Have CERB Cash Left Over? Fund Your TFSA Income Stream

Description

If you lost your job because of the coronavirus disease (COVID-19) outbreak, the federal government has your back with income support through the Canada Emergency Response Benefit (CERB). For eligible Canadians, CERB will provide $500 a week for up to 16 weeks. That works out to around $2,000 a month to help affected Canadians cover the high costs of living.

If you're one of the fortunate few Canadians that has a bit of CERB money left over (maybe you live in a small Canadian city where the cost of living is reasonable), it may make sense to contribute any excess amounts to your Tax-Free Savings Account (TFSA) if you've yet to max out your contributions. That way, you can invest the proceeds in forming a tax-free income stream that can help supplement your income, even after your CERB payments stop flowing in. And unlike CERB payments, income from your TFSA won't be taxable by the Canada Revenue Agency (CRA) as ordinary income.

In an era where dividend cuts are becoming normalized, it literally pays dividends to pick your spots carefully and only put money to work in the stocks of businesses that are liquid enough to survive the coronavirus typhoon with operating cash flow streams that are resilient enough to hold up should this pandemic spark further intermittent lockdowns over the next year and beyond.

A top candidate to fund your TFSA income stream

Fellow Fool contributor Ryan Vanzo thinks that a stock like **Enbridge** (TSX:ENB)(NYSE:ENB) is an "incredible stock" that could help Canadians create more CERB payments for themselves.

"Let's say that after meeting your basic needs, you have $500 left over from your CERB payment. Investing that into Enbridge stock would result in dividends worth roughly $40 per year." said Vanzo.

Enbridge stock got hit hard amid the coronavirus crisis. The dividend yield has swollen above and beyond the 7.5% mark. At these depths, contrarian income investors have a shot at paying less to receive more.

A dividend that's safer than it looks

Enbridge's managers are known to be ridiculously shareholder friendly. Even if the firm's financial flexibility were to become hindered further, management would remain committed to keeping its dividend intact and will go to great lengths to keep its "capital-return promise" to investors.

Moreover, Enbridge has a very diverse portfolio of assets. Probably more diverse than most investors give the company credit for. The firm's gas distribution operations have resilient cash flows that will help the company weather the horrendous storm that's moving through Canada's oil patch.

While underutilization of Enbridge's Mainline system could happen with the wave of production cuts in response to this new "lower for longer" oil environment, I'd argue that such an underutilization would be temporary in nature, as WTI prices are likely to revert to the "old normal" of around US$50 once demand inevitably picks up again.

Shares of Enbridge are currently priced with very low expectations in mind, so TFSA investors could have a lot to gain, as Enbridge stock looks to pick up where it left off before the coronavirus sent its shares into a tailspin.

Foolish takeaway

Enbridge has a lot of debt sitting on its balance sheet, but cash-flow-generating operations, I believe, are robust enough such that the firm will make it through this ordeal without having to resort to a reduction of the dividend. At 1.46 times book, ENB has a relative margin of safety and ought to be considered by TFSA investors that with some excess CERB money to put to work.

Stay hungry. Stay Foolish.

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Stocks for Beginners

Date
2025/08/25
Date Created
2020/05/19
Author
joefrenette