TFSA Investors: 3 Stocks for Building Your Tax-Free Retirement Income Stream

Description

There are many facets of comprehensive retirement planning, which include building a retirement income stream that can augment the pensions you might be getting from the federal and provincial governments (or your employer).

Like everything related to financial independence in your retirement years, the earlier you build an income stream, the better. The Tax-Free Savings Account (TFSA) is the ideal tool for the job, as it helps you generate a tax-free income and improve your lifestyle (financially) without inflating the tax bill.

A banking stock

Almost all Canadian bank stocks are good dividend picks, but **Royal Bank of Canada** (TSX:RY) is easily one of the top picks. The largest bank in Canada and one of the largest in North America offers a tasteful combination of dividends and capital-appreciation potential that appeals to a massive investor pool.

Plus, the stability as the largest financial institution in the country makes it an easy choice for a long-term buy-and-hold stock.

This makes it ideal if you want to use a dividend-reinvestment plan (DRIP) to increase the size of your stake in the bank. If you had invested $10,000 in the bank a decade ago and reinvested all the dividends, you would have grown your shares in the bank from 178 to 261.

Investing in the bank now and opting for a DRIP can significantly increase the size of your stake in the bank in two or three decades, especially if you keep buying new shares as well. This will result in a massive income stream once you start cashing out your dividends in retirement.

A mortgage company

First National Financial (TSX:FN) is direct competition of Royal Bank in one market segment:

mortgages. That's not much competition, as Royal Bank has the largest market share in the mortgage segment, followed by other large banks.

But a significant segment of the population doesn't qualify for a mortgage loan with one of the major banks, and that's the market targeted by First National Financial and other mortgage lenders (other than the banks).

The company is the leader in this niche space, and even though the stock has been suffering since the beginning of 2022, it's still an option worth considering for a tax-free retirement income stream. The 35% discount from the 2021 peak has pushed the yield to an attractive 7%.

If you invest $25,000 in the company, you can start generating an income of $1,750 every year, which is enough to buy almost 44 total shares of the company (at the current price).

An equity partners company

You can lock in an even higher yield with **Alaris Equity Partners** (TSX:AD.UN), which currently offers dividends at a 7.68% yield. That's an annual income of about $1,920, and since the stock is trading at just $17.2 per share right now, you can buy about 111 shares of the company with a year's worth of dividends.

This makes it a strong pick for DRIP and growing your stake (and future income size) without investing any more money directly.

The company has also been growing its payouts, and even though it hasn't attained the rank of an Aristocrat yet, that is a good trend. If it continues for a long time, you can expect your payouts in retirement to be significantly higher than they are now, and your income from this stock will essentially stay ahead most of the time.

Foolish takeaway

The three stocks are ideal for starting a tax-free income stream you might carry until retirement. You can improve upon it by buying more of these stocks when they are discounted and undervalued by locking in higher yields.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)
2. TSX:FN (First National Financial Corporation)
3. TSX:RY (Royal Bank of Canada)

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