TFSA Investors: Should You Be Holding Cash Now?

Description

The Tax-Free Savings Account (TFSA) is a fantastic investment account because of its unique features and usefulness to accountholders. People who are eligible to own one should take advantage and maximize contributions to the TFSA annually if finances allow.

Besides helping you save for a rainy day or build retirement wealth, tax savings are enormous since all earnings, income, or capital gains inside a TFSA are tax free. Today, TFSA investors are surely in a dilemma, because holding cash in the account might not be the best option in the perfect storm.

Hold income-producing assets

While cash is an eligible investment in a TFSA and offers instant liquidity, rising inflation will erode its value over time. The advice of finance experts is to use your surplus cash to top up your TFSA. Purchase and hold income-producing assets like dividend stocks to boost your regular income during this inflationary period.

There should be no worry about withdrawing funds as withdrawals are tax free, too, unlike in a Registered Retirement Savings Plan (RRSP). Also, choose only Canadian dividend stocks, as investment income from foreign assets are subject to a 15% withholding tax.

However, the stock market isn't without risks, and, therefore, you should be extra careful or discerning with your investment choices. Pick companies with proven stability during periods of uncertainty. Among the standouts that can endure recession shockwaves are **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Freehold Royalties** (TSX:FRU).

Quarterly dividends

BNS, Canada's third-largest lender, pays the highest dividend (5.14%) in the banking sector. Apart from the 190-year dividend track record, the $92.92 billion bank has raised its dividends annually since 2011. In late 2021, management hiked the payout by 11% then followed with another 3% hike payable on July 27, 2022.

The current share price of $76.89 (-13.2% year to date) is a good entry point. BNS should rebound eventually like it did during the COVID year. A $6,000 investment will produce $77.10 in tax-free quarterly income in a TFSA.

The Big Five banks in Canada, including BNS, have more secure profits than other dividend-paying companies. According to Brand Finance, Scotiabank is the strongest brand in 2022. Its Brand Strength Index (BSI) score is 85 out of 100, which corresponds to a triple-A rating.

Monthly income

Freehold Royalties belongs to a select group of monthly income stocks. The energy sector is holding ground in 2022 (+44%), and so is this royalty stock (+16.5%). At $13.24 per share, the dividend yield is 6.93%. Assuming your available TFSA contribution is $50,000, you can generate $288.75 in monthly tax-free income.

The $2 billion oil & gas royalty company maintains a long-term view of commodity pricing. It also expects a host of opportunities to enhance its royalty portfolio in Canada and the United States. Management is confident that the momentum from 2021 will extend into 2022.

Freehold's competitive advantages include a strengthened asset base, strong balance sheet, and long-term sustainability of the business. In Q1 2022, the $27.11 million dividend payments were 255% higher from Q1 2021.

Lower-risk dividend stocks

If you're using a TFSA today, stick to lower-risk dividend stocks like BNS and Freehold Royalties. Losing money is not an option, because you can lose two ways: you can lose money and the tax benefit from the lost money.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:FRU (Freehold Royalties Ltd.)

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