TFSA Investors: How to Make $2780 in Passive Income in 2020!

Description

Do you want to start building passive income tax-free inside your Tax-Free Savings Account (TFSA)?

It's not as hard as it looks, however.

As of 2020, TFSAs have accumulated $69,500 worth of maximum contribution space. If you were at least 18 in 2009, you can take advantage of all of it.

While $69,500 isn't enough to retire on, it's enough to generate a nice income supplement if you invest it in dividend stocks. With some of the highest yielding TSX stocks out there, you can earn north of $4000 a year with a $69,500 TFSA.

However, ultra-high-yielders often risk having their dividends cut, making them inappropriate for defensive investors. So in this article, we'll explore how to get to a realistic annual income of $2780 in your TFSA.

Build a TFSA portfolio with an average yield of 4%

With $69,500, you'll need an average portfolio yield of 4% to get to $2780 a year in your TFSA. As it turns out, that's quite doable. The TSX as a whole yields about 2.8% on average, so even an index fund like the **iShares S&P/TSX Composite Index ETF** could get you part of the way there.

In fact, some Canadian dividend funds that yield 4% or more. Unfortunately, many of those funds have very high fees and low capital gains. Instead of buying those, you'll want to build a diversified portfolio of stocks that yields 4% on average.

One example of a stock that would fit a 4%-yielding portfolio

If you think you need to venture into obscure REITs and distressed stocks to get a 4% average portfolio yield, think again. Some of Canada's biggest and most established companies have very high yields. Among banks, utilities and telecoms, you'll find dozens of individual stocks yielding 4% or more.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is one example of such a stock. As of this writing, its shares yielded 4%. Management tends to increase the payout year after year, so the yield-on-cost could go much higher than that.

Over the past decade, TD Bank has grown much faster than most Canadian banks, thanks to strength in its U.S. retail business. TD has grown like wildfire in the Eastern U.S. and still has tonnes of room to grow in its largely untapped Western markets.

In past quarters, TD's U.S. retail business was routinely growing at more than 20% year over year. Last year, growth in that business segment slowed, but TD was still overall among the fastest-growing Canadian banks of 2019.

Foolish takeaway

Getting passive income isn't as hard as it looks, however.

Armed with a TFSA and $69,500 to invest, you can immediately start earning just shy of $3,000 worth of it each year. Yes, stocks can fall and dividends can be cut.

But over the long run, stock have outperformed almost every other class of assets. In light of this, there's no reason not to start building your TFSA passive income stream in 2020.

CATEGORY

1. Bank Stocks
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3. Investing

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1. NYSE:TD (The Toronto-Dominion Bank)
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andrewbutton