3 Ways to Make $10,000 a Year With a $100,000 TFSA

Description

With the new COVID-19 variant, the pandemic is spreading faster than before. Hopefully, the global vaccine programs will be able to put a halt to the spread. If there are hiccups in the vaccine distribution, or it's not as effective as planned, we can experience another market crash in 2021.

Investors need to stay their course to reap the long-term rewards of stock investing. Below, I'll discuss three strategies that can make you $10,000 of tax-free money a year on a $100,000 TFSA.

Strategy #1: High-yield investing

Investing for high dividend yields is the most straightforward way to make $10,000 a year with a $100,000 TFSA. Essentially, you look for stocks that are yielding 10%.

One stock that's yielding close to 10% right now is **Brookfield Property Partners** (TSX:BPY.UN)(NASDAQ:BPY). The real estate company yields nearly 9.1% at writing.

It'll only take a small drop in the stock price for a $100,000 BPY position to yield $10,000 a year. In fact, during the bottom of the pandemic crash this year, BPY provided as high a yield as 18%! There was plenty of time to grab the stock for a 13-14% yield on its recovery path.

That said, with such a high yield, it's clear that the market is still worried about a potential dividend cut in the stock. Based on the company's end-of-Q3 liquidity of US$6 billion, including US$1.6 billion of cash, it can cover for one year of cash distributions with leftovers from its cash on hand alone. Moreover, it continues to generate cash flows from its diversified real estate portfolio.

What investors should be more worried about is the longer-term demand trend for office and retail properties, which makes up about 85% of BPY's real estate portfolio. Its concentration in these assets could pressure the stock.

To go for a more secure $10,000 a year, try the next strategy.

Strategy #2: High-growth dividend investing

Investors of **Alimentation Couche-Tard** (TSX:ATD.B) started with a puny yield of roughly 0.8% in 2006. Fast forward 14 years later, and these shareholders are sitting on a yield on cost of about 23%. This equates to generating $23,000 of passive income a year on a $100,000 initial investment.

During this period, the global convenience store consolidator increased its dividend at a crazy compound annual growth rate of close to 28% per year. What's super incredible is that the $100,000 turned into more than $10 million — this is more than a 100-bagger!

The company still has lots of global acquisition opportunities, particularly in the U.S. and Asia. Over the next five years, a 15% dividend growth rate is in the ballpark for Couche-Tard. That's a super conservative estimate given it last increased its dividend by 25%, and its payout ratio is about 10% of free cash flow.

Couche-Tard's high-growth rate can reasonably double your investment in about five years. That's a price appreciation of more than $15,000 a year on top of the dividend income you'll receive from it.

The next strategy is even more aggressive, but the rewards could be much more massive.

Strategy #3: High-growth stock investing

The TFSA is a great place to hold high-growth stocks, as all booked price appreciation will be tax free. If you have a $100,000 TFSA portfolio, one high-growth strategy is to divide it across at least 25 high-conviction small-cap stocks. That implies allocating a maximum initial investment of $4,000 in each stock.

Imagine if you hit the jackpot by buying early on just one or two stocks like **Amazon** or **Netflix**. Your retirement would be set!

A $4,000 AMZN investment in 2001 has transformed to $759,189 with total returns of about 30% per year. The same investment in NFLX in 2005 is now worth $1,191,301, equating to annualized returns of nearly 43% per year.

You only need a 10% return every year to get $10,000 tax free from a $100,000 TFSA portfolio. Many growth stocks are growing at a much faster pace than 10%.

The hard part is identifying these potential stocks and buying and holding them through excessive volatility, as there are a lot more speculative investors seeking quick profits in small-cap stocks.

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