TFSA Income Investors: These 7% Yielders Are Smarter Bet Than Bonds

Description

Bond yields are creeping higher, and that's bad news for stocks. Growth stocks have felt a brunt of the damage in recent weeks, with the NASDAQ 100 now in a hair away from correction territory. Beginners who chased the "sexy" plays were punished harshly, and there are reasons to believe that the pain could become more excruciating as the momentum continues to reverse course.

Despite the sell-off in the 10-year U.S. Treasury bond, I still think the 1.5% yield is a terrible deal for your TFSA (Tax-Free Savings Account), with the threat of an unchecked uptick in inflation that's just waiting around the corner.

While I would keep plenty of cash on the sidelines to take advantage of the bargains that I think will continue to be served up in the tech sector, I'd also look to deploy any excess amounts of TFSA cash into undervalued high yielders like pipeline kingpin **Enbridge** (TSX:ENB)(NYSE:ENB) and retail property play **SmartCentres REIT** (TSX:SRU.UN), which command yields of 7.5% and 7%, respectively.

Both payouts, I believe, are safer than they appear on the surface and represent a profoundly better deal than the value proposition to be had in long-duration bonds or GICs (Guaranteed Investment Certificates) at this juncture.

Without further ado, let's have a closer look at each one to see which is a better fit for your TFSA passive-income fund.

Enbridge

Enbridge has one of the most shareholder-friendly management teams out there. The company has been through its fair share of headwinds over the past six years or so. And management has swum to great lengths to keep TFSA income investors happy.

Sure, it's not ideal to sell some assets to finance a huge payout. Although some may slam Enbridge for raising its dividend, despite not having earned "the right" to do so, I'd argue that given medium-term catalysts that management is wise to keep its dividend "promise" to investors through these trying times.

As fellow Fool Chris MacDonald noted in his prior piece, Enbridge is an "excellent capital allocator." Not many firms can balance a hefty payout while continuing to trim away at debt over prolonged periods of time.

MacDonald thinks that Enbridge stock is a top pick, as energy prices recover on the other end of this pandemic. I think he's right on the money and would encourage TFSA income investors to buy shares for a shot at locking in the huge yield alongside a chance at sizeable gains on the back of the next bull market.

SmartCentres REIT

SmartCentres REIT is a retail shopping centre play that got crushed during the coronavirus crash. Shares were not as quick to bounce back, treading water for most of 2020, as the broader markets went on to stage a full recovery. Today, SmartCentres REIT is finally starting to pick up traction. And the broader markets are pulling back viciously.

The unloved strip mall REIT is now viewed as "sexy" again now that the high-growth trade has begun to sour amid climbing U.S. bond yields. Shares of SmartCentres REIT are now up over 33% from their September lows and have been holding steady amid last week's painful bout of selling.

With an economic reopening underway, I still view SmartCentres REIT as one of the smartest and cheapest ways of getting a sustainable +7% yield. The REIT was never really in trouble, to begin with, and as rent collection normalizes, I'd look for Smart REIT shares to make a return to the $30 levels by year's end.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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joefrenette