



## 1 Easy TFSA Income Investing Strategy

### Description

When investors buy stocks, they don't necessarily buy at the right time. That is, research shows that many investors buy high and sell low. For example, investors think they could withstand market corrections but end up selling stocks during market crashes — at the worst times.

It could be an entirely different story if investors could pay a little more attention to the income portion of returns and a little less attention to the growth portion.

Here's one easy income [investing strategy](#) to build your Tax-Free Savings Account (TFSA) income portfolio with quality dividend stocks to generate tax-free income for years to come!

### Choosing quality dividend stocks

The key is to pick quality dividend stocks that you can buy and hold so that you don't have to check your TFSA income portfolio all the time. A quarterly or even annual review will be enough if you populate your TFSA portfolio with quality dividend stocks only.

Characteristics of quality dividend stocks include paying out healthy dividends that are sustainable and having persistent earnings or cash flow growth over multiple years to allow for dividend growth.

A company that has maintained its dividend for at least 10 years is a good sign, especially if there were at least some dividend increases within the period.

### A quality dividend stock example

**Brookfield Infrastructure Partners** ([TSX:BIP.UN](#))([NYSE:BIP](#)) pays a U.S. dollar-denominated cash distribution that has increased every year since it was spun off from **Brookfield Asset Management** in 2009. Its 10-year dividend growth rate is 11.4%. BIP maintains a payout ratio of 60-70% of its funds from operations (FFO) and persists to grow its FFO per unit over multiple years.

If we dig a little deeper into its cash flow, we find that it is indeed high quality. Its geographically diverse cash flow comes from a wide range of essential assets from different infrastructure industries. Brookfield Infrastructure generates cash flow from four key infrastructure sectors: utilities, transport, midstream, and data.

For example, BIP has regulated electric and natural gas transmission and distribution businesses spanning seven countries. It also has rail operations across Australia, Europe, the U.K., and North and South America, which roughly match the track length of **CN Rail**! Additionally, it has telecom towers in France, India, the U.K., and New Zealand, and 54 data centres across the U.S., Brazil, and Australia.

Brookfield Infrastructure has components in its portfolio that provide stability and predictability in its cash flow growth. Its quality assets provide a strong sustainable EBITDA margin of +50%. Its cash flow is about 95% regulated or contracted and approximately 75% is indexed to inflation.

There's an outstanding management team at BIP that buys quality assets at good valuations, has great debt management, and has an ongoing capital recycling program helping to ensure having ample liquidity in any year. For instance, during the 2020 pandemic year, BIP had the cash to buy top-notch assets at big bargains!

## The Foolish invest takeaway

Investors pretty much just need to select quality [dividend stocks](#) to buy in their TFSA for tax-free income. The Brookfield Infrastructure example shows what a quality dividend stock might look like.

If you can find others that also grow their earnings or cash flows in the long run and pay a sustainably growing dividend, you could also consider buying and holding them in your TFSA. One more thing you can do is to buy at good valuations, that is, aim not to overpay for the dividend stocks.

Currently, at about US\$54 per unit, BIP trades at roughly a 10% discount to its fair value, which is a decent valuation to pick up some shares. The company will be increasing its cash distribution in about six months. So, we're looking at a forward yield of about 4% at the recent quotation.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)

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