2 TFSA Stocks to Invest in Passively for Wealth Creation

Description

All eligible Canadians should be taking advantage of the Tax-Free Savings Account (TFSA). You need to be at the age of majority (18 or 19 years old, depending on where you live) and a social insurance number to open a TFSA. However, the year you turn 18 is when you start accumulating TFSA room. If you have been eligible for the TFSA since its inception in 2009, and you never contributed to an account, you would have $75,500 of contribution room. That's $75,500 that you can invest tax free!

The TFSA room is $6,000 a year now and will grow with inflation over time. Assuming it stays at $6,000/year, and you contribute that amount every year to your TFSA along with the $75,500 and invest for a very reasonable rate of return of 7%, you'll reach $1,141,490 in 30 years. If you can boost your total return to 12% instead, you'd arrive at $3.7 million instead! So, every raise of return helps.

To potentially get these kinds of returns to create wealth, you can consider these passive stock investing strategies for your TFSA.

Earn passive income

You can earn eligible Canadian dividends tax free in your TFSA. A growing dividend will become substantial over time. **Enbridge** (TSX:ENB)(NYSE:ENB) is a solid dividend stock for passive income. An investment in ENB stock 20 years ago would have a yield on cost of about 30%, because of dividend increases year after year.

Currently, ENB stock provides a safe yield of approximately 6.5%. As the largest energy infrastructure company in North America, it generates a diversified stream of cash flows to support its dividend. Its track record of dividend increases over 25 consecutive years is evidence of its stability. Specifically, its five-year dividend-growth rate is 11.7%.

Since Enbridge stock's payout ratio is sustainable, investors need only price appreciation of about 0.5% per year to reach the 7% return. Canadians can simply aim to buy the stock on dips, lock in a high dividend yield, and sit on the stock for passive income and stable returns.

Hold for growth

You can also take a passive approach in quality stocks that are growth focused. **Intact Financial** (TSX:IFC) is a prime example. The property and casualty insurance company has a leading position in the industry and tends to outperform its peers.

MSA Research revealed that from 2009 to 2020, Intact Financial outperformed its Canadian peers by 3.8% in premium growth, 5.5% in the combined ratio, and 6.4% in the return on equity. Every ounce of outperformance helps in the long run. The dividend stock's 10-year rate of return is about 12.7%, which beat the Canadian stock market by about 90% in the period.

Like Enbridge, Intact Financial is also a Canadian Dividend Aristocrat. Specifically, IFC stock has increased its dividend for 16 consecutive years with a five-year dividend-growth rate of 9.4%. The dividend offers a yield of close to 2% right now. Additionally, the quality stock is discounted by about 15% and is a good TFSA candidate for investors who want to limit portfolio management.

The Foolish investor takeaway

You can grow wealth largely passively in your TFSA tax free by investing in solid dividend stocks for passive income and quality stocks for long-term price appreciation. It's reasonable to target a long-term rate of return of 7-12% for these types of stock investing. In time, you'll see your TFSA contributions grow meaningfully into a nice sum.

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