Retirees: Turn Your TFSA Into an ATM By Using These 3 Guidelines

Description

A Tax-Free Savings Account (TFSA) is one of the best tools long-term investors have to take advantage of growth opportunities in the market, foregoing the associated capital gains taxes which accompany large stock price increases over long periods of time. By putting excellent dividend-generating companies in one's TFSA, pulling out large sums of money generated regularly by these firms at a tax-free rate (rather than at a taxable rate with a vehicle such as the RRSP) is one of the main benefits for investors thinking about retirement, needing income over the upcoming decades.

In this article, I'm going to discuss a few strategies the average TFSA investor can use to create a nice income-producing nest egg in only a decade or two…

Focus on companies with long track records of dividend increases (think decades, not years)

Many companies can offer dividend increases in the double-digit range for a few years. However, maintaining such a record over decades is much harder to find in stocks traded on the TSX. One such stock that has proven its ability to generate long-term dividend growth for investors, however, is **Fortis Inc.** (TSX:FTS)(NYSE:FTS). This utilities powerhouse has raised its dividend for a record 43 straight years, making this one of the best long-term dividend gems on the TSX today.

Focus on companies with excellent dividend growth rates rather than high yields currently

A common problem many long-term investors have is focusing too much on what the current yield of a given stock is rather than looking closer at the long-term safety of the dividend (which is often reflected in metrics such as the dividend payout ratio) and the long-term dividend growth rate of a given business. Companies such as **Canadian National Railway Company** (TSX:CNR) have what may be considered to be a poor yield overall (currently sitting at a measly 1.7%), however this company has raised its dividend distribution for 21 consecutive years, with many of those increases in the double-digit range, with one of the safest dividends currently on the TSX when looking at the company's payout ratio of 31%.

Look for companies with high earnings growth rates, supplementing long-term income growth with capital appreciation

The best combination for long-term investors seeking to put great income-generating stocks into their TFSA is to look for businesses that not only provide excellent long-term dividend appreciation, but capital appreciation as well. Such a company can be very difficult to find, and there sure aren't many options available currently on the TSX, however one of my favorite long-term picks in this category is **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN). Algonquin Power has grown its dividend by nearly 34% per year, compounded annually, over the past four years. The utilities company's growth rate for earnings attributable to shareholders has grown even faster, at a compounded annual growth rate of more than 68%, over the same time frame.

Stay Foolish, my friends.

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3. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:FTS (Fortis Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:CNR (Canadian National Railway Company)
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