TFSA Retirement: A Top Dividend Stock to Generate $425 Per Month in Tax-Free Income

Description

Life is getting more expensive for Canadians.

The price of keeping a roof over our heads, whether rental or owned, is significantly higher than it was just 15 years ago. Electricity charges are getting out of hand in some areas, and good luck finding a person to come out to fix a problem for less than $100 per hour.

The day-to-day stuff is also expensive.

Anyone who drives a car regularly has to pay more than $1 per litre to fill up the tank. Groceries, as well, keep getting more expensive. Who can afford to fork out $30 for two small steaks at the grocery store?

Official reports indicate inflation is just 2%. That might be the case based on the basket of goods and services used to make the calculation, but most people I know say the hit feels a lot higher.

As a result, Canadians are looking for ways to save more money and ideally increase the amount that goes into their pockets each month when they are retired.

A company pension, CPP, and OAS might not be enough anymore. This means we have to find additional sources of income.

One strategy involves owning dividend stocks inside a self-directed TFSA. The full value of the distributions can be paid out and those who are already receiving OAS don't have to worry about the funds being used in the clawback calculations.

Let's take a look at one top stock that might be an interesting pick today for a dividend-focused TFSA portfolio.

TD

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a leader in the Canadian financial industry with strong personal and commercial banking and wealth management operations.

The company increased the size of its wealth management group last year when it acquired Saskatchewan-based Greystone Capital. The move added more than $35 billion in assets under management to TD's existing $356 billion.

TD is the sixth-largest bank in North America by branch count. The Canadian operations are best known to investors, but the U.S. division actually has more branch locations. TD spent billions of dollars over the past 15 years to build its American business that now runs from Maine right down the eastern coast to Florida.

The U.S. operations account for more than a third of the company's total profits, providing a nice hedge against any trouble in the Canadian economy while giving investors a great way to get exposure to the American economy through a top Canadian stock.

The bank isn't without risk. The decline in the share price of its partnership subsidiary **TD Ameritrade** in recent weeks is one indication of the ongoing changes in the banking sector. In a battle to remain competitive with its peers, the online broker cut fees for stock and ETF trades.

That said, TD is widely viewed as the safest bet among the big Canadian banks, and its dividend should be rock solid, even in the event of an economic downturn.

TD has raised its distribution by a compound annual rate of about 11% over the past 20 years, and investors should see annual increases in line with expected earnings-per-share growth of 7-10%.

Investors who buy today can pick up a yield of 4%.

The bottom line

TD is just one stock among a portfolio of top TSX Index companies that offer attractive dividend yields and should be solid picks for a TFSA income portfolio.

A balanced investment across a basket of stocks that provide a similar yield would produce nearly $5,100 per year in tax-free income for a couple who each max out their $63,500 TFSA contribution limit.

That's $425 per month!

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Date
2025/08/22
Date Created
2019/10/14
Author
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