Want a Safe 10% Dividend Yield for Your TFSA? Here's How You Can Get it

Description

Dividend stocks with high yields can quickly accelerate the growth of your Tax-Free Savings Account (TFSA). The danger is that those yields won't last and that companies will need to cut their payouts. That's why you often don't see 10% yields last for long — they're often due to a drop in price.

If a stock rebounds, the yield recovers as well. But if there's a fundamental concern with the business or its outlook and the stock stays down, the company may use it as an opportunity to slash its payouts (and potentially still pay a decent dividend given its lower price).

A solid dividend-growth stock can be your path to a high yield

There are ways that you can secure a 10% dividend without taking on the risk of investing in a dropping share price. The key is investing in a company that grows its dividend over the years. A good example is **TC Energy** (TSX:TRP)(NYSE:TRP).

Currently, the energy infrastructure company pays its shareholders a quarterly dividend of $0.81. At a share price of around $65, you'd be earning 5% in dividends. That's a decent yield, but it can go a lot higher than that.

TC Energy has increased its dividend payments over the years, and its current quarterly payouts are 8% higher than they were a year ago. Five years ago, in 2015, TC Energy's quarterly dividend was $0.52, and it's increased by 56% since then. That averages out to a compounded annual growth rate of 9.3%. That's a high rate of increase, and if the company were to continue raising its payouts at that rate, it would only take eight years for its dividend payments to double.

But with the uncertainty amid COVID-19, it's probably too optimistic to expect that rate to continue. Even the company's most recent 8% increase may be a bit rich right now. Let's assume that TC Energy increased its dividend payments at a more modest 6% over the next 10 years on average. Here's how its dividend payments would look on a $10,000 investment:

Year	Quarterly Payment	Annual Dividend Payment	% of Original Investment
0	$0.81	$498.47	4.98%
1	$0.86	$528.38	5.28%
2	$0.91	$560.09	5.60%
3	$0.96	$593.69	5.94%
4	$1.02	$629.31	6.29%
5	$1.08	$667.07	6.67%
6	$1.15	$707.09	7.07%
7	$1.22	$749.52	7.50%
8	$1.29	$794.49	7.94%
9	$1.37	$842.16	8.42%
10	$1.45	$892.69	8.93%
11	$1.54	$946.25	9.46%
12	$1.63	$1,003.03	10.03%

Investors would be earning a 10% yield on their original investment in 12 years if TC Energy's dividend continued climbing by 6% per year. Ultimately, that rate will depend on how strong the business is over the years, and the economy. Stronger years will allow TC Energy to make larger increases, which could speed this timeframe up.

But it's important to remember that dividend increases aren't a guarantee. Even dividend payments themselves are not a certainty, even if a company's been making them for decades.

Bottom line

If you want a high yield and don't want to compromise the safety of your portfolio, you'll need some patience. If you're willing to wait for a dividend stock to grow its payouts, you can be rewarded with a yield that's not only high but also safe and likely to continue. Trying to rush that process or take shortcuts can lead to a investing in a risky stock that may not only cut its dividend but one that could also fall in value, leading to even greater losses.

Investing in a top stock like TC Energy is a great way to earn a recurring dividend, and there's plenty of incentive to hang on to it for many years.

CATEGORY

1. Dividend Stocks

2. Energy Stocks
3. Investing

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Author
djagielski