A Simple TFSA Strategy to Earn $7,645 in Tax-Free Income in 2020

Description

Canadian retirees and other income investors are taking advantage of the growing contribution room in their Tax-Free Savings Accounts (TFSAs) to create an attractive stream of dividends to supplement their pensions and other earnings.

The 2020 TFSA limit is expected to increase by $6,000 per person. That puts the total maximum contribution space at $69,500. A couple would have as much as $139,000 in TFSA room.

Buying GICs with the funds would only get about 2% return today, which would essentially mean you break even at the current rate of inflation.

Another option would be to buy quality dividend stocks that have growing payouts supported by rising revenue.

Let’s take a look at three stocks that might be good TFSA contenders for 2020.

Bank of Nova Scotia

Investors often skip **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) in favour of its larger peers, and they are currently willing to pay more to own the bigger banks.

The reason is connected to Bank of Nova Scotia’s international operations, but the concern is arguably overblown. It is true the bank has invested heavily in Latin America, betting on long-term growth in the Pacific Alliance trade bloc countries: Mexico, Colombia, Peru, and Chile.

These markets have gone through some volatile times in past years and still carry emerging market risks. However, the strategy is bearing fruit for Bank of Nova Scotia, as the international group is enjoying deposit and loan growth levels that are outpacing Canada.

Bank of Nova Scotia is also beefing up its Canadian operations with the acquisition of two wealth management firms last year. The company is merging the businesses with its existing operations in the segment and has created a new global wealth pillar.

Bank of Nova Scotia is very profitable and raises the dividend on a steady basis. The stock currently trades at an attractive 10 times earnings and provides a dividend yield of 5%.

BCE

BCE (TSX:BCE)(NYSE:BCE) has been a popular pick among income investors for decades, and that should continue to be the case.

The knock against BCE is that it is a giant with slow growth. That might not be very exciting, but the stock's performance this year shows why it remains a solid defensive pick for income investors.

BCE just reported steady Q2 2019 results. Free cash flow is on track to be 7-12% in 2019, and that would comfortably support another 5% dividend hike.

Interest rates appear to be on a negative path for the medium term, so the stock should remain a popular choice for yield-seeking investors. BCE's payout also provides a 5% yield.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) has endured some difficult times in the past few years.

Debt levels started to raise some eyebrows after the $37 billion takeover of Spectra Energy in 2017. At the same time, public and government opposition to new major pipeline projects has investors wondering about future growth prospects.

Management listened to what the market was saying and has done a god job of refocusing the business. Enbridge found buyers for roughly $8 billion in non-core assets and has the ability to cover its current $19 billion capital program through internal funding. That means it won't have to issue debt or sell shares to pay for the development projects.

The board raised the dividend by 10% in 2019 and is expected to give investors a similar increase next year. The stock appears cheap today and provides a solid 6.5% yield.

The bottom line

Bank of Nova Scotia, BCE, and Enbridge all offer high-yield dividends that continue to grow.

A Canadian couple that allocates an equal share or their TFSA portfolios across the three stocks would pick up an average 5.5% yield or $7,645 in annualized tax-free income on their combined $139,000 in TFSA space in 2020.

CATEGORY

1. Bank Stocks
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2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:ENB (Enbridge Inc.)
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Date
2025/09/19
Date Created
2019/08/21
Author
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