



TFSA Investors: Here's How You Can Safely Earn a 10% Dividend Yield

Description

Everyone loves a good dividend. And dividend stocks are great inside of a Tax-Free Savings Account (TFSA) since the income earned with the account isn't taxable. But many of the safest income-generating stocks pay just 2% or 3% per year. On a \$10,000 investment, that would be a relatively modest \$200-\$300 dollars per year. It's not a terribly exciting payout but high-yielding stocks can sometimes be dangerous, as it often means their share prices have fallen of late, sending their yields up. And a rapidly falling stock usually means something isn't right with the company.

But there is a way to earn a [high yield](#) over the long run and below, I'll show you how you can earn a double-digit payout without taking on much risk.

The key is dividend growth

Investing is all about patience. And if you're willing to wait, you can end up with a dividend stock that pays you 10% or better of your original investment. Let's take **Fortis Inc** ([TSX:FTS](#))([NYSE:FTS](#)) as an example. The utility stock pays a modest 3.8% per year in dividends. It's a good yield but it's certainly not high and nowhere near 10%.

But the company has an excellent track record for raising its dividend payments — it has increased them for 47 years in a row; it's generally a safe assumption to assume that Fortis will continue to increase its payouts. Most recently, in October, it raised its dividend payments by 5.8%. Let's round up and assume that Fortis will grow its dividend payments by an average of 6% over the years.

Here's how much dividend income a \$10,000 investment in Fortis might generate for you if you were to hang on to the stock for the long term and it continued to raise its payouts at that rate:

Year 1	\$380	3.80%
Year 2	\$402	4.02%
	Dividend	% of Initial Investment

Year 3	\$427	4.27%
Year 4	\$453	4.53%
Year 5	\$480	4.80%
Year 6	\$509	5.09%
Year 7	\$539	5.39%
Year 8	\$571	5.71%
Year 9	\$606	6.06%
Year 10	\$642	6.42%
Year 11	\$681	6.81%
Year 12	\$721	7.21%
Year 13	\$765	7.65%
Year 14	\$811	8.11%
Year 15	\$859	8.59%
Year 16	\$911	9.11%
Year 17	\$965	9.65%
Year 18	\$1,023	10.23%

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For Fortis' dividend yield to reach 10% at a 6% growth rate, it would take approximately 18 years, or 17 increases. By then, your annual dividend payment would be \$1,023 and slightly more than 10% of your initial investment. But remember, this is but one example. Other stocks that increase their dividend payments at much higher rates could reach 10% quicker.

The point is, there's not always an easy way to get a safe yield that pays a high amount. But if you're patient with a stock that grows its dividend, you can end up with a terrific payout down the road.

A quick way to assess how quickly the dividend will grow is to take the number 72 and divide it by the average annual growth rate. That will tell you how long it will take for something to double in value. In this example, taking 72 and dividing by six (representing the 6% growth rate that was assumed) would quickly tell you that in about 12 years, Fortis' payouts would double. And in the table above, you can see that after 12 years of increases, in year 13, the annual dividend of \$765 is just over twice the size of the \$380 payments in the initial year.

When selecting [dividend stocks](#) for your portfolio it's important to factor in today's yield, the dividend growth rate, and the stability of the overall business. Fortis ticks all those checkmarks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

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2. Koyfin
3. Msn
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