How to Make $5,000 in Dividends With $50,000 or Less

Description

A real attraction of dividend stocks is that they're an easy way to help boost your income, especially if it's fixed. However, unless you've got a big nest egg that you can invest with, then it becomes difficult to earn a lot of income through dividends. Below, I'll show you how you can make $5,000 annually in dividend income and not have to invest more than $50,000 to do it or take on significant risk in the process.

While the temptation might be there to simply invest in high-yielding stocks, it's a risky strategy that might not be sustainable. For companies that have high dividend yields, it may be enticing to cut payouts, especially if the yield has been high for a long time and the company is struggling and in need of cash. In many cases, it's simply a matter of time before there's a reduction made to the dividend payments.

Dividend growth is key to generating significant payouts

While the easy way to gain $5,000 in dividend income is to simply invest $100,000 in a stock yielding 5% today, it's not the only way to accumulate that much cash flow. However, if you don't have the capital to do so, you'll need time for the payouts to grow. And to do that, you'll need to invest in a growing dividend stock like **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM).

Currently, CIBC stock pays investors a yield of 5.1%, which is a fairly good payout for what's a very safe bank stock to invest in. And as good as that payout is, it's likely to get even stronger in future years, as the bank has a good track record for increasing its dividend payments. Its current quarterly payment is $1.40 per share, which is up from the $0.98 that it was paying five years ago.

That's a 43% increase in dividend payments, which equates to an average compounded annual growth rate of 7.4%. If the company continues to grow payouts at the rate, it's another way for investors to gain a stronger dividend over time.

For example, if you invested $75,000 in CIBC stock today, you would earn around $3,820 in dividend income in year one, assuming payouts remained unchanged. However, by year five, dividends could grow to more than $5,000 if the company continued to increase dividend payments by at an average of 7.4% per year.

If you’ve got a smaller nest egg and would only be able to invest $50,000, then you would have to wait until year 11 to see dividend payments reach $5,000. With a $25,000 investment, you’d have to wait until year 21 to reach that same level of dividend income. As you can see, even with a modest investment, it’s possible to reach a high amount of dividend income, it just requires more time to do so.

Bottom line

The big advantage with dividend-growth stocks is that you have the potential over the long term to make a lot more in dividend income than you would with stocks that don’t raise their payouts. However, it’s important to remember that there’s never a guarantee that dividends will continue and there are certainly no promises that a company will increase its payouts either. These calculations are all based on assumptions, and investors should always consider other factors when investing a dividend stock beyond just yield and past performance.

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