2 Ways to Score a Richer Monthly TFSA Payout

Description

Are you looking for that sweet, monthly, tax-free income? A great place to start is by investing in your Tax-Free Savings Account, or TFSA. Canadian-sourced dividends earned here are completely tax exempt, meaning that more money lands in your pocket every month.

A sector of the Canadian stock market that has provided historically strong income potential and inflation protection is energy. While you can buy individual energy stocks (and my fellow Foolish writers have some fantastic picks), a more diversified alternative might be an energy exchange-traded fund, or ETF.

Compared to single-stock picks, sinking a larger amount of money into an ETF is generally a safer way to invest for the long term. These two ETFs provide diverse exposure to numerous large-cap, blue-chip energy stocks and have high yields above 5% right now.

iShares S&P/TSX Capped Energy Index ETF

Passive investors who want to track the broad Canadian energy sector can buy **iShares S&P/TSX Capped Energy Index ETF** (TSX:XEG). This ETF holds 28 Canadian energy stocks, mostly focused in the oil and gas industry. Each individual stock is capped at 25% max to limit concentration risk.

Currently, XEG pays a distribution yield of 5.11%. This is the amount an investor can expect to receive if the most recent dividend payment remained consistent moving forward. While this can change depending on XEG's share price and its underlying companies, it is still much above average.

ETFs aren't a free lunch though. XEG will cost you a management expense ratio of 0.60%. This is the annual fee deducted from your investment over time. If you invest $10,000 in XEG, you can expect to pay around $60 in fees annually. Still, this is likely easier than buying 28 individual stocks and managing them.

CI Energy Giants Covered Call ETF

CI Energy Giants Covered Call ETF (TSX:NXF) is best suited for energy investors who want exposure outside of Canadian stocks and desire a much higher yield. The ETF holds at least 15 of the largest North American-listed energy sector stocks and then sells covered call options on 50% of them.

Basically, by selling the covered call, the ETF converts some of its future upside potential into immediate income. This income can fluctuate but is usually greater when market volatility trends higher. Investors also receive dividend payments from the underlying energy sector stocks.

Currently, NXF has a very high 12-month trailing distribution yield of 9.63%. This is the amount an investor who held the ETF over the last year would have received. In terms of fees, NXF costs a MER of 0.75%, or $75 for a $10,000 investment.

The Foolish takeaway

If you're bullish on the energy sector, then either XEG or NXF can be a great core holding for your portfolio. However, investors should be aware that the energy sector can be very cyclical. While it has performed well in 2022 due to inflation, it has underperformed in other years, so ensure you maintain a long-term perspective and stay the course.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NXF (CI Energy Giants Covered Call ETF)
2. TSX:XEG (iShares S&P/TSX Capped Energy Index ETF)

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