



TFSA Passive Income: Earn \$252/Month Tax-Free for Life

Description

Is the stock [market volatility](#) giving you anxiety? You could consider passive investing in income-generating stocks. Growth stocks depend heavily on the stock price for returns and thus carry high risk. This is because market sentiments and factors other than [fundamentals](#) influence the stock price. However, a company's cash flows and management discretion influence dividends. Dividend stocks are a treat in a volatile market, as a dip in stock price gives you a chance to lock in a higher yield.

Compounding through passive investing

One form of passive investing is reinvesting dividends and compounding your returns. But you should select a stock that can survive and grow even after 10 years.

Compounding from a dividend reinvestment plan (DRIP) could backfire if the stock price goes into a long-term downtrend or the company makes dividend cuts. The company's management may suspend the DRIP temporarily or permanently for strategic or financial reasons.

If reinvesting dividends, dividend aristocrats are preferred by passive income seekers because they have a history of paying regular dividends for over 50 years and increasing them for over a decade. The management is under pressure to maintain their dividend record, which prevents them from making dividend cuts unless unavoidable.

Two passive investing stocks to earn \$252/month

BCE

BCE ([TSX:BCE](#))([NYSE:BCE](#)) is a dividend aristocrat. The Canadian telecom giant has been paying regular quarterly dividends for more than [38 years](#). During this time, it faced some extreme economic situations without dividend cuts thanks to its stable cash flows from subscriptions and improved operating efficiency.

In the last 10 years, wireless communication has evolved and become a necessity, making BCE's cash flows stronger. During this period, the company increased its dividend at a compounded annual growth rate (CAGR) of over 5% and its stock price by 35%. A dividend stock doesn't give significant capital appreciation. But BCE assures a 6% yield on the invested amount.

I will take a conservative approach and calculate the possible returns from BCE's dividend reinvestment plan (DRIP) 10 years from now. A \$10,000 Tax-Free Savings Account (TFSA) investment with a dividend yield of 6.02% can convert to \$22,800 in a DRIP plan if the dividend continues to grow at a 5% CAGR. At the end of 2032, your \$10,000 could fetch you \$1,370 in annual passive income tax-free.

I am bullish on BCE as it is ahead of the competition in the 5G arena, and 5G has a lot to offer in a decade. The fifth generation technology can bring internet subscription revenue from autonomous cars and edge devices. The 5G infrastructure could pave the way for higher cash flows once it connects even the most remote areas to the internet.

Algonquin Power & Utilities

Unlike BCE, **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)) is relatively small in size. The utility company supplies electricity to industries and townships from its solar, wind, natural gas, and hydropower plants. Electricity is a resource that will never go out of business.

Algonquin has been paying regular dividends since 2009. It increased its dividend at a 12% CAGR in the last 10 years. Management forecasts 10-year capital appreciation of 175% as the growing company builds new power plants. A 13-year history is not sufficient to call Algonquin a dividend aristocrat. But its higher dividend growth, stock price appreciation, and resilient business make it a good stock for passive investment.

If the company can maintain a 10% dividend CAGR and 8% stock price CAGR in the next 10 years, it can convert \$10,000 into \$33,000 by 2032 under DRIP. Moreover, it can pay \$1,650 in annual dividends.

I am bullish on Algonquin as the United States is accelerating investment in renewable energy and natural gas. Moreover, the electric vehicle boom could drive the need for renewable power and accelerate the growth of all renewable energy stocks.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQNA (Algonquin Power & Utilities)
2. NYSE:BCE (BCE Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:BCE (BCE Inc.)

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