$100 a Week Can Earn You $500 a Month and $75,000 in TFSA Balance

Description

Do you know a $100 a week can earn you around $500 in passive income and leave you with a bank balance of $75,000? If you invest in the right stock for the long-term, it is possible. And if you invest through your Tax-Free Savings Account (TFSA), the income will be exempt from taxes. Get ready to do some math.

$100 a week in your TFSA can go a long way

If you opened a TFSA in the year 2010 and started saving $100 every week in an ETF that fetches you 5% in annual returns, you would have over $75,000. In this, your contribution will be $57,200.

After 11 years, the economy is once again on the verge of another recession due to the COVID-19 pandemic. Stocks of many traditional businesses like banks, real estate, and energy are down. This has opened a window of opportunity to earn some early pension.

Good-quality stocks have stable cash flows and rich history of paying dividends with no dividend cuts. However, their stock prices are down amid the pandemic uncertainty, which has increased their dividend yield to a 10-year high. Grab this opportunity to earn a high dividend income for the next 10 years and more.

Three stocks are offering a dividend yield between 6.0% and 9.5%. This is above the average dividend yield of 5%.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is North America's largest pipeline operator. Its large pipeline infrastructure gives it intense pricing power as fossil fuel companies use their pipelines to distribute their output. The company earns 95% of its cash flows from long-term contracts that are volume-based.

Its stable cash flow has helped it pay regular dividends for the last 25 years, and increase it at a CAGR of 11%. In 2020, it increased its dividend per share by 9.8%.

Enbridge stock is currently down 19% year to date (YTD) to its October 2018 level, which has increased its dividend yield to 7.8%. If you invest $25,000 in this stock through your TFSA, you will earn over $1,900 in dividend per year. This income will grow by 5%-8% every year. When energy prices increase, the stock will rise 15% to its normal trading price of above $48.

RioCan

RioCan REIT (TSX:REI.UN) is a retail REIT that has many retail stores in major cities. It earns money by renting stores to big brands like **Loblaw** and **Canadian Tire**. It distributes this rental income as dividends to shareholders. The company has paid regular dividends for the last 20 years.

The pandemic-driven lockdown has reduced its rent collection. However, its diverse customer base of retailers with strong creditworthiness can help it withstand the current crisis.

RioCan stock is down 40% YTD to its 2009 level, which has increased its dividend yield to 9.5%. If you invest $25,000 in this stock through your TFSA, you will earn over $2,300 in dividends per year. When the economy recovers, the stock will rise 57% to its normal trading price of above $24.

Canadian Imperial Bank of Commerce

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) has the highest exposure to Canadian personal/mortgage lending. The bank faces high credit risk as the looming recession could see many individuals and businesses default their loan payments.

CIBC has been paying stable dividends for the last 20 years and even increased it at a compound annual growth rate (CAGR) of 4.9% in the last five years. It didn’t cut dividends in the 2009 crisis. The bank can retain its dividend in the current crisis as well with the help of its strong balance sheet.

CIBC stock is down 13% year to date to its February 2016 level, which has inflated its dividend yield to 6.2%. If you invest $25,000 in this stock through your TFSA, you will earn over $1,500 in dividends per year. When the economy recovers, the stock will rise 7% to its normal trading price of above $100.

Investors’ TFSA portfolio

If you divide your $75,000 TFSA balance equally among these three stocks, you can earn $490 a month in dividend income. In the next five years:

- $25,000 in Enbridge could become $40,000
- $25,000 in RioCan could become $51,000
- Another $25,000 in CIBC could become $35,000.

At the end of five years, you will have $94,750 in your TFSA if you withdraw your dividends, and over $126,000 if you don’t. You can get all this for just $100 a week.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Energy Stocks
5. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:ENB (Enbridge Inc.)
5. TSX:REI.UN (RioCan Real Estate Investment Trust)

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