TFSA Investors: 1 Top TSX Dividend Stock to Buy for Reliable Passive Income

Description

Retirees and other TFSA investors are constantly searching for top Canadian dividend stocks that pay reliable passive income.

TFSA benefits

The TFSA came into existence in 2009 as a government initiative to give Canadians another savings tool to go with the RRSP. A TFSA has more flexibility in that investors can remove funds at any time without being taxed, and contribution room equal to the withdrawal amount opens up again in the next calendar year.

Tax-free income is attractive for all investors, but the TFSA can really help retirees who collect OAS pensions. The earnings generated inside the TFSA and taken out as supplementary income are not used by the CRA to calculate a person's net world income that is used to determine the Old Age Security Pension Recovery Tax. Also known as the OAS clawback, the tax is 15% of every dollar in net world income earned above a minimum threshold. The amount to watch for the 2021 income year is $79,845.

Retirees who collect decent company pensions along with CPP and OAS can quite easily top this amount. As a result, it makes sense to use the full TFSA contribution space to hold income-generating investments. The maximum cumulative TFSA contribution room in 2021 is $75,500.

Let's take a look one top Canadian dividend stock that might be an interesting pick for a self-directed TFSA income fund.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) is up 30% in 2021 and has doubled off the 2020 lows. The company made it through the worst of the recession in good shape and is now positioned well tobenefit from the anticipated economic recovery in Canada and the United States.

Bank of Montreal reported strong fiscal Q3 2021 results. Adjusted net income came in at $2.3 billion, up 79% from the same period last year. Return on equity was 17.5% in the quarter and Bank of Montreal maintains a strong capital position with a CET1 ratio of 13.4%. This metric measures the cash available to cover loan losses. Banks are required to have a CET1 ratio of at least 9%.

With loan default risks much lower than they were a year ago, Bank of Montreal will look to deploy the excess cash in 2022 and beyond. Investors should see a generous dividend hike once the banks get permission to restart payout increases. Bank of Montreal might also use the cash to make a strategic acquisition in the United States to grow its established presence in the American market.

The stock currently trades near $125 per share. That's down from the 2021 high of $132, so investors have a chance to pick up the shares on a dip. At the time of writing, the stock provides a 3.4% dividend yield.

Bank of Montreal has paid a dividend every year since 1829. The company has a lower exposure to the Canadian housing market than some of its peers, and its commercial banking group is strong in both Canada and the United States. Wealth management and capital markets are also areas of strength for Bank of Montreal.

The bottom line on TFSA passive income

Income investors can get higher yields from other stocks, but Bank of Montreal is as reliable as they come for steady payments. If you have some cash to put to work, this stock deserves to be part of a diversified TFSA income fund.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

8. Yahoo CA

PP NOTIFY USER

1. aswalker
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/09/24
Date Created
2021/09/22
Author
aswalker