



TFSA Investors: 3 Top Canadian Stocks to Buy in 2021

Description

With 2020 now underway, Canadians can begin contributing up to a maximum of \$6,000 to their Tax-Free Savings Account (TFSA).

Perhaps unsurprisingly, the 2020 TFSA contribution limit was not increased for the second consecutive year. The Canada Revenue Agency did not make any adjustments to the limit as inflation rates are expected to be around 1% in 2021.

What are the TFSA's advantages?

The TFSA has several [key distinguishable traits](#) that other Canadian savings accounts do not.

As the name would suggest, the TFSA provides contributors with tax benefits. All capital gains and dividends are completely free from being taxed. In addition to that, withdrawals can be made at any time, completely tax-free.

On top of all that, once a TFSA contributor makes a withdrawal, that contribution room is regained in the following calendar year.

With all that in mind, let's look at three [top stocks](#) that Canadians should consider adding to their TFSA this year.

TFSA stock #1: Constellation Software

Technology was one of the top-performing sectors in 2021. The COVID-19 pandemic led to an acceleration in the digitization of many companies across the globe. As a result, the dependence on technology has only deepened and a huge list of tech companies have benefited greatly.

Constellation Software ([TSX:CSU](#)) has been one of the top stocks for Canadians to have owned over the past decade. Growth may have slowed in recent years, but the \$35 billion company still continues to crush the returns of the Canadian market.

The software company has seen its share price grow more than 4,000% over the past decade. In 2020, share price grew by about 30%, which easily surpassed the gains of the **S&P/TSX Composite Index**.

At a forward price-to-earnings ratio of 30, Constellation Software is not cheap. Market-beating growth potential like this comes at a price, and this is one stock TFSA investors will want to pay up to own.

TFSA stock #2: Enghouse Systems

Sticking with tech stocks, **Enghouse Systems** ([TSX:ENGH](#)) is my second pick for TFSA investors.

Enghouse Systems is also in the software business, but at a market cap of just \$3 billion, it's a much smaller company than Constellation Software.

It was a wild ride for Enghouse Systems investors in 2020. Like many other **TSX** stocks, it was hit with a massive blow when the COVID-19 pandemic first hit. The tech stock lost 35% of its value in barely over a month. After bottoming out in the last week of March, though, the stock rallied 125% over the next five months.

The stock peaked in early September of 2020 and has been slowly trending down ever since. With plenty of growth still left in the tank, I believe TFSA investors can grab shares at a massive discount today.

TFSA stock #3: Bank of Montreal

Although Constellation Software and Enghouse Systems both pay dividends, which is quite rare for a high-growth tech company I might add, most TFSA investors are holding their shares for capital gains, rather than passive income.

My last pick for TFSA investors will sacrifice capital gains for a top dividend.

The major Canadian banks own some of the top dividends in the market today, and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) is no exception.

The Dividend Aristocrat has been paying a dividend to its shareholders for 190 years.

Over the past decade, the Montreal-headquartered bank has grown its dividend at a compound annual growth rate of 6%.

At today's stock price, the dividend of \$4.24 per share is good enough for a yield above 4%.

You likely won't be earning market-beating growth owning any of the major Canadian banks. That should be more than made up for with the stability and passive income that BMO can provide for shareholders.

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4. TSX:ENGH (Enghouse Systems Ltd.)

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