How to Build a Passive Dividend Income Portfolio

Description

Imagine having passive dividend income rolling in every month without you having to lift a finger. To build a passive dividend income portfolio, you need to put in some work in the beginning. Then you can automate the portfolio as much as you like.

Business matters

Since you plan to hold this dividend portfolio for its safe income for decades to come, you need to ensure the businesses are of top-notch quality and are here to stay and win.

There are 11 sectors to choose from for investment: financials, utilities, consumer discretionary, consumer staples, energy, healthcare, industrials, technology, telecom, materials, and real estate. Take heed that not every sector or industry offer safe dividends.

For example, in the last few years, many energy stocks have proven themselves to be failures in dividend safety. However, in general, energy infrastructure stocks, such as **TC Energy** have provided relatively safe and often growing dividends.

Typically, the first places to seek safe dividends in Canadian stocks are banks (under the financials sector), energy infrastructure stocks (under the energy sector), utilities, telecoms, and REITs (under the real estate sector).

Investors should determine the top businesses in the best industries. For example, in the banking industry, **Royal Bank of Canada** and **Toronto-Dominion Bank** are the top banks to choose from.

Notably, there are many more great dividend stocks that are listed on the U.S. exchanges across the consumer discretionary, consumer staples, healthcare, industrials, technology, and real estate sectors that are lacking in Canada. So, investors should not restrict themselves to investing in Canadian stocks.

Automating the passive dividend income portfolio

Once you've identified the top businesses in the best industries (across a diversified set of sectors) for dividends, you can automate the process by buying a set amount of, say, $1,000 whenever you've accumulated that much. It might take you a month or a few to accumulate the amount. The $1,000 makes the roughly $10 per trade worthwhile.

If your trades are much cheaper or even free, you can surely start investing your money before the $1,000 threshold.

You might have chosen 20-30 best-in-class businesses to partner with for long-term investment. On one hand, you want to invest in the best-valued stock at the time. On the other hand, you probably want to more or less keep an equal-weight portfolio, at least, in terms of your purchases, in order to automate the portfolio.

Once you've bought your first dividend stock, you can reinvest the dividends automatically back into the same stock. In Canada, you might only be able to reinvest for full shares and not partial shares. If so, sometimes you might need to pool the dividends with your cash to invest in the best opportunity when you reach $1,000.

The power of compounding

A $100,000 dividend portfolio that has an average yield of 4%, with monthly contributions of $500 ($6,000 a year) and is growing by 8% per year will transform into more than $1,000,000 in 15 years with dividends reinvested.

In this scenario, we didn't account for any income tax hindrance, because every investor's tax situation is different, and you can avoid/defer taxes using registered accounts.

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