Passive Income 101: How to Turn Your $70,000 TFSA Into a Safe $450/Month Income Stream

Description

Canadians who were of age when the TFSA came to inception will have just shy of $70,000 in cumulative contribution room in two months' time when the year 2020 finally hits. So, if you've yet to contribute and have the cash just sitting in a non-registered account, you're letting a $450 per month tax-free income stream pass you by.

With an underrated 7.8% yielder like **Inovalis REIT** (TSX:INO.UN), a European-focused office REIT that few Canadian investors know of, you'll be able to add to your monthly income and not have to worry about distribution reductions.

Inovalis continues to thrive with shares just off 3.5% from its all-time highs, making its high-yield intentional and not the result of a substantial depreciation in its shares.

While chasing yield is a fool's (note the lower-case *f*) game, one must not ignore the income-creating potential behind other super-high yielders whose massive payout is "by design." It's all about balancing the degree of dividend (or distribution) safety relative to yield — the dividend safety-to-yield ratio, if you will.

Contrary to popular belief, a higher yield is not indicative of a higher degree of risk. While it may be a symptom of a higher-risk security whose payout could be on unsound financial footing, not all high yields come at the cost of higher downside risk or greater odds of a dividend (or distribution) reduction moving forward.

In many instances, securities with yields around 8% actually have well-supported dividends that are actually better supported than firms with yields half its size!

It's all about whether a security was "designed" to sport such a high yield, which rules out all those "accidental high yielders" that keep their dividends intact in spite of pressures placed upon the said firm's cash flow stream.

In some instances, firms under pressure may actually continue to grow their dividend in spite of challenges that have plagued their stock. Such stubborn firms, like **Enbridge** (currently sporting a 6.1% yield), are absurdly shareholder friendly and could offer the potential for outsized gains. Nonetheless, such names are riskier bets and shouldn't be seen as a safe-haven income source like firms with high yields by design like Inovalis REIT.

So, where's one to look for stable income that can feed a TFSA?

When it comes to a dividend safety-to-yield ratio, it's tough to beat the REITs. And while the asset class may seem like one's getting a free lunch, one mustn't forget that REITs, by design, are subject to distribution requirements that make them subject to a lower degree of growth, on average, compared to stocks.

In essence, you're trading off capital gains potential and the magnitude of distribution growth for higher, safer income upfront.

Whether trading off growth for safety and higher income is worth it really depends on the needs of the individual investor. If you're a retiree with a skinny pension that needs more income to support a lifestyle but can't afford to take on risks with your principal, REITs like Inovalis are hard to beat.

Even if you're a young investor who doesn't need monthly income, top-tier REITs still deserve a spot in your TFSA.

Why?

They're alternative asset classes that will lower your TFSA portfolio's correlation to the broader markets. High-net-worth investors know the value of having a portion of one's assets allocated to alternative asset classes for optimal diversification and maximization of one's return relative to the risks taken on.

Moreover, the income from such securities doesn't have to be spent. You can reinvest the cash from Inovalis's distributions within your TFSA on stocks as opportunities present themselves, essentially providing you with a means to keep your powder dry, without having to hoard tonnes of cash.

Stay hungry. Stay Foolish.

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