in what could be a sudden 180-degree reversal in consumer sentiment.

Moreover, with high savings rates and hope on the horizon, many Canadians are likely thinking about putting some excess cash to work in common stocks, not only to grow their wealth at an above-average rate over time, but also to ward off the insidious effects of inflation, which could rear its ugly head in 2021.

Should you protect your TFSA from an unchecked rise in inflation?

Inflation hasn't been a cause for concern in quite some time. It's probable that the disinflationary effect of disruptive next-generation technologies has allowed central banks to keep interest rates at the floor. With the U.S. Federal Reserve (the Fed) and the Bank of Canada likely to keep their hands off the rate hike button for longer, many inflationistas fear that we could be in for an unchecked uptick in inflation as a side effect of the profound magnitude of stimulus delivered in 2020.

After all, more money supply means more inflation. Right?

Not necessarily. While TFSA savers could be in for a sudden uptick in the rate of inflation in 2021, it's unlikely that we'll be in for the 1970s type of inflationary environment that gold bugs and inflationistas seem to think we're in for. Employment may not return to 2019 levels as quickly as some think. And as the economy gradually goes on the mend, it's tough to see an environment where workers demand substantial wage hikes.

While we could be in for modest inflation, I don't think there's the need to overreact by overweighting your TFSA portfolio in gold or Bitcoin. The 5% exposure to precious metals is just fine. That said, I do think investors' best course of action to mitigating the insidious wealth-eroding effects of inflation is to invest in common stock.

Sure, the price of admission to many wonderful businesses has gone up in recent months. And while bubbles are floating around in the "sexier" areas of the stock market, I do see pockets of undervaluation that have been largely ignored by investors who'd rather risk their shirt for a shot at making a quick buck than improving their portfolio's long-term risk/reward.

If you're looking to invest the entirety of your $6,000 TFSA funds, I'd look to buy the recently-battered utilities like **Emera** (TSX:EMA) or a bruised retail REIT like **SmartCentres REIT**, while their yields are swollen and their undervaluation unrecognized.

Emera stock sports a 4.7% yield after flatlining after a modest partial recovery from the February-March sell-off. Given such a highly-regulated utility (with an ever-increasing mix of regulated assets), which has a high, predictable operating cash flow stream is best poised to hold its own in crises, you'd think that the name would at least have recovered the ground lost in the 2020 market crash, just like many restaurant stocks already have.

Foolish takeaway

While COVID-19 headwinds have weighed on Emera, they're unlikely to persist for long. As such, I'd encourage TFSA investors to buy the name on the dip while the appetite is high for lottery ticket stocks and Initial Public Offerings (IPOs) that could offer quick riches and low for "Steady Eddie" plays that can help investors build wealth over the long run.

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