Build Your TFSA Around These 2 Dividend Stocks

Description

Some of 2021's hottest plays shed most of their value in 2022. On the flip side, stocks don't always go down. And once the tides turn, a new bull market could help bring back the solid gains to patient Tax-Free Savings Account (TFSA) investors who didn't act on emotion when the bear's roar was loudest on the Street.

The average bear market tends to be around a year. As the page turns on November, this bear will be just a month shy of its first birthday. Though there's a chance this bear may be older than average, odds are we're closer to the end than the beginning. Still, now isn't the time to get too greedy. Just because a bull may be coming in a few months does not mean it'll bring forth V-shaped recovery gains. Indeed, a U-shaped bounce seems likelier, assuming a central bank pause and a lack of rate cuts.

In this piece, we'll have a look at two sound dividend stocks that could be ready to run into a recession. Indeed, calls for higher rates could crush hyper-growth stocks and unprofitable plays (think shares that lack price-to-earnings multiples).

With markets weighed down by all the recession worries and rate-hike fears, valuations are the tamest they've been in quite a while (they're certainly tamer than multiples last year!). Lower multiples and muted share prices tend to accompany slightly higher dividend yields. Though inflation (north of 7%) may dwarf today's dividend yields, I'd argue that these lofty levels of inflation will not last longer than the dividends of the stocks outlined in this piece.

If anything, dividends will continue to grow, as inflation looks to take a dip at the hands of rate hikes and a recession.

IA Financial

IA Financial (TSX:IAG) is one Canadian dividend stock that's pretty underrated and overlooked due to its relatively small market cap. Further, having a dividend yield lower than the peer group may also be less appealing through the eyes of dividend hunters.

The dividend currently yields around 3.7%. That's quite low, given the life insurers offer anywhere between 4.5-5.5% yields. As a domestically flavoured insurer, with a well-run wealth management business, IA lacks the long-term growth traits as some of its peers. Still, IAG stock is incredibly cheap, with one of the most durable dividends in the industry. At writing, the firm's market cap is at a modest $7.8 billion. It's not quite a mid-cap, but it's definitely lesser known than most other financials.

At 9.93 times trailing price-to-earnings (P/E) ratio, IA has a lot to offer value investors while it's down more than 12% from its highs. Though financials tend to slog through recessions, I do not doubt IA's ability to adapt to tough times.

Manulife Financial

Manulife (TSX:MFC) is a better-known Canadian insurer, with a huge $44.8 billion market cap and a juicy 5.58% dividend yield. Arguably, Manulife is even cheaper than IAG, with a mere 6.4 times trailing P/E. The main attraction to Manulife, I believe, is the Asian segment, which is key to next-level sales growth over the next 10-15 years.

Understandably, a global recession could cause investors to pass up on higher-growth plays with exposure to international markets. At $23 and change per share, I view MFC stock as a misunderstood bargain. It'll be more volatile than the likes of an IA, but higher risk (or implied volatility) tends to come hand in hand with greater gains.

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Author
joefrenette