TFSA Passive Income: Invest $30,000 to Earn $500,000 + $7,800 in Tax-Free Dividends

Description

The power of compounding is key to building long-term wealth. For example, if you start investing $200 a month each year, your portfolio will be worth $393,700 at the end of 40 years, assuming a 6% return annually. But if you delay investments by a decade, your portfolio value will be worth just over $200,000 after 30 years.

Starting your investment journey early remains the key, as you can benefit from exponential gains, and your initial capital can snowball over time.

Over the last several years, the equity markets have remained the most preferred asset class for investors with a high-risk profile, and for a good reason. The stock market has consistently delivered inflation-beating returns as the S&P 500 has gained an annual 10.5% since 1965.

In addition to investing in indices such as the S&P 500, you can also look to add blue-chip dividend stocks to your equity portfolio and earn a steady stream of passive income.

How to convert $30,000 in to $500,000

If you have $30,000 in savings, it's time you put them to use. Investors can identify fundamentally sound companies that are part of the TSX that also pay a dividend and opt for a DRIP (dividend-reinvestment plan).

Despite the fall in share prices, dividend payouts remain the same. You should then utilize these payments to purchase additional shares of the company and benefit from the powers of compounding, allowing shareholders to convert $30,000 into $500,000.

Further, if you can hold these stocks in a Tax-Free Savings Account (TFSA), you can earn tax-free dividend income for life.

Let's take a look at two such dividend stocks Canadians can buy and hold in their TFSA right now.

An energy giant

Enbridge (TSX:ENB) is among the largest pipeline companies globally. Most of Enbridge's cash flows are backed by long-term contracts, making it relatively immune to commodity prices. Right now, it offers investors a tasty dividend yield of 6.6%.

If you invested $15,000 in ENB stock 20 years back, you would have returned close to $158,000 in dividend-adjusted gains. Back in October 2002, you could have brought 1,300 ENB shares for $15,000. Given its current dividend of $3.44 per share, your annual dividend payout would be close to $4,472 today.

A renewable energy heavyweight

Similarly, **Brookfield Renewable** (TSX:BEP.UN) is a leader in the clean energy space. It has delivered market-thumping gains to investors since October 2002. An investment of $15,000 in Brookfield Renewable Power two decades ago would have ballooned to $353,000 today after accounting for dividend reinvestments.

An investor could have purchased 1,928 shares for $15,000 in October 2002. Given its dividend yield of $1.74 per share, total annual dividends will amount to $3,355 today.

The Foolish takeaway

We can see a total of $30,000 distributed equally between Enbridge and Brookfield Renewable in October 2002 would now be worth $510,000 in dividend-adjusted gains. Further, the initial investment would allow investors to generate $7,800 in annual dividends in the next year, indicating a forward yield of 26%.

This article is just an example of how the power of compounding works. Investors should understand that past returns are not a guarantee of future returns, and you can identify similar companies with enticing long-term potential.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
4. TSX:ENB (Enbridge Inc.)

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