TFSA Investors: This 100-Year-Old Dividend Stud Can Help You Beat the TSX

Description

Tax-Free Savings Account (TFSA) investors may feel inclined to put off their next stock purchase, with all the horrid volatility (in both directions). While the markets may be quick to move in both directions, I still think it's a good idea to ease a toe into the waters now and gradually over time.

Undoubtedly, the Fed comments at the Jackson Hole meeting shot down some of the dovish hopes of upbeat investors. While quick cuts following rate hikes may not be on the table, as some optimistic investors expected, I think there's still a strong case for being bullish over the long haul rather than bearish.

Recession woes mount after hawkish Jackson Hole

With a recession partially baked in, some may discount the staying power of well-managed firms and their ability to push through a period of economic weakness without enduring too much long-lasting damage. Certain firms don't have any evidence of a recession in their numbers.

Still, management teams may err on the side of caution by delivering downbeat guidance. It's just what most companies have been doing these days. Despite downbeat guidance, many well-managed firms may be in great shape to pole-vault over expectations down the road, especially if the recession everyone seems to be talking about ends up shorter than expected.

With the TSX Index in a tough spot, TFSA investors should look to individual companies that can power through the next recession to put their portfolios in a market-beating spot. It's not hard to beat the Canadian stock market if you're willing to be selective and contrarian.

At this juncture, well-run discretionary companies that have taken too hard a hit to the chin seem worth giving a second look. Similarly, bid-up defensive stocks also seem worth looking at here, as they're still much cheaper than risk-free assets, given the magnitude of rate risk (higher rates mean downside risk for bonds and bond funds).

Canadian Tire

It's hard to believe that **Canadian Tire** (TSX:CTC.A) turned 100 years old in 2022. The retailer has transformed over the decades from an auto-focused shop to a big-box retailer that sells everything from kitchen appliances to pet food. Indeed, Canadian Tire is a brick-and-mortar force to be reckoned with, given its tremendous physical presence from coast to coast.

Amid the rise of e-commerce, Canadian Tire has held its own rather well, thanks partly to a focus on loyalty and bringing out the best in digital and physical. The post-COVID return to normal has shown us that physical retail is here to stay. And Canadian Tire is well equipped to offer customers the optimal omnichannel experience.

Of late, shares have been on a rough ride, crumbling more than 13% year to date and around 25% off its 2021 all-time high. The $9.7 billion retail behemoth is at 52-week lows at around $159 per share. The stock trades 8.9 times trailing price-to-earnings (P/E), with a 4.1% dividend yield. That's the highest yield and lowest P/E to be had since the depths of the 2020 market crash.

Bottom line

Recent results haven't been great, with second-quarter (Q2) earnings per share of $3.11, falling short of the $3.61 estimate. Yes, Q2 was weighed down by many inflationary headwinds. However, the action in the stock seemed to neglect the two big quarterly beats that preceded Q2.

In any case, Canadian Tire is a bargain-basement dividend stock that investors should give the benefit of the doubt, as there seems to be too much recession baked in.

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1. Dividend Stocks
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