TFSA: Invest $10,000 in 2 Stocks and Get $10,000 in Passive Income

Description

Earning passive income can be very powerful. The more you invest, the greater the passive income you can get. You can speed up the compounding effect by reinvesting your investment income. If you're starting with a $10,000 Tax-Free Savings Account (TFSA) dividend portfolio, you can reinvest the dividends and, in time, generate $10,000 per year in passive income! This is the power of compound interest.

Right now, after a market correction, Canadian investors can more easily find solid dividend stocks trading at good valuations for juicy income. Here are a couple of high-yield stocks to consider for passive income. Assuming an investment of the same dollar amount in each, they start you with an average yield of about 7.4%.

Enbridge stock

Enbridge (TSX:ENB) stock is one of the largest and most diversified blue-chip energy stocks for passive income. It's an essential business that transmits 20% of the natural gas consumed in the United States and transports 30% of the crude oil in North America. Additionally, it has a gas utility franchise that distributes natural gas to approximately 3.8 million customers. Lastly, it has a growing renewable power portfolio.

Enbridge generates cash flow from more than 40 diversified sources. Since 95% of its customers are investment grade and roughly 80% of its cash flow has inflation protection, its business performance is highly stable. In other words, it has been generating stable or growing cash flows every year through the economic cycle.

ENB stock is a Canadian Dividend Aristocrat with a track record of dividend growth. Specifically, it has increased its dividend every year for about 26 years. Its five-year dividend-growth rate is 9.5%. After retreating roughly 16% from its 52-week high, the high-yield stock now offers a juicy yield of almost 6.9%. It's a low-risk stock that analysts believe can potentially appreciate about 20% over the next 12 months to about $60 per share.

In the next few years, the dividend stock should be able to increase its dividend by 3-5% per year, which should lead to total returns of about 10% without any valuation expansion.

NorthWest Healthcare Properties REIT

NorthWest Healthcare Properties REIT (TSX:NWH.UN) is another popular stock for passive income. Rising interest rates have triggered a decline of close to 30% in the real estate investment trust (REIT) stock from its 52-week high.

It now provides a cash distribution yield of almost 7.9%. Moreover, analysts believe it's undervalued by 30%, meaning that it can appreciate 43% when it hits the $14.50 price target.

The global healthcare REIT consists of a diversified $10.2 billion portfolio across 232 properties and more than 2,100 tenants. It generates rental income from hospitals, other healthcare facilities, and medical office buildings.

Its buildings can be found in Canada, the United States, Brazil, the U.K., the Netherlands, Germany, Australia, and New Zealand. The defensiveness of its portfolio is characterized by a high occupancy of 97% and a weighted average lease expiry of close to 14 years.

About 82% of its rents are indexed to inflation. So, its cash-distribution yield should be better protected in today's high inflationary environment.

Bottom line

If you invest $5,000 each in Enbridge stock and NWH.UN stock in your TFSA today, you can earn $740 annually in passive income. Two stocks aren't enough to maintain adequate portfolio diversification, though. Invest, with an income focus, regularly in quality dividend stocks at attractive valuations in different sectors and reinvest your dividends. Before you know it, you'll generate +$10,000 of tax-free passive income in your TFSA.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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