

TFSA: Invest \$1,000 and Get \$7,200/Year in Passive Income

Description

Don't leave your Tax-Free Savings Account ([TFSA](#)) investment returns to luck. If you are playing the game of luck, you are funding the next penthouse of hedge fund managers and smart investors. Instead, you should determine the passive income amount you want to earn from your TFSA and then work backwards to achieve the pre-determined return. When you know what you are doing, the risk is less, and luck is a bonus.

Step 1: Decide your TFSA passive income goal

The right way to earn passive income is by disciplined investing. First, take a paper and write down your passive income amount at the top. I want to earn \$7,200/year in tax-free passive income.

Most dividend aristocrats trading on the TSX have an average dividend yield of 6%. If you want the 6% annual yield to equate to \$7,200, you need to invest \$120,000. To accumulate \$120,000, you need to invest \$1,000 a month for the next 10 years.

If your stock dividend grows or announces a bonus dividend, you are in luck and will achieve your \$7,200 target early. Investing is like planning your route. Sometimes, traffic or a flat tire might slow you down, but an empty road could help you cover up for the lost time.

Step 2: Determine where to invest \$1,000/month

The current market is lucrative with opportunities to buy strong [dividend stocks](#) at a lower price and book a dividend yield greater than 6%. **TC Energy** ([TSX:TRP](#)) (6.66%) and **SmartCentres REIT** ([TSX:SRU.UN](#)) (6.96%) have a history of paying regular dividends without any cuts.

A \$2,500/year passive income from TC Energy

TC Energy's stock price dipped to its 52-week low in December after an oil spill from its Keystone Pipeline. The last time the stock fell because of this pipeline was when U.S. President Joe Biden cancelled the permit for the pipeline expansion.

It has created an opportunity for investors to lock in a 6.66% yield in this dividend aristocrat, with a dividend compounded annual growth rate (CAGR) of 7%. The oil spill might slow or stall its dividend growth, but it is unlikely to lead to dividend cuts. The company is banking on natural gas pipeline projects for revenue growth and has been disposing of its oil assets to reduce expenses.

Moreover, it has a dividend reinvestment plan (DRIP) that can help you buy more shares of TC Energy from the dividend money. Here is a rough calculation: a \$300 monthly investment in a DRIP can buy you over 680 shares of TC Energy in 10 years. Assuming the company sustains its dividend per share

at \$3.60 with no growth in 10 years, 680 shares will give you \$2,500/year in passive income. If the stock continues to grow dividends, that would be a bonus.

\$2,600 in passive income from SmartCentres REIT

The rising interest rate has pulled down SmartCentres REIT's stock price by 14% to \$27.04 as property prices started cooling. SmartCentres REIT's [third-quarter](#) net income fell 98% due to the fair market value adjustment of investment properties. The REIT also saw interest expense surge by \$4.3 million as its variable rate debt ratio increased to 17% from 11% a year ago. But none of this impacted its distribution as its payout ratio improved to 86.6% from 96.8% a year before.

The REIT's stock price may remain weak next year as the central bank maintains a higher interest rate. A \$300 monthly investment in SmartCentres DRIP can buy you 1,403 shares of the REIT in 10 years, assuming the stock price grows at a modest rate of 3% every year. If it maintains its \$1.85 distribution per share, you would get \$2,600 annually in passive income.

Investing in high-yield dividend stocks

You can still earn passive income by setting aside \$400/month in high-yield dividend stocks that carry a risk of dividend cuts. Two such stocks include **Timbercreek Financial** (9.9%) and **Algonquin Power & Utilities** (10.51%). If they cut dividends by a third, these stocks will still provide an average yield of 6%, meeting our expected goal of \$7,200 in passive income.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)
3. TSX:TRP (TC Energy Corporation)

PARTNER-FEEDS

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