TFSA Investors: Ignore Earnings and Invest in These 2 Top TSX Stocks

Description

When it comes to investing, investors will quickly realize that earnings will always give stocks a jump or a dip. When earnings reports come out, analysts quickly jump on what companies did well and what they didn't do well during the quarter. It then sends investors into a flurry of activity, and not all of it is positive.

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But when it comes to investing in your TFSA, I believe investors should pretty much ignore earnings reports. While there is a lot of great information to gather from earnings, it's the overall health of the company that you want to dig into.

What earnings can (and can't) tell you

Let's say you've bought a stock that did really well during the pandemic. You've been patting yourself solidly on the back for investing in this stock. But then, the most recent earnings report comes out. The company announces it really cannot state that this year will be as great as 2020, because the pandemic will slowly come to an end with a vaccine rollout. Suddenly, shares start to drop.

Is any of this bad news? No, not really. In fact, it just means your shares got a boost over the year in an already strong company! So, what the earnings told you is that you can still look forward to growth — just slower growth. It also can tell you what to look forward to from the company. Are there acquisition plans, or fulfillment centres being made, or other growth projects? What will this mean for you as a long-term investor? It can also tell you how the balance sheet is doing. Is there a lot of debt that will have to be paid down long term? Has the company expanded too rapidly? This is what you should look for.

However, what earnings cannot tell you is what the company will deliver in returns decades from now. Sure, some incredibly stable companies can try and predict the next few years, but even that's a stretch. But if you're a long-term investor looking decades ahead, no one can predict that future. Just look at 2020!

Where should you invest?

Two companies that consistently see reactions to earnings reports are **Shopify** (TSX:SHOP)(NYSE:SHOP) and **Air Canada** (TSX:AC). On the one hand, we have Shopify stock, which traded to all-time highs of $1,900, as earnings came in showing immense year-over-year growth in revenue from the growth in e-commerce.

Yet shares have dipped to around $1,545 as of writing after the recent earnings report. Was there any bad news? No! It's just as I said. The company expects earnings to slow but not collapse! And it continues to grow its base of recurring revenue. The company is the perfect investment if you're a long-term buyer, and now is a great time to buy this dip based on earnings. Sure, it's expensive, but adding this to your portfolio will still allow long-term investors to see massive returns.

Then there's Air Canada stock, where the opposite is true. The pandemic looks to be coming to a close, but the company has a long, *long* way to go. It now has billions in debt to repay, and that's going to take a long time even with a bailout. Then the company will have to convince passengers to fly again, and that will take time as well.

Meanwhile, the company had a large stake in mainly U.S. passengers flying internationally with layovers in Canada. These long-haul flights are going to remain low until the vaccine is distributed worldwide. Yet shares are trading up with a vaccine rollout. I'm not saying you shouldn't invest in Air Canada stock, but you will need a lot of patience to see returns. And those returns may see some serious dives before you get there.

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Bottom line

While an earnings report can tell you some long-term information, it mainly deals with the short term. You have to dig in as a long-term investor to see what really matters. In the case of Shopify stock and Air Canada stock, both are solid long-term investments for your TFSA, but you may just have to be patient if investing today.

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