Dirt-Cheap TSX Stocks for New TFSA Investors Seeking Real Earnings Growth

Description

It's been a challenging year for many TFSA investors, but beginners should have learned a great deal from the past few quarters of extreme selling. Indeed, many newbies likely entered stock markets for the first time in late 2020 or early 2021. 2022 has been a rude awakening, and although many market newcomers are in the red, there are a lot of takeaways from the current selloff. Most notably, investors should not seek to pay any price for uncertain growth.

Chasing momentum and not putting in the homework is just lazy.

It's fun and easy until the tides turn and TFSA investors get hurt. It's long-term thinkers who can spot real value that can come out of this market pullback ahead of the pack. You might be discouraged if you lost money by betting too much on speculative, high-multiple growth stocks. But if you're a young investor, you should treat such a loss as a lesson learned. You've still got many decades' worth of wealth creation and don't need to lament on mistakes you've made in the past.

For many newbies, it's time to learn and move on. With the S&P 500 in a bear market, valuations are getting pretty good. Though they're not as good as the depths of the 2020 stock market crash, I'd argue that if you know where to look, you can get an excellent bang for your buck.

New TFSA investors: Focus on value and earnings over "sexy" growth stories

So, instead of looking to unprofitable growth companies with uncertain futures, as the Federal Reserve continues raising rates, look to undervalued companies that generate actual earnings.

While the "sexy" growth stocks that have lost over 80% of their value will eventually bottom out and start moving higher again, I'd argue that most beginners will have difficulty valuing them, given uncertainties about where rates will settle, competitive pressures in the distant future, and a potential recession that may be waiting right around the corner.

The good news is, you don't need to try to be a hero by catching falling knives that not even the smartest analysts on Wall Street can figure out. Instead, you can take a step back and focus on easy-to-understand firms that generate real cash and are capable of growing earnings while maintaining the width of their moats.

Currently, the big banks stand out to me as magnificent buys. **Bank of Montreal** (TSX:BMO)(NYSE:BMO) is my favourite at this juncture due to its absurdly low seven times trailing earnings multiple and its innovative capabilities.

Bank of Montreal: Moving onto new frontiers

Bank of Montreal has some pretty exciting growth prospects on the horizon. The acquisition of Bank of the West is a significant deal that expands upon the Canadian banks' U.S. exposure. Though unlocking value from the acquisition will take time, I think Bank of the West will thrive under the leadership of BMO.

Further, BMO has embraced innovation, bringing new ETFs to passive TFSA investors and other intriguing fintech products to its customers. Undoubtedly, fintech stocks boomed and bust in 2020 and 2021. But it's the big banks with deep pockets and innovative capabilities that are the firms more capable of bringing finance to the high-tech age.

Looking ahead, BMO is teaming up with smaller fintech firms to gain a technological edge. Such partnerships will not only help the old-time bank adapt to the times, but will also give it a nice boost relative to its peers in the Canadian banking scene.

In short, BMO is too cheap amid economic road bumps, and its tech-savvy is underestimated.

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