Passive Income Investors: How to Turn a Small Windfall Into a $670 Per Month Pension in Your TFSA

Description

Could you use a few extra dollars each month?

House prices remain sky high, gasoline is currently $1.25 per litre in our neighbourhood, and three peppers set me back $2.50 the other day at the grocery store.

Whether you're a retiree searching for ways to boost pension income or a young couple hoping to come up with funds to cover daycare costs, there aren't many options available short of getting a side job, which cuts into the precious time that is supposed to spend with family and friends.

Once in a while, however, a few extra dollars can come our way. It could be a gift from a family member, the result of an asset sales, or the proceeds from the lottery ticket you bought last week. The tendency would be to spend the money, but there is another option that could turn a small windfall into a decent payout for the rest of your life.

Canadian residents who were at least 18 years old in 2009 now have up to $63,500 in Tax-Free Savings Account contribution room. That means a couple would potentially have $127,000 in TFSA space to generate tax-free earnings.

If you happen to find yourself with $127,000 in extra cash, one way use it would be to buy dividend-paying stocks inside the TFSA to generate a solid stream of passive income.

Let's take a look at three stocks that might be interesting picks today.

Enbridge (TSX:ENB)(NYSE:ENB)

Enbridge is North America's largest energy infrastructure company with oil, gas, and gas liquids pipelines as well as natural gas distribution and renewable energy assets.

The firm's $16 billion development portfolio is fully funded through internal cash flow, and management expects to increase the dividend by 10% in 2020. Distributable cash flow growth is targeted at 5-7% per year afterwards, so that should support ongoing dividend hikes in the same range.

Investors who buy the stock today can get a yield of 6%.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

CIBC tends to lie in the shadows of its larger Canadian peers, but the stock probably deserves more respect. Management has made good progress in its efforts to diversify the revenue stream, including a US$5-billion acquisition in the United States. This should provide a solid platform for additional growth south of the border.

Pundits point to risks in the Canadian housing sector as a reason to avoid the stock, but CIBC's mortgage portfolio can ride out some rough times, and most analysts now anticipate a soft landing.

CIBC remains very profitable and the stock price appears cheap relative to the multiples being paid for the larger Canadian banks. The dividend provides a yield of 5%.

Inter Pipeline (TSX:IPL)

IPL is a niche player in the midstream market of the Canadian energy sector. The company's gas processing business is performing well, and throughput on the conventional and oil sands pipeline assets remains robust. The company reported record results in 2018 and raised the dividend for the 10th consecutive year.

A $3.5 billion development project is moving along as expected and should start to generate additional annual EBITDA of at least $450 million in late 2021.

The current dividend provides a yield of 8%.

The bottom line

A couple who comes across a $127,000 windfall could split the funds equally among these three stocks inside their TFSAs to earn a yield of 6.33% and generate more than $8,000 per year in tax-free income — that would be about $670 per month!

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2. NYSE:ENB (Enbridge Inc.)
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