How to Easily Add $1,000 in Tax-Free Dividends Every Year

Description

Adding an extra $1,000 to your account every year is a great way to save for retirement, help pay for a trip, or justify a big purchase. Either way, there's no shortage of uses for some extra cash. Below, I'll show you how you can add an extra $1,000 in cash that's free of taxes as well.

The key is finding a good dividend stock and putting it into your TFSA, giving it the time it needs to accumulate some valuable dividend payments for your portfolio. The good news is, you won't need to make a $100,000 investment to make this happen, either.

Why a big investment isn't always the best one to make

A large investment could result in big swings in your stock's value and undo the whole point of earning a dividend from the stock. For instance, a 10% decline on a $100,000 investment would mean a loss of $10,000 and more than offset the income you would have earned from the dividend.

Putting all your eggs, or even just a lot of them, into one basket exposes you to a lot more risk than if you were to just invest a fraction of them. That's where a more modest investment can be optimal, and still earn you a good payout in the process.

A stock yielding 5% is usually what I target when looking for a good dividend stock to invest in. It's not high enough that it should raise concerns and not low enough that it isn't worth your while. It also means that an investment of $20,000 would be enough to earn you $1,000 annually in dividend income. And with $20,000, it's well below the cumulative limit for a TFSA.

If you've got enough room in your TFSA, it's a strategy that could work very effectively today.

Finding a good dividend is key

If you've got the contribution room and the money available, the only thing left is finding the right dividend stock. For that, a great option could be a real estate investment trust that makes payouts on a monthly basis.

SmartCentres Real Estate Investment Trust (TSX:SRU.UN) fits that mould, and it does a bit better than just 5%, as the stock currently pays investors about 5.5% per year. Investing in SmartCentres, you would need a little more than $18,000 a year to be able to earn $1,000 in dividends annually.

And with SmartCentres, you're getting a good, stable stock that, on top of a good dividend, can also provide you with some solid capital appreciation as well. Over the past five years, the stock has risen by more than 20%. Both sales and profits have grown over the years, giving investors that buy SmartCentres more than just a great dividend stock to own, but a good investment overall.

SmartCentres is the type of stock that you can hold long term in your portfolio. While it might achieve a near-term goal of accumulating $1,000 in dividend income, it can do a whole lot more over a longer period of time.

Over the past six months, the stock has been falling, and it could be a good time to buy before it bounces back. SmartCentres entered the week trading at around its book value and 14 times its earning as investors can normally grab the stock at some pretty attractive value multiples.

With minimal risk and a great yield, it could look great in any portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

PARTNER-FEEDS

1. Msn
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