TFSA: How to Invest $88,000 to Get $5,450/Year in Passive Income

Description

The benefits of the TFSA (Tax-Free Savings Account) can be leveraged by Canadian residents to create long-term wealth. Because any income (dividends, capital gains, and interest) generated in the TFSA is exempt from Canada Revenue Agency taxes, it makes sense to buy and hold quality dividend stocks in this registered account.

Typically, fundamentally strong dividend-paying stocks offer investors an opportunity to enjoy a steady stream of income as well as derive long-term capital gains. The TFSA contribution room for 2023 has been increased to $6,500, while the cumulative contribution limit has surged to $88,000.

Let's see how you can invest $88,000 this year to generate close to $5,450 in annual dividend income.

A banking giant

Shares of Canadian banks have trailed the broader markets in the last 15 months. Investors are worried that the triple threat of inflation, interest rate hikes, and the prospect of an upcoming recession will negatively impact the revenue and profit margins of banks.

COMPANY	RECENT PRICE	NUMBER OF SHARES	DIVIDEND	TOTAL PAYOUT	FREQUENCY
Bank of Nova Scotia	$70.97	620	$1.03	$638.6	Quarterly
Enbridge	$54.40	809	$0.8875	$718	Quarterly

Down 25% from all-time highs, **Bank of Nova Scotia** (TSX:BNS) offers investors a tasty dividend yield of 5.8%. In the last 30 years, BNS stock has generated market-beating returns and gained 3,340% since January 1993, after adjusting for dividends.

In this period, the banking giant has experienced multiple economic downturns. Nonetheless, it has continued to deliver steady gains to shareholders, showcasing the resiliency of its balance sheet.

Priced at less than nine times forward earnings, BNS stock continues to trade at a cheap multiple. Analysts expect BNS stock to surge 10% in the next 12 months. After accounting for dividends, total returns will be closer to 16%.

An energy sector play

It’s impossible to ignore Enbridge (TSX:ENB) if we are talking about high-yield dividend stocks trading on the TSX. ENB stock offers investors a forward yield of 6.6%, and dividend payouts have increased at an annual rate of over 10% for close to three decades.

Enbridge enjoys a wide economic moat and recurring cash flows due to its low-risk business model. Its portfolio of assets generates predictable cash flows, which are backed by rate-regulated long-term contracts.

Enbridge has a payout ratio of 65%, indicating it has enough cash to fund expansion plans, lower debt and increase dividends in the future. Armed with a solid balance sheet, Enbridge is among the top TSX stocks you can buy in 2023.

Enbridge is gaining traction in the renewable energy sector, and this business now accounts for 4% of total EBITDA (earnings before interest, tax, depreciation, and amortization).

The company expects to increase dividends between 5% and 7% annually in the near term, making it attractive to the income-seeking investor.

The Foolish takeaway

An investment of $87,000 distributed equally in the two stocks will allow shareholders to generate more than $5,456 in annual dividends. In the case the companies increase dividend payouts by 7% annually, your dividends will double to $11,000 in the next 10 years.

But investing such a huge amount in just two stocks exposes investors to diversification risks, especially as dividend payments are not a guarantee.

You need to identify similar stocks with high yields and strong financials to create a portfolio of blue-chip dividend-paying companies.

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1. Dividend Stocks
2. Investing

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2. TSX:ENB (Enbridge Inc.)

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Date
2025/07/21
Date Created
2023/01/30
Author
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