



How to Generate a Monthly Passive Income

Description

With interest rates being at a relatively low level, generating a monthly passive income may seem to be a challenging task. After all, the returns on cash savings and investment-grade bond yields are generally disappointing. In many cases, they may provide a limited real-terms return over the medium term.

However, it is possible to generate a growing passive income through investing in [high-yield stocks](#). By focusing on businesses that offer sustainable dividend growth over the long term, and reinvesting dividends received where possible, you may be able to obtain a high passive income in the long run.

High-yield stocks

While buying high-yield stocks in order to generate a monthly passive income may sound rather obvious, doing so could be a worthwhile move for many investors.

Of course, in some cases a high yield may not be sustainable. A company may, for example, be struggling to meet its current level of dividend payout. As such, it is crucial for any investor to check the affordability of a company's dividend. This could entail focusing on cash flow versus dividend payments, as well as the company's track record of making payouts to its shareholders during a variety of operating conditions.

Dividend growth

Although a high yield may be attractive today, a growing dividend over the long run could provide a more generous passive income. In other words, accepting a lower yield in the short run could be a sound move if the company in question has the capacity to produce impressive dividend growth in the long run.

Focusing on a company's strategy and its attitude towards dividend payments could, therefore, be a shrewd move. This may provide you with guidance as to how quickly its current level of payout may

grow over the long term. As such, focusing on its management's attitude towards dividend payouts, as well as how much capital the company may require to grow or undertake acquisitions, could provide guidance on the level of cash that will be available to reward shareholders over the coming years.

Reinvestment

Reinvesting dividends received may not be possible for investors who require a monthly passive income. However, if you are able to live within your means and reinvest dividends, this could be a sound move in the long run. It could provide a larger portfolio that ultimately has the capacity to generate a higher level of income.

Since many global indices have come under pressure in recent months, there appear to be a number of buying opportunities available. Reinvesting dividends could be a means of capitalising on wider margins of safety that are now present.

Takeaway

Investing in dividend stocks could prove to be the simplest and most effective way to obtain a monthly passive income. By focusing on the affordability of a company's dividend, as well as on its growth potential, it may be possible to improve your long-term income outlook at a time when low interest rates make cash and investment-grade bonds relatively unappealing.

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