Passive Income: How to Earn Nearly $367 Per Month in Your TFSA Portfolio

Description

Canadian retirees and other investors searching for regular passive income are taking advantage of their Tax-Free Savings Account (TFSA) contribution space to hold top TSX dividend stocks with good track records of distribution growth. The TFSA limit is $6,500 for 2023. This brings the maximum cumulative TFSA contribution room to as high as $88,000 per person.

Contrarian investing

One popular strategy to boost yield and increase potential total returns involves building a diversified portfolio of high-quality dividend stocks when a market correction pulls down the share prices of nearly every company. Some stocks that take a beating never recover, but most top-quality, dividend-growth stocks eventually rebound.

Buying top dividend stocks when they are out of favour takes courage, and there is always a risk of additional downside. However, patient investors often get rewarded generously for their contrarian picks.

Fortis

Fortis (TSX:FTS) is a good example of a top dividend stock that should be a solid pick on a pullback. The company gets 99% of its revenue from regulated assets such as power-generation facilities, electric transmission networks, and natural gas distribution utilities.

Fortis has a $22.3 billion capital program currently on the go that will increase the rate base by about 6% per year through 2027. This is expected to support targeted annual dividend growth of 4-6%. Fortis increased the dividend in each of the past 49 years.

Fortis trades for close to $54.50 at the time of writing compared to the 12-month high around $65. Investors who buy the dip can get a dividend yield around 4.15% with decent payout growth on the horizon.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS) generated fiscal 2022 adjusted earning that topped solid 2021 results. The board raised the dividend by 11% in late 2021 and by another 3% when the bank released the second-quarter 2022 earnings. Investors have received a dividend boost in 43 of the past 45 years.

Despite the positive performance, Bank of Nova Scotia's share price slid through most of last year and is still down more than 20% over the past 12 months, even after the recent bounce.

Investors are concerned that soaring interest rates and persistent inflation will cause a severe economic downturn and trigger job losses that will result in a wave of mortgage defaults in Canada. This is certainly possible, but most economists expect a short and mild recession this year.

Even if things get ugly, Bank of Nova Scotia appears oversold. Investors can buy the stock for an attractive 8.8 times trailing 12-month earnings right now and pick up a 5.8% dividend yield.

The bottom line on top stocks to buy for passive income

Fortis and Bank of Nova Scotia are good examples of top TSX dividend stocks that still look cheap today and should continue to raise their payouts in the coming years.

Investors can quite easily put together a diversified TFSA portfolio of top stocks that will provide an average yield of 5%. This would generate $4,400 per year in tax-free dividends on a TFSA of $88,000. That averages out to almost $367 per month!

Ongoing market volatility should be expected, but these dividend stocks deserve to be on your radar.

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Date
2025/06/28
Date Created
2023/01/31
Author
aswalker