This 11% Yielder Could Give Your TFSA Passive-Income Fund a Boost

Description

TFSA dividend investors have a lot of choices to bolster their passive-income portfolios these days. The markets are starting to slip again, likely marking the end of yet another (this is the third) bear market bounce.

It's a scary place to be if you're an investor who doesn't have any liquidity and is 100% invested in stocks. For TFSA investors who've yet to put their 2022 annual contribution — an amount of $6,000 — to work, it's time to embrace the volatility and buy shares of fallen securities that now have dividend (or distribution) yields that are on the higher end of the historical range.

With inflation as high as it is, it's time for TFSA investors to give themselves a raise with passive-income stocks whose yields have surged as share prices have fallen. Inflation is a hard beast to beat. The Bank of Canada may struggle to bring it back to levels we've taken for granted over the decades.

TFSA Investors: Time to lock in a high yielder on weakness?

That's why raising the bar on your TFSA income fund's yield may be a good idea. You can do so without subjecting it to greater risks. Though many expect a recession or stagflation to be on the horizon, it's arguable that the magnitude of economic damage is unlikely to be so severe that even the most stable of dividend plays and high-yield REITs need to bring their payouts to the chopping block.

Reaching for yield is typically a bad idea during normal environments. The higher the yield, the greater the risks that TFSA dividend investors will need to bear. However, in turbulent times, with markets in a bear market or a correction, the yield has been raised across the board. And if fundamentals are little changed in a name you're looking at, it may be time to be a buyer of the dip!

Always insist on quality and don't reach for companies that don't have above-average yields by design. In this piece, we'll have a look at a nearly 11%-yielding REIT that may be worth the extra homework.

Inovalis REIT: A European office REIT with a huge 10.9% yield

Inovalis REIT (TSX:INO.UN) took a 27% plunge off its 52-week high just north of the $10-per-share mark and down around a third from its all-time high near $11 per share. Undoubtedly, the pure-play office REIT is in a bit of distress amid the rise of remote work. It's unlikely we'll ever see pre-pandemic levels of office demand in this decade. Still, Inovalis's normalized yield typically lies in the 8-9% range, making 11% not as fragile as most would think.

For now, the payout is relatively safe, with a payout ratio just shy of 90%. Yes, that's stretched, but it's not as alarming for a REIT. Further, the European office environment could be quicker to recover than the one in Canada. The $250 million REIT provides heavy exposure to urban offices in France, Germany, and Spain.

Though a worsening of the economic tides could force the REIT to slash its payout to more sustainable levels, I think passive-income seekers can expect a cut to bring the yield closer to the historical range of around 8%, or perhaps 6-8% to be on the safe side. That's still an impressive payout. Given all the damage done to the REIT, I'd argue shares have a solid risk/reward and could allow one to lock in a 11% yield if we are due for a soft landing with the economy.

During the 2020 market crash, Inovalis bounced back, and its distribution remained intact. Will the same be in the cards in 2022 or 2023? I'd say it's likely to survive again. Now, Inovalis isn't without its fair share of risks. However, given the quality of assets and the current state of cash flows, I'd argue that the rewards potential outweighs the risks.

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Author
joefrenette