Your TFSA Portfolio: These Dividend Aristocrats Can Earn You $5,500 a Year

Description

The current COVID-19 crisis has reiterated the need to have passive income that can give you financial peace in difficult times. In the 2009 financial crisis, the Canadian government encouraged its citizens to save for the future by introducing the Tax-Free Savings Account (TFSA). The TFSA is the only account that renders your income from investments tax-free. As the investment income is tax-free, it is always good to put your high growth and high-dividend stocks in your TFSA.

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If you believe that the tax rate will rise in the future, you pay the tax on your TFSA contributions in the present and enjoy tax-free investment income in the future. However, the government has capped the annual contribution in the TFSA and this limit is revised annually. For 2020, the contribution limit is $6,000.

Your TFSA portfolio

If you were 18 years or older in 2009 and started investing in TFSA up to the annual contribution limit, your contribution would have reached $69,500 by now. The investment income would vary depending on the instruments in which you invested. In these 10 years, if you invested in stock market ETFs like the **iShares S&P/TSX 60 Index ETF**, your money would have grown by more than 50%.

Now, you decide to earn some passive income as the active income is slow. For this, you need not remove your investments. You can retain your portfolio amount and still earn a regular income. Let your investment income remain invested in the stocks that have been generating good and stable returns. Just withdraw your contribution amount of $69,500 and invest it in Dividend Aristocrats.

How to identify a Dividend Aristocrat

A Dividend Aristocrat has a strong history of paying regular monthly or quarterly dividends and gradually increasing this amount. Generally, companies operating in the financial, utilities, and real estate sectors enjoy stable cash flows, and payout these cash flows as dividends.

I have identified two Dividend Aristocrats that can help you diversify your portfolio, reduce risk, and generate stable passive income. If you equally divide your $69,500 in the two stocks, you can earn around $5,500 in annual dividend income.

Canadian Imperial Bank of Commerce

One Dividend Aristocrat is the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). The bank has the highest exposure to Canadian personal/mortgage lending. The COVID-19 pandemic and the resulting economic downturn could increase defaults in loan payments. hence, the bank has booked large provisions for credit losses in its second-quarter earnings.

The actual losses from loan defaults will depend on how the economy recovers. Canadian banks believe that the economy could take two years to recover completely. CIBC has a strong balance sheet which will help it withstand these tough times.

CIBC has been paying regular dividends for more than 20 years. It has increased its dividend per share at regular intervals, growing at an average annual rate of 4.9% in the last five years. The increasing credit risk has sent the stock down 13% year to date and inflated its dividend yield to 6.2%.

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RioCan REIT

Another Dividend Aristocrat is **RioCan REIT** (TSX:REI.UN), which purchases retail stores in major cities and rents them to big brands like **Loblaw** and **Canadian Tire**. The REIT distributes the rental income to its shareholders in the form of dividends.

However, RioCan stock is down 40% year to date, as it’s struggling with rent collection amid the lockdown. However, it can survive the lockdown and the looming recession as it has a diversified customer base of big retailers with strong creditworthiness.

None of its customers contributes more than 5% toward its rental income, thereby mitigating the impact of any of the customer defaults on its revenue.

RioCan has a history of paying dividends for the last 20 years with no dividend cuts. The decline in its stock price has inflated its dividend yield to 9.6%.

Dividend earners’ takeaway

Both CIBC and RioCan stocks are currently down because of which their dividend yield has inflated. This is the best time to secure future dividend income at a low price.

As the economy recovers, the two stocks will return to their average trading price. You will also gain from capital appreciation and dividend.

CATEGORY

1. Bank Stocks

2. Coronavirus
3. Dividend Stocks
4. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)
4. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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