TFSA Passive Income: A Nearly 9% Yielder Worth Checking Out

Description

If you've got a TFSA (Tax-Free Savings Account) with an extra $2,000 lying around, now is as good a time as any to put it to work in names that pay considerable amounts of passive income. In this piece, we'll look at one strategy to turn TFSAs into a sustained generator of passive income. Without further ado, let's get right into the ways to see which, if either, is worth pursuing.

The first and most obvious way is reaching for higher yields to maximize one's yield. But the higher the yield, the higher the risk of a dividend or distribution cut alongside a side of nasty share price depreciation. Far too many passive-income investors have learned the hard way that reaching for higher yields (north of 6%) can almost be as dangerous as playing the most speculative of high-multiple growth stocks.

Reaching for higher (but still safe) yields

Undoubtedly, ultra-high-yielding securities can have dividends than act as a siren song. Warren Buffett once stated that the act of "reaching for yield" was "stupid," warning that investors should not invest in securities that are too risky for one to handle. Indeed, not putting in the homework and understanding the true downside risks is a mistake.

Still, I don't think reaching for yield in itself is stupid, especially for experienced investors who are willing to put in the homework and the analysis to ensure that the risk/reward tradeoff is, in fact, favourable. During the 2020 stock market crash, everything went rolling off a hill on the back of coronavirus uncertainties. Yields swelled across the board and across a wide range of asset classes. REITs, alternative assets, and even bond funds got dragged lower, as the vicious and unforgiving selloff intensified until the U.S. Federal Reserve stepped in, marking the bottom.

If you grabbed any unfairly battered REIT amid the panic, you not only were rewarded with a quick gain in the subsequent months. But you also lock in a ridiculously high yield. Many firms with high yields actually kept their payouts fully intact. So, if you reached for yield in such a scenario, you were profoundly rewarded.

While such “steals” are now gone, I still think passive-income investors have a lot to gain by looking for names that still have yields on the higher yield. Of course, one must analyze the recovery trajectory and ensure sufficient cash flows to keep the dividend alive under a worst-case scenario (think further COVID-19 lockdowns).

Inovalis REIT: A yield that’s almost too good to be true

With an 8.6% yield, **Inovalis REIT** strikes me as a name that’s suitable for a passive-income investor looking to reach for higher yields without overextending themselves. The REIT boasts a 7-8% yield under normalized circumstances. As such, the nearly 9% yield isn’t as unsustainable as it seems on the surface. Just don’t expect much in the way of capital gains from the REIT, which specializes in French and German office real estate, as shares tend to be rather uneventful and lacking in volatility (with the exception of 2020, of course) over the years.

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