TFSA Investors: How to Make $300 a Month of Passive Income in 2022

Description

Interest rates are at historical lows. Although the market is anticipating interest rate increases in 2022, there likely won't be big jumps to the rates. It would be smart for investors to seek greater passive income from dividend stocks instead.

If you were able to maximize your Tax-Free Savings Account (TFSA) every year since 2009 and invest for a reasonable return of 7% in stocks, your TFSA balance would be more than $115,053. Adding the new TFSA limit of $6,000 in 2022, the TFSA balance would be over $121,053. Earning a 3% yield on a $121,053 portfolio results in an income of $3,631 per year. That's just over $300 (specifically $302.63) per month.

If you're not there yet, that's fine, too. It will help to stick with a regular savings plan. Since the new TFSA contribution limit is $6,000, it would fit logically to save $500 a month. Unused TFSA limits accumulate. So, if you have greater TFSA contribution room going into 2022, try to save even more.

Where to invest for passive income

The Canadian Dividend Aristocrat list, which records Canadian dividend stocks with dividend-growth streaks of at least five years, is a good place to start looking for solid dividend stocks. It's easy to find dividend stocks there that offer a yield in the 3% range. About 19 dividend stocks are in that yield range currently.

Sun Life stock yields about 3.8%. The life and health insurance company has increased its dividend by six consecutive years with a five-year dividend-growth rate of 7.8%. **Fortis** stock yields 3.5%. The regulated utility has a 47-year dividend-growth streak with a five-year dividend-growth rate of 6.8%.

Restaurant Brands International (TSX:QSR)(NYSE:QSR) offers a yield of 3.5%. Its primary brands are Burger King, Tim Hortons, and Popeyes Louisiana Kitchen. It recently acquired a fast-growing player, Firehouse Subs, in the US$30 billion U.S. quick-service-restaurant sandwich category. Firehouse Subs's 2021 system-wide sales are expected to be roughly US$1.1 billion, which is lessthan 3% of Restaurant Brands's system-wide sales across its three iconic brands.

The quick-service restaurant company has increased its dividend for six years with a five-year dividend-growth rate of about 36%. Since QSR's payout ratio is much higher now at about 76% this year (based on earnings), investors should expect a dividend-growth rate that better aligns with its earnings or cash flow growth going forward. Whether it's based on earnings or cash flow, QSR has what it takes to maintain a healthy dividend. Its trailing-12-month payout ratio is 67% based on its free cash flow generation.

Why not go for higher yields?

There are a bunch of dividend stocks that offer higher dividend yields than the 3% range. You can get greater passive income from them. However, the higher the yield, the riskier it might be.

As usual, investors should investigate the health of the underlying businesses of the dividend stocks they're considering to determine that the dividends are safe and will continue to grow at a healthy pace. Business growth is what will drive long-term dividend growth and price appreciation.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

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