TFSA 101: How to Earn $650 Per Month in Tax-Free Passive Income

Description

Come 2020, the Tax-Free Savings Account cumulative limit will swell by another $6,000 to $75,500. If you're one of many Canadians who've been regularly contributing while using the proceeds to invest systematically in stocks, you're probably near the six-figure mark if you haven't passed it already.

A $100,000 TFSA is a substantial sum that you may not realize can generate you an extra $650 per month worth of tax-free passive income without requiring you to reach for riskier high-yielders out there that are at high risk of slashing their payouts down the middle.

How to boost your tax-free passive income

To earn $650 per month in tax-free passive income, you'll need your TFSA portfolio to average a yield of 8%. That's double that of the "4% rule" of thumb followed by many income-oriented investors. While the "4% rule" can protect beginner investors from imminent dividend cuts or distribution reductions, I think the rule has been outdated, given how high the yield bar has been raised this year.

While the broader **S&P 500** has fully recovered from the 2020 market crash, many harder-hit securities have not participated to the same extent as many of the mega-caps that have been doing a majority of the heavy lifting for the broader indices. When you take the pandemic-resilient growth stocks out the equation, the **S&P 500** would look more like the tech-light, value-heavy **TSX Index**, which is still 8% off its pre-pandemic all-time highs.

Many of the biggest Canadian pandemic losers are still at or around multi-year lows. And some such names sport dividends that are more sustainable than meets the eye. It's these names that can help move your TFSA's yield upwards to help get your monthly income where it needs to be.

Enbridge: My top income pick for a TFSA

Consider **Enbridge** (TSX:ENB)(NYSE:ENB), a former dividend darling that's continued to be ditched because of profound pressures faced in the oil patch. The pipeline kingpin is just one of many dividend beauties that have fallen so much such that their yields are north of the 8% mark.

With one of the most shareholder-friendly management teams out there, I have confidence that Enbridge will not only keep its dividend intact through this crisis, but it'll likely announce a renewed dividend growth policy once we're out of this pandemic.

The company has swum to great lengths to keep its dividend off the chopping block. Even before the pandemic, Enbridge was enduring a hailstorm in the energy space. The pandemic just made things much worse. With shares bouncing off new multi-year lows this week, I'd say Enbridge's management team is now more focused on the light at the end of the tunnel. That makes them more likely to continue pulling other levers to relieve financial pressures over the short-term.

Yes, Enbridge's dividend is stretched, but given that management is too shareholder-friendly for their own good, I'd be willing to bet that the dividend will not be stretched to its breaking point. With industry relief likely in 2021, I'd say now is a terrific time to "lock-in" the 8.5% yield for your TFSA before shares have a chance to recover ground and the yield compresses back below the 6% mark.

Minnesota just approved permits for the big Line 3 project, so Enbridge ought to be one of the better +8% yielders to consider if you seek outsized tax-free income.

Foolish takeaway for TFSA investors

Enbridge is a dividend heavyweight that I think has one of the safer +8% yields out there. With some good news, I'd say the odds of a 2021 pipeline stock comeback are high. That said, Enbridge is a falling knife and it's not without its fair share of risks. So, do your homework and ensure your TFSA is well-diversified as you look to bring its average yield up to or above the 8% level.

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joefrenette