How to Make $5,000 in Tax-Free Income Every Year in Your TFSA

Description

One of the biggest financial mistakes that I see people making is not diversifying their income. While there’s a lot of focus when it comes to diversifying investments, there’s not nearly the same attention on diversifying income itself.

And while people may have side jobs like driving for **Uber** or delivering food through apps, those aren’t terribly high-paying jobs and they require a lot of work. There’s a much simpler option for investors to add some more cash flow to their day-to-day lives, and that’s by investing in dividend stocks.

Dividend stocks can generate another source of income for you, which can help diversify your overall earnings and get you one step closer to being independent of your 9-to-5 job. While it won’t be enough for you to ditch your job altogether, it can help give you some more flexibility should an unexpected expense come up or if you want to take on a lower-paying job that might just be more enjoyable.

Two factors determine how much dividend income you’ll earn

How much dividend income you can generate will inevitably be limited by two constraints: your level of risk tolerance and your level of savings.

The highest-yielding dividend stocks can often be the riskiest, either because their yields may not be sustainable or because the business has not been doing well and the stock has been crashing. A falling share price is often a telltale sign that a company may be in trouble, and a reduced share price will mean that a stock is now yielding a lot more than it was before.

That’s why it can be a bit of a balancing act figuring out which type of yield works best for a given investor since risk will play a big role. While a yield of 2% or less may not be worth your time, a payout of 10% might simply require too much optimism.

The other constraint, however, is arguably the most important one, and that's savings. You can't make money without having some saved up. And the more of a nest egg that you've got, the more dividend income you can earn, without having to depend on a rely on a high dividend yield.

A stock that could offer the right balance

I'll show you how much you could make with a low, moderate, and high level of savings investing in **Cineplex Inc** (TSX:CGX). The stock is an attractive option for dividend investors for a couple of reasons: its dividend, which yields about 7.9% per year, and the fact that its payouts are also made on a monthly basis. That's a lot of income that investors can earn simply by holding onto the stock.

There's definitely risk in the stock because it has a relatively high yield and it operates in a business that may need some reinvention if it's going to stick around. However, one thing that Cineplex has been able to do well is radically change the type of service it offers to its customers.

While Cineplex could look very different years from now, the company's management has been able to navigate some challenging headwinds already. And with the company generating profits in three of its past four quarters, alarm bells haven't been going off.

If you've maxed out your TFSA savings of $63,500, and were to invest that into Cineplex, then you could earn about $5,000 a year based on its yield of about 7.9%. However, if you invest a more modest $25,000, you could still earn close to $2,000 each year. Investing $10,000 would get you $790, or roughly $66 every month.

There are many other dividend stocks you can choose from, but Cineplex could be one of the safer high-yielding options out there.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

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Date
2025/07/03
Date Created
2019/10/31
Author
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