3 Smart Money Moves I'd Make Today to Generate a Passive Income

Description

With the prospects for the world economy being uncertain at the present time, it may seem to be difficult to generate a sustainable passive income. Certainly, there is the potential for volatility over the near term, with factors such as a slowing US economy and a global trade war weighing on investor sentiment.

However, by focusing on stocks rather than cash, obtaining a high degree of geographical diversity and buying companies with a clear competitive advantage, obtaining a passive income may be easier than many investors realise.

Regional diversity

While it is always a sound move to have exposure to a variety of economies within a portfolio in order to reduce risk, it may be increasingly important at the present time.

The world economy faces a number of geopolitical risks that could inhibit growth in some regions. For example, Brexit may have a negative impact on the performance of companies that operate in Europe, while the US/China trade war could lead to a lower rate of growth for the world's two major economies.

Therefore, investors who are seeking to generate a sustainable passive income may wish to broaden their geographic exposure so that they are less reliant on one region in particular. Doing so may mean that they avoid short-term localised risks, while also having exposure to potentially fast-growing economies over the long run.

Reduced cash

With the outlook for the world economy being somewhat challenging, there could be a rising prospect of interest cuts. The US, for example, is expected to reduce interest rates before the end of the year as a result of weaker-than-expected jobs growth and retail sales versus the previous year.

A looser monetary policy could be bad news for investors who carry large cash balances as a proportion of their portfolio. Certainly, keeping some cash on hand in case of emergency or to capitalise on falling stock markets could be a good idea. But the passive income that it generates may fail to improve relative to dividend stocks, for example.

Competitive advantage

Should the world economy experience a more challenging period, stocks that have a clear competitive advantage versus their peers could offer impressive return prospects. For example, they may have a strong brand or a lower cost base than rivals, and this could make them more resilient to difficult operating conditions.

While in some cases companies that have a competitive advantage may be priced higher than their peers, it can be worth paying a premium valuation for a better-quality stock. They may offer a higher chance of maintaining or even raising their dividends over the medium term, which could lead to a more appealing passive income for investors.

Furthermore, if investor demand for such companies increases in the coming months due to their lower potential risks, they may be able to outperform their wider sectors and indexes to provide support to an investor's portfolio valuation.

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