2 Ways to Score a Richer Monthly TFSA Payout

Description

Are you looking for tax-free monthly income? A great place to start is by maxing out your Tax-Free Savings Account, or TFSA, consistently every year. With 2023's contribution limit increased to $6,500, there's never been a more straightforward way to growing your money tax free.

Canadian dividends earned in a TFSA are completely tax exempt, unlike U.S. dividends, which are subject to a 15% foreign withholding tax. The problem is that most Canadian dividend stocks pay on a quarterly basis, which can be undesirable for those looking for monthly income.

My solution is a dividend exchange-traded fund, or ETF. These ETFs hold a portfolio of diversified dividend stocks and payout on a monthly basis. They can be a great way to instantly pick a portfolio of dividend stocks at a low cost with zero effort or research. Let's check out my top two picks.

iShares S&P/TSX Composite High Dividend Index ETF

iShares S&P/TSX Composite High Dividend Index ETF (TSX:XEI) holds a portfolio of 75 large-cap Canadian dividend stocks screened for above-average yields. Most of XEI is composed of financial and energy sector stocks, with some telecoms and utilities present.

Currently, XEI pays a 12-month yield of 4.55%. This is the percentage an investor would have received if they'd held the ETF over the last year based on the current share price. Keep in mind that this metric is backwards-looking and can change in the future.

XEI also tends to grow in share price outside of its dividend too, so you're getting some share price appreciation as well. Over the last 10 years, the ETF has returned 7.82% annualized with dividends reinvested. XEI charges an expense ratio of 0.22%, or around $22 for every $10,000 invested.

Vanguard FTSE Canadian High Dividend Yield Index ETF

A good alternative to XEI is **Vanguard FTSE Canadian High Dividend Yield Index ETF** (VDY), which holds a portfolio of 47 Canadian dividend stocks selected for high yields. Investors should note that

VDY is much more concentrated than XEI, with fewer holdings and a higher weight to bank stocks.

Currently, VDY pays a 12-month trailing yield of 4.15%, which is lower than XEI. However, this is a backwards-looking measure and based on the ETF's current price, which is subject to change. Historically, VDY has outperformed XEI, with a higher annualized 10-year return of 9.69%.

That being said, past returns do not predict future returns. VDY might have outperformed thanks to its higher concentration of bank stocks, but the future might prove different. XEI did better in 2022 thanks to its greater number of energy stocks. Otherwise, VDY costs the same expense ratio of 0.22%.

CATEGORY

1. Investing

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1. TSX:VDY (Vanguard FTSE Canadian High Dividend Yield Index ETF)
2. TSX:XEI (iShares S&P/TSX Composite High Dividend Index ETF)

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