TFSA Investors: Where to Invest $6,000 in 2022

Description

When you churn your portfolio more, your net returns shrink substantially due to taxes and charges. That's true, even if you achieve above-average returns. At the same time, few quality stocks backed by fundamentals will generate higher returns in the long term. And that's exactly what Tax-Free Saving Accounts (TFSA) are for.

TFSAs enable tax-free dividends and capital growth for life. Even the withdrawals will be tax free. For 2022, the contribution limit is $6,000, unchanged since 2019. If you have never invested in a TFSA, the accumulated contribution limit is $81,500.

A top TSX stock for your TFSA

I recommend one of the popular TSX stocks for your long-term TFSA portfolio: **Canadian Pacific Railway** (TSX:CP)(NYSE:CP).

Canadian Pacific is the second-biggest freight railway company that operates 13,000 miles network. It forms the backbone for key business centres in Canada as well as in the U.S. Midwest and Northeast regions.

The railroad is typically a stable, slow-growing business. CP has managed to grow its revenues by 5% CAGR, while its earnings have grown by 14% CAGR in the last five years.

The above-average earnings growth effectively seeped into its market performance all these years. CP stock has returned almost 170% in the last five years, notably outperforming peers and TSX stocks at large.

Canadian Pacific's unique railroad network gives it the edge in the industry. It operates the shortest and fastest route between some of the prime lanes in Canada and the U.S.

Also, it carries a range of freight from bulk commodities to merchandise, which enables a diversified revenue base. So, even if one industry suffers from a slowdown, CP's revenues remain relatively stable.

CP's return on equity has averaged around 35% in the last five years. Return on equity is one of the crucial ratios investors consider as it shows how much income is generated per dollar on the capital invested. Typically, a return on equity above 15% is considered superior.

Should you buy CP stock?

CP has seen excellent growth all these years. But how will it continue to outperform in the future?

Canadian Pacific's **Kansas City Southern** acquisition, if approved, will form the first Canada-U.S.-Mexico rail network. The added network will place CP on a much better footing relative to peers. The combination is expected to generate US$1 billion in synergies within three years.

The combined entity will operate more than 20,000 miles of the rail network and will add nearly $2 billion in revenues. The deal is expected to close after the Surface Transportation Board's approval in Q4 2022.

Notably, the railroad is a mature, unexciting industry with stable growth. And that's why stocks like Canadian Pacific are more suitable for your TFSA. Its less-volatile stock and stable dividends have the potential to create a massive reserve for your sunset years.

Bottom line

Remember: it's not prudent to invest all your money into one stock. Diversifying across a few quality stocks or sectors will balance the risk and increase the return potential. Consider these top TSX stocks for the long term.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CP (Canadian Pacific Railway)
2. TSX:CP (Canadian Pacific Railway)

PARTNER-FEEDS

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

PP NOTIFY USER

1. kduncombe
2. vinitkularni20

Category

1. Dividend Stocks
2. Investing

Date
2025/07/26
Date Created
2022/01/22
Author
vinitkularni20