



TFSA Investors: How to Make \$420 in Tax-Free Income Every Month

Description

Unlike an RRSP, an investment tool designed exclusively for growing retirement nest eggs (though it can be put to other uses), a Tax-Free Savings Account (TFSA) is much more flexible. You can use it for your short term-financial goals as well as long-term interest-free capital growth.

It's also very well suited to passive income generation through dividend stocks. And the best part is that whatever you earn will be tax-free.

While \$420 a month may not seem like a hefty sum, it is enough to lighten the burden from your primary income source. It's enough to take care of utilities, household, and other regular expenses. But to generate \$420 a month through dividends, you will have to put all of your TFSA to work, which means using its complete contribution room of \$69,500.

A better way is for a couple to pool their resources together. With two separate TFSA accounts, the total contribution room becomes \$139,000. This is more than sufficient to start a decent passive income and still have a lot of room left for portfolio diversification and capital growth.

An energy aristocrat

Due to the oil crisis, many companies in the energy sector are currently trading at a discount.

Canadian Natural Resources ([TSX:CNQ](#))([NYSE:CNQ](#)) is currently trading at \$25.22 per share compared to its start-of-year value of over \$40 per share. But this 38% discount isn't the only reason to buy into this company. This 19-year-old Dividend Aristocrat is currently offering a very juicy yield of 6.74%.

Even though the operating income has dropped significantly from the last quarter, the dividends [seem secure](#), with a 58% payout ratio. The stock doesn't offer much when it comes to capital growth, but the company has grown its dividends quite rapidly – 84% in the past five years. The company carries a lot of debt, but it has enough assets to cover its short-term and long-term liabilities.

A financial aristocrat

First National Financial ([TSX:FN](#)) has recovered substantially from its fall in March, but it's still trading at a 22% discount. It's the largest private mortgage lender and underwriter in the country. Despite the overwhelming presence of the Big Five, it manages to furnish a [decent number](#) of mortgage loans every year. The company offers a return on equity of 29.7% to its investors.

As an Aristocrat, it has a history of increasing its dividends for eight consecutive years. The payout ratio is stable enough at 77%, and yield currently stands at 6.57%. Due to the nature of its business, it carries a lot of debt on its books, but it also has access to a huge cash pile.

Apart from dividend growth, the company offers plenty of capital growth as well, as evident from its five-year returns of 108%.

A real estate aristocrat

SmartCentres REIT ([TSX:SRU.UN](#)) is one of the country's largest fully integrated REITs that focuses on retail properties and has dependable, long-term tenants. Its portfolio is composed of 157 properties, mostly retail, along with a massive mixed-use development project.

In terms of revenue generation, the company's most profitable tenant is Walmart, which anchors 115 of SmartCentre's shopping centers.

The company is currently trading at \$20.7 per share, a flat 32% discount from its start-of-the-year value. The payout ratio of 102% is a bit shaky compared to the past five years, but it's likely to get better once the economy starts improving. The yield is very attractive, at 8.89%.

Foolish takeaway

Let's break down your fully stocked TFSA: \$69,500, in the three companies.

\$23,000 in Canadian Natural Resources: \$129/month

\$23,000 in First National Financial: \$126/month

\$23,500 in SmartCentres: \$174/month

The total comes out to \$429 a month in passive income. This amount will likely increase year to year, as all three companies are Dividend Aristocrats and grow the dividends.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:FN (First National Financial Corporation)
4. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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