Make a Tax-Free Fortune With Your TFSA Passive Income Fund

Description

Now that the TFSA has hit its 10th birthday, many disciplined Canadians who've made the maximum contributions every single year to invest in blue-chip stocks are now sitting on a fairly large nest egg. If you didn't attempt to time the markets and bought regardless of the circumstances, your TFSA fund has likely broken the six-figure milestone.

While it's tempting to raise the amount of growth (and risk) to get to the $1 million TFSA milestone in the shortest amount of time possible, it'd only be prudent to stay the course with your original investment plan and not make any sudden strategic adjustments as the bull market approaches 11 years of age.

Sure, it's exciting that the market (and likely your TFSA) have surged to hit a new all-time high, but it's crucial not to become overly sanguine because almost everybody on the Street would agree that we're in the latter innings of one of the longest ball games in history. Given the fact that we're long overdue for an even bigger plunge than the one we had last October to December, it only makes sense to position your TFSA to fare well regardless of what Mr. Market has in store next.

In simple terms, you want to make sure that your TFSA has its winter tires on just in case the foggy road ahead starts gets slippery. And the best winter tires for your portfolio are cold hard dividends and distributions. They'll absorb a considerable amount of the shock once volatility inevitably rears its ugly head once again, so if you find you're TFSA is overweight in low or no dividend-paying names, it may be time to make some minor adjustments to make your TFSA and "all weather" kind of portfolio.

By ditching dividend less growth stocks for high-yield value stocks, you may be thinking you're stunting your TFSA's long-term growth profile. If we weren't in the late stages of the market cycle, you'd probably be right, but given the frothy valuations on growth stocks and the outperformance of value relative to growth over the extremely long-term, you're probably doing your TFSA a huge favour, especially once fear and panic are the top emotions on the Street.

Even if you don't need the income today, a tax-free passive income stream can do wonders for your TFSA over the long haul if you reinvest your dividends and leverage the power of tax-free compounding.

In a down market, you won't be hurt nearly as hard, and as cash pile swells from dividends, you'll have the opportunity to buy even more shares of your favourite dividend payers while their yields swell to artificially high levels.

Forget owning the sexiest investments on the market and praying that the market goes up. That's not how you'll make a tax-free fortune in the latter stages of a market cycle.

By acknowledging that we're in the late innings, and making adjustments to account for downside risks, you'll be able to tilt the odds in your favour. And when the market implodes, you'll have that much more liquidity from your dividends to cash in on the bargains as they come.

If you're looking for a dividend-payer that's the perfect fit for your TFSA, look no further than **Fortis** (TSX:FTS)(NYSE:FTS), the best bond proxy in Canada.

Fortis is a ridiculously boring stock that you wouldn't think could make you rich, but hear me out. The stock offers investors one of the best long-term risk-reward trade-offs out there. While Fortis stock is still technically classified as a "risky" investment because it's not a fixed-income security, the highly predictable nature of the regulated operations and the growth profile allow investors the opportunity to score a 6% raise every single year.

Recession or no recession, it doesn't matter. People need to keep the lights on, which is a major reason why Fortis has paid consecutive quarterly dividends for over four decades. And with ambitious low-risk growth projects that could support annual dividend hikes in the mid-to-high single-digits, it's not a mystery as to why smart investors have been piling tons of cash into the boring stock.

Fortis's 3.7% yield seems weak today, but give it a few decades and Fortis can make you rich with dividends.

Stay hungry. Stay Foolish.

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