3 Top ETFs for Tax-Free Passive Income in Retirement

Description

Looking to earn copious amounts of tax-free passive income in retirement?

If so, it pays to hold dividend ETFs in a Tax-Free Savings Account (TFSA).

Stocks are usually taxable, but by holding them in a TFSA, you avoid all possible taxes. On top of that, if you were 18 or older in 2009 and you haven't yet made any contributions to a TFSA, then you can contribute up to $81,500. You can probably shelter a very large portion of your savings in a TFSA!

Now, you can always buy and hold individual stocks in a TFSA, but that takes a lot of research and time. What you can do instead is buy index ETFs.

Index funds are ultra-diversified, so you don't need any particular knowledge about individual stocks to invest profitably in them. Instead, you can just park your money in them and hopefully watch your money grow over time. In this article I will explore three Canadian index funds that can pay you tax-free passive income in retirement.

iShares TSX Canadian Dividend Aristocrats ETF

The iShares **TSX Canadian Dividend Aristocrats ETF** (TSX:CDZ) is a Canadian dividend fund built on a portfolio of value stocks. Its holdings have an average price-to-earnings ratio of 18, a price-to-book ratio of 1.97, and a 3.2% dividend yield. So when you buy it, you're getting exposure to a broad basket of Canadian high yielders. The fund does have a very high fee. At 0.66%, it's considerably higher than those of many other index funds, like the ones I invest in. However, this fund also has a much higher yield than the funds in my portfolio. If you really want a high-yield fund, CDZ's high management expense ratio (MER) might be worth it.

BMO TSX Equal Weight Banks ETF

The **BMO TSX Equal Weight Banks ETF** (TSX:ZEB) is a Canadian banking fund. Its holdings are pretty much the same as those of the TSX financials sub-index, but with a catch: they're equal weighted instead of market cap weighted. Most stock indexes are market cap weighted, which exposes you to concentration risk. That's when one single stock makes up a very large percentage of your portfolio. If one stock makes up a big percentage of your portfolio then you lose a lot of money if it crashes. ZEB, with its equal weighting, holds all Canadian banks in equal proportion. So, it's theoretically less risky than a market cap weighted ETF of Canadian banks.

iShares S&P/TSX 60 Index Fund

The **iShares S&P/TSX 60 Index Fund** (TSX:XIU) is the one ETF on this list that I personally own. A highly diversified fund with 60 stocks under the hood, it is about as low-risk as you can get with Canadian equities. The fund is not specifically marketed as a dividend fund, but it might as well be. With a 2.5% dividend yield, it's got a higher yield than many individual stocks. It's no big mystery how the fund got such a high yield. Canadian stocks are generally high-yielders, so XIU, despite being a broad market index fund, has a yield that beats many "high-yield" U.S. funds. Apart from that, the fund has a low (0.16%) fee and high liquidity. Definitely an investment worth considering for a high-yield TFSA portfolio.

CATEGORY

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2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:CDZ (iShares S&P/TSX Canadian Dividend Aristocrats Index ETF)
2. TSX:XIU (iShares S&P/TSX 60 Index ETF)
3. TSX:ZEB (BMO Equal Weight Banks Index ETF)

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