TFSA Investors: My 2 Favourite Stocks to Buy for Passive Income

Description

TFSA investors seeking substantial passive income should look to average down as market volatility continues into year's end. While there's plenty to worry about, I would acknowledge both the upside and downside risks. By playing too cautiously and trimming after a market pullback, you could run the risk of missing the next huge upward move, which could merge with the Santa Claus rally.

It may seem absurd to think stocks could rally with all this inflation and a recession looming. Still, things are seldom as bad as investors expect when the markets finally do bottom out. In June, it seemed hopeless to be a buyer of almost anything! As it turns out, going against conventional wisdom would have granted you a front-row seat to a very quick gain.

The doubters will doubt the relief rally, but I do think the bear market is getting a tad long in the tooth. With that said, many high-performing stocks may be ready to move on from the great bear market of 2022.

For TFSA investors seeking the perfect mix of passive income and low valuations, I'm a fan of **Canadian Tire** (TSX:CTC.A) and any one of the Canadian banks. Currently, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) seems like a play you simply cannot go wrong with as it rebounds from its bear market moment.

Canadian Tire

Canadian Tire stock sports an attractive 4% dividend yield after slowly sagging into bear market territory over the past year. While the discretionary retailer is sensitive to the consumer, I think many are too quick to discount the firm's loyalty program and its robust e-commerce presence.

Canadian Tire isn't just a place to buy nice-to-haves. It has essential products that should help it fare well as consumers become more selective due to stressed budgets. Canadian Tire sells defensive items like pet food and kitchen essentials that will still be in high demand when the lights go out on the Canadian economy.

At 9.2 times trailing price-to-earnings (P/E), there's not much expectation ahead of coming quarters. If the economy doesn't fade as quickly as we think, Canadian Tire stock could easily find itself back at new highs at $200 per share by year's end.

Canadian Tire has a strong balance sheet (over $700 million in cash as of June 2022) and a conservative 29.8% payout ratio, which is well below the industry average of 33.8%. This leaves room for the dividend to rise, even as sales slow modestly.

Royal Bank of Canada

Royal Bank of Canada is one of the finest blue chips that money can buy. Though a 2023 economic slowdown will not spare any bank, Royal seems in great shape to weather the storm. This is partly attributable to its well-diversified business model that includes multiple sources of revenue.

In its fiscal year 2021, the bank generated nearly 36% of its total revenue from the wealth management segment. The remaining came from its other segments like personal and commercial banking, investor and treasury services, insurance, and capital markets.

The big bank has $340 million saved for a rainy day (provisions). I expect Royal Bank is erring on the side of caution with its provisions and I would count on the bank returning to the earnings growth track faster than most think, as rates continue to rise.

Like Canadian Tire, RY stock sports a 4% yield that's well-covered and subject to solid growth over time.

CATEGORY

1. Bank Stocks
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2. TSX:CTC.A (Canadian Tire Corporation
3. TSX:RY (Royal Bank of Canada)

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