How to Accelerate Your TFSA Returns From Dividend Stocks

Description

The stock market saw a correction in January, as investors booked profits ahead of the central bank's interest rate hikes. The TSX Composite Index fell 4.6% in the last 10 days, creating an opportunity to buy some good dividend stocks for your passive-income portfolio. But whenever a good buying opportunity arises, you are cash strapped. This is generally what happens.

Make your portfolio self-fund future investment opportunities

What if your investment earns you the money you need to invest in opportunities when the market dips? This won't disturb your working income and expenses, and your portfolio will self-fund future investment opportunities to multiply by itself. If you are a sci-fi movie buff, it is like robots building robots. But don't worry; they won't take over the world.

It all begins with dividend investing through the Tax-Free Savings Account (TFSA). You buy some good stocks that pay regular dividends and accumulate these payments. For instance, if you invest $10,000 in **Enbridge** (TSX:ENB)(NYSE:ENB) today, you can accumulate $650 in tax-free dividend income every year. And Enbridge is not a very volatile stock, so your $10,000 principal would also be more or less safe with a 10% up or down.

Now, this $650 is passive income that you could earn every year. Enbridge has been giving dividends for over 30 years and growing them in the last 26 years. The stock survived the pandemic without any dividend cuts. With the global energy crisis mounting, natural gas and oil demand isn't going anywhere. So, Enbridge is likely to earn toll money for years to come, even though building new pipelines is getting tougher.

Accelerating your dividend returns

Enbridge pays a quarterly dividend, which means a $10,000 investment can give you a $162 quarterly income. You can use this money from Enbridge to invest in some growth stocks that can give you significant returns. You can buy four different stocks every quarter, depending on the buying opportunity in hand.

For instance, in the first quarter, you can use the passive income to buy growth stocks like **Lightspeed Commerce** or **Dye & Durham** that trade below $50/share. Another good investment for your dividend income is **iShares S&P/TSX Capped Information Technology Index ETF** (TSX:XIT). The ETF gives you exposure to future tech trends of 5G, e-commerce, blockchain, and digital services for less than $50/unit. The ETF fell 15% in the recent tech selloff, creating a good buying opportunity.

At present, tech is the buying opportunity. In the third quarter of 2021, **Suncor Energy** was the buying opportunity as another pandemic wave pulled down oil prices. You can check out Motley Fool Canada's top picks for the month, which is a compilation of the collective wisdom of all contributors. This list can help you identify the buying opportunity stocks when you receive dividend income.

A systematic and timely reinvestment of this passive income can help you accelerate your returns from dividend stocks beyond the dividend yield. You can't time the market accurately. But you can get the stocks at a good price.

Earnings dividends from dividends

If you are not comfortable investing in growth stocks, you can use the dividend income to buy another dividend stock like **BCE**, which is increasing its dividends at an average annual rate of 5%. BCE has a 5.3% dividend yield on a stock price of around $66. So, a $160 investment can earn you an extra $7 in annual dividend income for several years.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)

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