How to Get Your Portfolio to Fund Itself

Description

Let's assume that you are investing $1,000 every three months by saving from your paycheque. How would you like to invest $2,000 every three months instead of $1,000? This is without you having to change your current lifestyle by spending less and saving more.

Here's how you can get your portfolio to fund itself.

Buy dividend-growth stocks

You can invest in quality dividend-growth stocks such as **Bank of Montreal** (TSX:BMO)(NYSE:BMO). It has paid dividends for over 100 years. Currently, it costs around $73 per share and yields 4.5%. Bank of Montreal's payout ratio is around 50%, so its dividend is sustainable and has room for growth.

Another dividend-growth stock is **Fortis Inc.** (TSX:FTS), which has a 42-year history of increasing dividends. It just raised its dividend by 10.3%. At $37.5 per share, it just yields 4%. Fortis is in the very predictable business of utilities, so its earnings are stable and predictable as well. So, even with a higher payout ratio of 60% compared to the bank, Fortis's dividend has a margin of safety and room for growth.

Buy high-yielding dividend stocks

Some dividend stocks might not grow dividends, but a higher yields more than compensates for that. Real estate investment trusts (REITs) are a good group of high-yielding stocks because the cash flows they earn come from hard real estate assets.

Notably, **Northwest Healthcare Properties REIT** (TSX:NWH.UN) yields 9.8% at about $8 per share. The global REIT owns hospitals and clinics with a focus in Canada and Brazil, though it has properties in Australasia and Germany as well. Its payout ratio is at the high end at 95%, but the REIT has also been maintaining a high occupancy level of 94%.

REITs pays out distributions that are unlike dividends. If you wish to avoid the tax-reporting hassle,then you should purchase and hold REITs in a TFSA or an RRSP.

Tax-free savings account

If you are a Canadian who is at least 18 years old, you’re eligible for a tax-free savings account (TFSA). This year, you have $10,000 of contribution room. If you were 18 years old in 2009, then you would have accumulated $41,000. Whatever you earn in a TFSA is tax free, so there’s no reason not to use it. However, remember to avoid these big TFSA mistakes.

In conclusion

If you buy quality dividend stocks, you can let them compound at their maximum potential without having any tax cuts when you hold them in a TFSA.

Let’s assume that you have a dividend-growth portfolio with $41,000 invested and you continue to contribute $1,000 every three months. You also reinvest all dividends back into the portfolio. Your portfolio continues to yield 4% as it grows, and the yield grows 5% per year.

In your seventh year of investing, your portfolio would be worth over $100,000, and generate $4,000 in dividends annually. At that time, you can choose to invest $2,000 to get to your retirement goals faster, or you can let your portfolio fund itself and spend the $1,000 savings from your paycheque as you see fit.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)
3. TSX:FTS (Fortis Inc.)
4. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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kayng