TFSA Investors: How to Retire Early With Dividend Stocks

Description

TFSA investors can buy dividend stocks in their Tax-Free Savings Accounts (TFSA) and get passive income. Because of the tax-free nature of the account, investors can reinvest the income in full before they retire.

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Regularly save and contribute to your TFSA to the maximum amount possible each year. This year, the contribution limit is $6,000. However, your TFSA contribution room can be much greater if you have unused amounts from previous years.

By combining your regular savings with the dividend income you receive in your TFSA, you can build your passive income faster. Understandably, you can also compound returns from the price appreciation of your stocks. However, the returns from price appreciation can be much more unpredictable.

In other words, returns from dividend income can be much more predictable. However, you've got to focus on dividend safety. In many cases, that means not chasing yields.

Market downturn offers higher dividend yields

Here are some safe dividend stocks you can consider for your TFSA. These stocks have sustainable payout ratios that allow the companies to maintain their dividends, even in today's weak economic environment.

Thanks to the current market downturn, you can buy these stocks with higher initial yields!

TFSA investors: Buy RBC stock

If TFSA investors are willing to get a five-year GIC from **RBC** (TSX:RY)(NYSE:RY) for a rate of 2%, they should be thrilled to buy the dividend stock now for a yield of 5%. Royal Bank is here to stay asthe banking leader in Canada.

The RBC stock price hasn't been this cheap since the last global financial crisis, which happened more than 10 years ago. At about $86 per share, the stock trades at about 9.6 times earnings. So, the stock trades at a discount of about 20% from its long-term normal valuation.

The market downturn is unsettling for investors, because we don't know the severity of the COVID-19 impact on the economy. Additionally, we don't know how long the economy has to run at limited capacity for. And this does not bode well for banks.

That's why banks, including RBC stock, are trading at historically low valuations. With a sustainable payout ratio of about 50%, the diversified bank should be able to at least maintain its dividend through this market downturn.

TFSA investors: Buy this telecom stock

Conservative TFSA investors should consider **Rogers Communications**. It is the safest telecom stock to invest in. First, Rogers trades at the cheapest valuation of the Big Three telecoms. Second, its dividend is the safest with the lowest payout ratio.

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At about $60 per share, RCI.B stock trades at about 14.6 times earnings and offers a safe yield of 3.3%. Its payout ratio is about 50% of earnings and free cash flow.

TFSA Investors: How to retire early with dividend stocks

Once you're able to generate dividend income that covers your cost of living, you can consider retiring. The income (and any returns) you generate from your TFSA is tax free. However, remember that if you generate income from other accounts like the RRSP/RRIF and non-registered accounts, there will be tax consequences.

Generally speaking, the earlier you start saving and investing in safe dividend stocks, the earlier you can retire. The key is the stay in the habit of saving a portion of your income and making smart investments. This market downturn is an excellent time to invest in dividend stocks.

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