TFSA Investors: How to Make $10,000 a Year With $100,000

Description

The Tax-Free Savings Account (TFSA) allows investors to more quickly compound their investments because what's earned inside — interests, dividends, or capital gains — are tax free.

If you haven't contributed to a TFSA before, you could have accumulated $69,500 of contribution room, which includes 2020's $6,000 limit.

If you have been maximizing your TFSA every year since its inception in 2009, you would easily be sitting on an account of about $110,000 on an annualized 10% return. A consistent way to earn a 10% return is to invest in quality stocks.

In order to be conservative, let's assume you "only" have a TFSA of $100,000. Here's how you can make $10,000 a year with the amount tax free!

How to make $10,000 a year with a $100,000 TFSA

Essentially, you need to earn a 10% return on your investments to make $10,000 a year. You can get returns from income or price appreciation.

For example, you can earn annualized returns of 10% (or much more) from price appreciation alone from growth stocks like **Cargojet**, **Shopify**, and **TMX Group**.

You can also earn a dividend yield of 4% and growth of 6%. Similarly, you can go for a 5% yield and 5% growth. A portfolio with these characteristics would result in long-term total returns of approximately 10%.

Keep in mind, however, that returns from safe dividends are more reliable than price appreciation.

Restaurant Brands

Restaurant Brands (TSX:QSR)(NYSE:QSR) is a global company that exposes investors to markets outside Canada for diversification. It’s an interesting growth stock that offers good value for investors’ TFSA money, as the stock has pulled back 18% from August and now trades at a price-to-earnings ratio of about 23.6.

QSR’s three brands: Burger King, Tim Hortons, and Popeyes’ Louisiana Kitchen have a long international growth runway.

For example, it’s been expanding Burger King in China and signed a deal in late 2019 to open its first Burger King location in the Baltics. In addition, it’s in its very early stages of global growth in Tim Hortons and Popeyes.

In the last reported quarter, the delicious company’s net restaurant increased by 5% year over year.

Additionally, it saw super strong double-digit system-wide sales growth at Burger King and Popeyes, albeit experienced a marginal decline at Tim Hortons. Management does expect to turn around Tim Hortons in the coming quarters, however.

The consolidated system-wide sales growth was a high single digit of 8.9% versus 6.7% in the previous year, while comparable sales were -1.4% at Tim Hortons, 4.8% at Burger King, and 9.7% at Popeyes.

The results suggest that the company hasn’t cannibalized its own sales yet, but has room to grow. After all, it has the freedom and prowess to expand across the world! The analyst consensus estimates three-to-five years earnings-per-share growth of 10.7% per year.

Investor takeaway

To make $10,000 a year with a $100,000 TFSA, aim for total returns of 10% with solid stocks. It doesn’t matter if you go for growth, dividends, or both, as is the case for QSR stock.

Currently, Restaurant Brands offers an initial yield of 3.15%. It has more than quadrupled its dividend since 2015 and will likely continue to increase its dividend going forward. Returns of 13-14% per year over the next few years are in the cards!

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