Create $300 a Month in Tax-Free Passive Income With These 2 Top Dividend Stocks

Description

The Canadian stock market showed signs of life last week, but the **S&P/TSX Composite Index** is still trading at a loss of more than 10% on the year. The index has suffered two 10% pullbacks over the past three months, leaving investors with no shortage of anxiousness over what may be in store for the coming months.

As a long-term bull, I'm bracing my portfolio for what I'm expecting will be more volatility. There's still a lot of short-term uncertainty in the Canadian economy. More often than not, that will lead to an unstable stock market full of investors trying to make up their minds on which side to bet on.

Amid all the instability in the stock market, I'm looking toward dividend-paying companies as my portfolio's next buys. The added cash generated from dividend stocks can help offset some of the short-term pain in my investment portfolio.

Building a tax-free passive-income stream

There are two great reasons why a Canadian investor should be considering buying dividend stocks today.

First, the TSX is full of dependable Dividend Aristocrats with long payout streaks, some of which yielding upwards of 4%.

Second, Canadians have the option of investing in dividend stocks within a Tax-Free Savings Account (TFSA), which as the name suggests, offers tax benefits. Any cash generated through dividend stocks within a TFSA is completely free of being taxed.

As of this year, the total TFSA contribution limit is $81,500. As an example, let's assume that a maxed-out TFSA was invested in dividend stocks all yielding 4% per year. That would generate more than $3,000 a year in tax-free income. If instead, the dividend stock was yielding 5%, that annual income would jump to over $4,000, which would equal more than $300 a month.

With that in mind, I've reviewed two top dividend stocks yielding above 5% today. Don't think that the yield is the only reason why the two companies are top picks, though. In addition to passive income, both dividend stocks can provide an investment portfolio with stability and even market-beating growth over the long term.

Dividend stock #1: Algonquin Power

If your portfolio skews towards high-growth companies, like mine does, owning shares of a defensive utility company like **Algonquin Power** (TSX:AQN)(NYSE:AQN) would be a wise idea. Passive income aside, Algonquin Power is the exact type of company that flourishes in market downturns.

At today's stock price, the company's annual dividend of $0.95 per share yields just over 5.5%.

Shares are down about 15% from all-time highs set earlier this year. Now's a very opportunistic time to start a position in this high-yielding dividend stock.

Dividend stock #2: Bank of Nova Scotia

You can't mention passive-income investing without bringing up the major Canadian banks. The Big Five own some of the longest dividend-payout streaks around. In addition to that, the bank's yields are tough to match on the TSX right now.

If I could buy just one bank stock today, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) would likely be my choice.

The $90 billion bank has been paying a dividend to its shareholders for close to 200 consecutive years and at today's stock price the yield is just shy of 5.5%. That ranks it as the highest yielding among the Big Five right now.

On top of that, shares are currently priced at a very affordable forward price-to-earnings multiple below 10.

Now is as good a time as any to pick up shares of this dependable dividend stock.

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1. Dividend Stocks
2. Investing

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2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
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