FIRE Movement: How to Retire Early Using Your TFSA

Description

The FIRE movement is on fire! The recent higher inflation has increased people's desire for financial independence and retiring early (FIRE). At least, Canadians wish to reduce their reliance on their job's income to provide for their families. Though, there will always be a debate between the TFSA vs RRSP , in the case of early retirement the Tax-Free Savings Account (TFSA) comes into a bigger play because it's more flexible.

Canadians can withdraw tax free from their TFSAs any time with no restrictions, whereas, typically, RRSP withdrawals start at age 65, because the account is meant for retirement. Although you can withdraw from it before then, you'll pay hefty income taxes if you're also earning income from other sources. Additionally, since RRSP/RRIF withdrawals are taxable income, they can trigger clawbacks for your other benefits like your old age security pension.

Since you're planning to retire early with the help of your TFSA, you can start earning a growing income stream on day one. More specifically, you can earn passive income in your TFSA from dividend stocks with juicy yields.

Enbridge stock yields 6%

Enbridge (TSX:ENB)(NYSE:ENB) stock offers a generous yield of about 6% right now on a sustainable payout ratio. The large North American energy infrastructure company is suitable for anyone who wants financial independence or to retire early. It has a track record of paying dividends since 1952. And it has increased its dividend every year for more than two decades.

The stable company has a low-risk business model. It acts as a toll road to transport natural gas and oil so that the volatility in the prices of underlying commodities has little impact on its cash flow generation. Enbridge generates cash flows from a diversified group of investment-grade customers. Furthermore, its cash flows are primarily long-term contracted. It also has a growing renewable power portfolio to complement its other assets.

Currently, the dividend stock is fairly valued at $57 and change per share. Investors looking for a better bargain can wait for a potential dip to the low $50 range.

This dividend stock has dipped

Power Corporation (TSX:POW) is a life and health insurance company. Unlike Enbridge stock, which trades close to its all-time high, the dividend stock has corrected approximately 21% from its 52-week high during the current market downturn. So, it provides better value. Coincidentally, analysts believe the stock could potentially appreciate 21% over the next 12 months.

Besides that, more importantly, Power Corporation provides a juicy yield of almost 5.7%. Its 2022 payout ratio is estimated to be sustainable at about 50%. And it has increased its dividend by about 6.9% per year over the past five years.

Here's a comment on Power Corp from an analyst this month.

> "Rising interest rate will be good for financial companies. We believe there's more upside in the stock price. We will continue to hold."
> *Darren Sissons, vice-president and partner at Campbell, Lee & Ross*

If the dividend stock retreats below $30 per share, it'll be an even bigger bargain.

The Foolish investor takeaway

There are many increasingly attractive dividend stocks to choose from because we're experiencing a market downturn. Therefore, Canadians who want to participate in the FIRE movement should consider exploring the list of Canadian Dividend Aristocrats that tend to increase their dividends over time. Enbridge and Power Corp are but two of such companies. Thanks to low-cost online brokerages, investors can easily build positions in a diversified basket of stocks with low to no costs!

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1. Dividend Stocks
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3. TSX:POW (Power Corporation of Canada)

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