Where to Invest $5,000 When Markets Are at Record Highs

Description

As markets have been making new highs for the last few months, that does not mean they will crash soon. On the contrary, markets look well placed for further growth amid the economic recovery and upturn from the pandemic. However, at the same time, it is vital to avoid exorbitantly overvalued TSX stocks and invest in quality, reasonably valued names. Here are three of them.

Canadian National Railway

Railroad stocks generally offer safety, because of their stable earnings and high barriers to entry. **Canadian National Railway** (TSX:CNR)(NYSE:CNI) is a leader in a duopolistic market in North America.

It operates a 19,600-mile network that joins three coasts — the Atlantic, the Pacific, and the Gulf of Mexico — which is its most important competitive advantage.

In the last 10 years, CN Rail managed to grow its earnings by 5% CAGR, which is too dull compared to a jazzy growth stock. However, mature companies generally grow slowly, and stability and dividends are what matter the most.

CNR stock has returned 16% CAGR in the last decade, outperforming the **TSX Composite Index** by a huge margin.

CNR stock has fallen almost 15% in the last couple of months, and it could be an opportunity for long-term investors. The stock does not look expensive from the valuation front and suggests a handsome upside potential.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) could be a smart pick, as markets trade at record highs. It offersone of the most stable dividends, yielding 6.7% at the moment.

Investors generally overlook dividend-paying, defensive stocks. However, it could be a mistake in the long term, as dividends contribute substantially to total returns. For instance, Enbridge has returned 11% compounded annually in the last decade — way higher than broader markets.

Enbridge operates energy pipelines that connect oil and gas producers and refiners in North America. As a result, midstream energy companies like Enbridge reward shareholders slowly but consistently because of their earnings stability. Oil and gas price fluctuations do not dent their earnings significantly. Also, Enbridge earns a major portion of its earnings from long-term, rate-regulated contracts.

ENB stock has returned 25% in the last 12 months. It has increased dividends for the last 26 consecutive years. It will likely keep raising shareholder payouts in the future, driven by its stable earnings and solid balance sheet.

Air Canada

Air Canada's (TSX:AC) leading market share and strong balance sheet are some of its major strengths as we move away from the pandemic. These will help it emerge stronger as the world resumes travel. However, the new Delta variant of the coronavirus poses serious challenges and could delay its recovery.

But I'm positive about Air Canada stock for the long term. Its operational efficiency and capacity addition in the next few months should fuel revenue recovery. Although air travel demand recovery could be slow in the next few months, it will significantly help Air Canada lower its cash burn.

AC stock is up almost 50% in the last 12 months. However, it looks undervalued from a valuation standpoint and indicates handsome upside potential.

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