TFSA Investors: How to Make up to $5,000 a Year in Dividends

Description

Dividend income is a great way to supplement your financial position by not even having to do anything besides hold stocks. And if you can make that money inside of a TFSA, you've got the added benefit of it being tax-free. Adding dividend income can help diversify your income and give you a bit more breathing room in paying your bill payments.

Below, I'll show you how you can accumulate as much as $5,000 in tax-free dividend income. There's no one strategy that you can use and you don't need to max out your TFSA in order to do so. However, a lot will depend on your level of risk tolerance as well.

It's no secret that the more you have inside your TFSA, the easier it'll be to generate a lot of dividend income. You can certainly compensate by taking on higher-risk stocks, but then you end up putting your portfolio at risk by doing so. Let's start with the ideal situation.

Maxing out your TFSA

If you're fortunate enough that you can max out your TFSA, you're going to be in the most advantageous position. The cumulative limit for a TFSA as of 2019 is now $63,500. If you were to invest that into a stock like **Inter Pipeline** (TSX:IPL), which currently pays around 7.8%, you would earn right around $5,000 a year in dividends. At today's price, you might come in a little under that, but if you wait for the stock to dip, that yield will rise, and if it gets to 7.9%, that will bridge the gap.

Inter Pipeline doesn't have a very long history of paying dividends, but it's been impressive nonetheless. Even during the downturn in oil and gas, Inter Pipeline has still increased its payouts, which is remarkable considering many companies actually closed shop during that time. However, the one danger with dividends is that there's never any guarantee that comes with them, and you can find yourself holding a stock that no longer pays a dividend.

The good news for investors is that Inter Pipeline still has strong fundamentals and isn't at a big risk of going under anytime soon. However, poor commodity prices can sometimes force a company to have to cut back, and it's always a risk investors have to weigh.

Going for higher yields

If you don't have the luxury of being able to put aside over $63k into dividend stocks, then the only way you'll be able to get that same level of dividend income is by investing in higher yields. In those instances, however, you're taking on even more risk with your portfolio, and it's not something I'd ever suggest doing. Inter Pipeline's dividend is already very high, and while high-yield stocks may look good today, tomorrow they may be gone.

At minimum, investors should invest because they like the company and think it has good prospects for growth, not because of its dividend.

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djagielski