TFSA Investors: Here's How You Can Earn a Safe Dividend Yield of 10% or More!

Description

Are you looking for a high-yielding dividend stock to add to your Tax-Free Savings Account (TFSA) but don't want to take on a lot of risk? The good news is that isn't as impossible of a goal as it may seem. Below, I'll show you how a safe, modest-yielding stock can generate double-digit returns on your original investment. All you need to make that happen is a safe stock that's likely to grow its payouts over the years. Let's use the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) as an example.

Today, the top bank stock pays investors a quarterly dividend of $1.46 per share. For a full year, you'd earn $5.84 for each share of CIBC that you own. And if you were to buy the stock at around $100, that means your dividend yield would be 5.8%. That's not bad, and on a $10,000 investment, you'd make $584. Inside of a TFSA, all that money would also be tax-free. But as good as $584 per year sounds, you can make even more from the stock just by hanging on to it.

The reason being is that CIBC regularly increases its payouts. In 2010, the bank was paying its shareholders $0.87 every quarter. That's an increase of 67.8% during that time, averaging a compounded annual growth rate of 5.3%. The rule of 72 tells us that it'll take about 14 years for CIBC's dividend to double if it were to continue raising its payouts by that rate. However, let's take a look at how long it'll take before a $10,000 investment today starts generating $1,000 a year in dividend income.

Forecasting the dividend growth

Here's how your dividend payments could look like if you hang on to a $10,000 investment of CIBC and the company continues hiking its dividend payments by 5.3%:

Year	Quarterly Payment	Annual Dividend Payment	% of Original Investment
0	$1.46	$584.00	5.84%
1	$1.54	$615.03	6.15%

2	$1.62	$647.71	6.48%
3	$1.71	$682.12	6.82%
4	$1.80	$718.37	7.18%
5	$1.89	$756.54	7.57%
6	$1.99	$796.73	7.97%
7	$2.10	$839.07	8.39%
8	$2.21	$883.65	8.84%
9	$2.33	$930.60	9.31%
10	$2.45	$980.05	9.80%
11	**$2.58**	**$1,032.12**	**10.32%**

After 11 years of increases, you could be earning over $1,000 a year in dividend income. And remember, if that investment remains in a TFSA, that would also be tax-free dividend income. That's not bad on a $10,000 investment. Now imagine you multiply this by x amount of other growing-dividend stocks and you could soon have quite the dividend empire built up. And in this example, this is just 11 years. If you hold the investment even longer, there's the potential for these payouts to continue rising even higher.

However, it's also important to remember that dividend payments aren't guaranteed, and neither are increases.

Bottom line

The important takeaway from all this is that if you don't want to put your portfolio at risk, the safest way to get a high-yielding dividend stock is by waiting and holding on to a stock that's likely to grow its payouts over the years.

There's lots of uncertainty ahead of bank stocks amid the coronavirus pandemic, but it's not a problem that should persist over the long term. And once the economy gets back to normal, CIBC shares will look a whole lot better than they have this year. In 2020, the stock's fallen more than 6% as worries about a recession have weighed down financial stocks.

But that just makes it an even more appealing long-term buy today. At a forward price-to-earnings multiple of 10 and a price-to-book ratio of 1.2, CIBC stock is an attractive value investment that you can hold in your portfolio for decades.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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