TFSA Investors: This Stock Offers a 7.6% Tax-Free Yield

Description

One of the reasons why investors love dividends so much is they're a relatively tax-efficient way to get income.

Interest is automatically taxed at your marginal tax rate, while dividends are taxed at a lot lower rate. The advantage becomes even more profound when you retire and don't have much in other income; many Canadian retirees are finding they don't have to pay any tax on dividends.

An even easier way to avoid taxes on dividends is to stick your income stocks inside your TFSA, and then invest in growth stocks inside your taxable account. This simple move will allow your dividends to grow on a tax-free basis, while successfully deferring taxes as your growth stocks go up.

Now that we've discussed this strategy, the only thing left to do is decide what dividend stocks to put in your TFSA. One of my favourites today is **Fiera Capital** (TSX:FSZ) and its 7.6% yield. Let's take a closer look at what makes this company special.

The skinny

The very first thing I look at with a potential investment is the quality of the business. I want something that generates good margins, offers protection from the competition, and has good growth potential.

Fiera checks off all these boxes. Fiera's large size and employee expertise separates it from the pack. It grows by both acquiring smaller competition and when stock markets go higher. And the beauty of wealth management is, it scales nicely; as assets under management head higher, expenses stay about the same.

Investors should give Fiera all sorts of credit for its growth initiatives, which have been very successful in boosting assets under management. In 2011, the company had a mere $29 billion to manage. These days, after a plethora of successful bolt-on acquisitions, that number is up to $165 billion. This makes Fiera Canada's third-largest publicly traded independent wealth manager.

In 2019 alone, the company made four acquisitions, including Forester's Asset Management, which helped it gain further market share in Europe. Look for management to continue looking for acquisitions across the Atlantic.

More than 65% of Fiera's revenues come from institutional or private wealth clients, which is the best part of the wealth management market to be in. It also recently sold much of its retail mutual fund business — a smart decision considering the trends in the market. Much of its focus is now on alternative strategies, things like real estate, infrastructure, and private lending. In short, the company has done a nice job carving out a niche in the market.

Shares are also cheap — something I always like to see. Analysts predict the company will do $1.51 per share in adjusted earnings in 2020. The current share price is just north of $11. That gives us a price-to-earnings ratio of under eight.

And finally, insiders own nearly 18% of all shares outstanding. I always like to see high insider ownership. It shows management's interests are well aligned with my own.

Get paid

Many investors stress about the security of any dividend north of 7%. But Fiera's 7.6% payout is secure.

The current quarterly dividend checks in at $0.21 per share every three months, or $0.84 per share annualized. Fiera's adjusted earnings should be $1.32 per share in 2019 and then $1.51 per share in 2020. This is easily enough to cover the payout.

Besides, Fiera has been a relentless dividend hiker. It has increased the payout more than a dozen times since 2013, although it didn't increase the payout in 2019. Even if it doesn't hike the dividend again in 2020, the yield is good enough that investors don't really have much to complain about.

The bottom line

The only thing left for investors to do is to load up on Fiera shares — inside their TFSAs, of course — and enjoy that tax-free income stream.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:FSZ (Fiera Capital Corporation)

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