TFSA Investors: It's the Best Time to Build a Tax-Free Dividend Portfolio!

Description

No thanks to COVID-19, global economies are in bad shape with high unemployment rates and low GDP. This makes 2020 the best time to build a tax-free dividend portfolio in your Tax-Free Savings Account (TFSA).

Your TFSA contribution room expands every year. This year's TFSA limit is $6,000. If you've never contributed to your TFSA, you could have up to $69,500 of contribution room.

From the value stocks discussed below, you can get an average yield of about 6.1%. This equates to a meaningful passive income, no matter how much you're investing now.

Keep working at building your passive-income stream and watch it grow larger from new contributions and dividend growth!

Add these TSX dividend stocks to your dividend portfolio

Although the **TSX index** had a roaring rally of roughly 33% since the low in March, pockets of value exist. Many of these cheap stocks offer big dividends that are sustainable.

When it comes to value stocks that provide juicy dividends, investors cannot ignore **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) stock and **Manulife** (TSX:MFC)(NYSE:MFC).

These businesses are whipsawed by the COVID-19 pandemic. However, I believe they will survive and likely sustain their dividends through the ordeal. Meanwhile, the stocks are trading at nice discounts for long-term investment.

BNS stock

Canada's big bank stocks are core parts of many dividend portfolios. As BNS stock is still down about 21% year to date, now is an excellent long-term entry point.

Indeed, like other banks, BNS's earnings are expected to drop about 30% this year. However, they will eventually recover to pre-COVID-19 levels and then some. It's going to be a slow process, though. It could take a few years for the economy to find its footing.

That said, the bank should sustain its current dividend, which is highly attractive at a 6.2% yield at writing.

Earnings normalization should allow current buyers, who are investing for at least three to five years to pocket outsized total returns and dividend income. Total returns of about 13% per year are possible for a five-year investment.

MFC stock

MFC stock got a bigger hit than BNS stock. It has declined 29% year to date. At writing at $18.61 per share, the insurance giant trades at a discount of roughly 30% from its normalized price-to-earnings levels.

Since the start of COVID-19, the company has expanded and accelerated its digital capabilities. For instance, in April, it received 87% of its Canadian insurance applications electronically, up from 67% a year ago.

The insurer also maintains a strong financial position. Its recent leverage ratio was 23%, an improvement from 30% from two years ago.

There was some serious shakeup in the shares, as Manulife reported a net income decline of 41% in Q1 to $1.3 billion versus a year ago. There was a softer decline of 34% in core earnings. Core returns on equity also declined 6% to 8.2%.

As a result, the stock trades at a discount of about 30% from its Q1 book value of $26.53 per share. Assuming the dividend stock will trade at its book value again, which is a conservative target, the stock has more than 42% upside potential.

MFC price-to-book value data by YCharts. Chart showing MFC stock's 10-year price-to-book value.

Additionally, the stock offers a yield of 6%, which provides periodic returns as passive income.

CATEGORY

1. Bank Stocks
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3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:MFC (Manulife Financial Corporation)

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Date
2025/07/21
Date Created
2020/06/21
Author
kayng