TFSA Retirees: This ETF Will Help You Generate $3,100 in Tax-Free Income Each Year

Description

The TFSA, or Tax-Free Savings Account, is a registered account that was introduced back in 2009. Any withdrawals from the TFSA in the form of capital gains, dividends, or interests are exempt from Canada Revenue Agency taxes. So, the TFSA is ideal to hold dividend-paying stocks.

The cumulative contribution room available for TFSA investors stands at $81,500 in 2022. Retirees can identify several dividend-paying stocks with attractive yields to generate a stable stream of recurring income. Alternatively, the capital can also be allocated to buy dividend ETFs or exchange-traded funds such as **Vanguard FTSE Canadian High Dividend Yield Index ETF** (TSX:VDY).

The benefits of ETF investing

It's quite difficult and expensive to pick individual stocks and monitor their performance regularly. However, investing in an ETF results in diversification of risks at a low cost. The risk profile of retirees is significantly lower compared to younger investors. But the primary goal should be to derive inflation-beating returns consistently.

In the past decade, interest rates have been trending near record lows, making bonds and other fixed-income instruments a losing bet. Alternatively, a low interest rate environment has allowed enterprises across sectors to raise debt capital at cheaper rates and fund their expansion plans.

Exchange-traded funds provide investors exposure to a basket of stocks taking out the guesswork associated with equity investing. They are also easier to buy or sell compared to mutual funds.

Why should retirees invest in the VDY ETF?

The Vanguard FTSE Canadian High Yield Index ETF, or VDY, was launched in November 2012. In fewer than 10 years, the ETF has returned 158% to investors in dividend-adjusted gains. Comparatively, the S&P 500 Index has returned 266% in this period. While the VDY is trailing the S&P

500, investors should understand that the former is far less volatile, as it holds a portfolio of blue-chip Canadian stocks.

So, while it will trail the S&P 500 in a bull market, the VDY will outperform most indices when markets turn bearish. At the time of writing, the S&P 500 Index is down 9.3% from all-time highs. Comparatively, the VDY ETF is down just 2.7% from record highs.

In addition to a low beta score, the VDY ETF offers investors a forward yield of 3.83%. So, if you invest $81,500 in this exchange-traded fund, you can generate over $3,100 in annual dividends.

Top holdings of the VDY ETF

Vanguard FTSE Canadian High Yield Index ETF provides you exposure to the largest Canadian companies. The largest holdings of the ETF include **Royal Bank of Canada**, **Toronto-Dominion Bank** , **Enbridge**, **Bank of Nova Scotia**, and **Bank of Montreal** that account for 49% of the ETF.

The Vanguard FTSE Canadian High Yield Index ETF holds 39 stocks with a median market cap of $66.5 billion. These enterprises enjoy a wide economic moat, predictable cash flows, and a leadership position in the respective sectors. Further, the companies have strong fundamentals that enabled them to get through multiple economic recessions in the past.

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