TFSA: Invest $25,000 and Get $150/Month in Passive Income

Description

Your Tax-Free Savings Account, or TFSA, is a great place to start generating a stream of consistent investment income. Gains in this account are exempt from capital gains or dividend tax, which makes it great as a place to hold income-generating investments.

Most Canadians seeking investment income turn to dividend stocks. However, the yields on these aren't always the highest. Buying individual dividend stocks can also lead to a lack of diversification. Finally, many of these stocks pay dividends quarterly, which is bad for those looking for monthly income.

My solution here is a income-oriented exchange-traded fund, or ETF. Some of these ETFs yield over 7% annually and pay out distributions on a monthly basis. Investors can use them as the core of an income-oriented portfolio while supplementing it with a few key Canadian dividend stock picks.

BMO Canadian High Dividend Covered Call ETF

BMO Canadian High Dividend Covered Call ETF (TSX:ZWC) holds a concentrated portfolio of Canadian dividend stocks mostly from the financial, energy, telecommunications, industrials, and utilities sectors selected and weighted for high yields.

Then the ETF deploys an option called a covered call to boost yield. Covered calls essentially sell the upside potential of the holdings in exchange for an immediate cash premium. This means that ZWC might not return as much during a bull market but has higher income potential.

Right now, ZWC pays an annualized distribution yield of 7.15% on a monthly basis. Assuming the most recent distribution stays consistent, an investor who puts $25,000 in the ETF can expect around $145.95 in monthly income, or $1,787.50 per year.

iShares Canadian Financial Monthly Income ETF

If you don't like using derivatives, then **iShares Canadian Financial Monthly Income ETF** (TSX:FIE) might be a better pick. This ETF holds a portfolio of TSX financial dividend stocks, preferred shares, income trusts, and corporate bonds to deliver higher income potential.

Compared to ZWC, FIE is 100% concentrated in the TSX financial sector. Its underlying holdings in terms of stocks include big banks and life insurance companies. 20% of the ETF is held in corporate bonds, which pay a much higher interest rate than government bonds but have more risk.

Right now, FIE pays an annualized distribution yield of 7.41% on a monthly basis. Assuming the most recent distribution stays consistent, an investor who puts $25,000 in the ETF can expect around $154.37 in monthly income, or $1,852.50 per year.

The Foolish takeaway

If you're seeking above-average monthly income for your TFSA, then either ZWC or FIE could be a good pick. Keep in mind, however, that these funds often sacrifice overall performance in exchange for high consistent income, so make sure that's what you're looking for.

A great way to use ZWC or FIE is as the core of a income-oriented portfolio while supplementing it with a few select Canadian dividend stocks (and the Fool has some fantastic recommendations for those).

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:FIE (iShares Canadian Financial Monthly Income ETF)
2. TSX:ZWC (Bmo Canadian High Dividend Covered Call ETF)

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