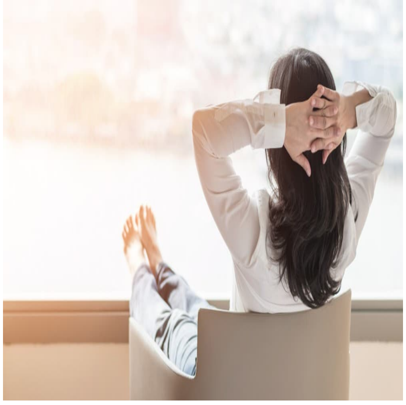

Can You Make $33 a Day in Passive Income From the Stock Market?

Description

For most Canadians, $33 a day should be nearly enough to meet basic expenses like rent and food, which is why the ability to generate this amount in passive income is as close as you can get to financial freedom.

A few decades ago, moderately wealthy savers could easily extract $33 a day, or $1,000 a month, in passive income from traditional savings accounts or rental property. However, since the financial crisis, interest rates on savings accounts have plummeted, while the cost of entry into the real estate market has sky-rocketed.

Nevertheless, you can still extract this passive income from the stock market. Here's how.

Aim for high-yield dividend stocks

According to government statistics, the average Canadian household has nearly $213,800 in wealth. Assuming you have access to less than half of that, $100,000 in savings, you can easily extract a 12% yield from some of the best dividend stocks in the country.

Oil and gas giant **Vermilion Energy**, for example, currently provides a 14.45% dividend yield. The stock has been steadily losing value since the price of oil collapsed in 2014; however, I believe the oil market has bottomed out, and stocks like Vermilion are likely to remain steady for the foreseeable future.

If you're not keen on the energy sector, there are plenty of other options. Industrial chemicals provider **Chemtrade Logistics** and apparel manufacturer **Dorel Industries** both provide 10.8% and 16% in dividend yields, respectively.

However, even with these remarkably high dividend yields, you still need at least $100,000 in savings to extract the $33 a day in passive income we've targeted. Unsurprisingly, most investors have far less than that to invest. Younger savers are just getting started, and older savers have much of their wealth tied up in their houses.

With that in mind, here's what you can do to meet this target with a smaller nest egg.

Passive income with less than $100,000 investment

For investors with less capital, passive income requires a systematic approach that combines two strategies — high-yield dividend investing and systematic withdrawals.

In other words, you can invest in dividend stocks and sell a portion of your investment every year to pay yourself a passive income without eroding your wealth.

The rule of 4%, a common rule of thumb in the financial industry, states that most investors can sell a maximum of 4% of their nest egg every year and avoid running out of capital for 30 years. Considering the fact that the **S&P/TSX Composite Index** has averaged a return of 6.6% over the past 20 years, this systematic withdrawal process seems viable for most investors.

Combine these steady annual withdrawals with a portfolio of stocks that provide a high single-digit or low double-digit dividend yields, and you can easily extract $33 a day or $1,000 a month in passive income with less than $100,000 in capital.

Foolish takeaway

I genuinely believe that anyone can create passive income with just a few years or a few thousand in savings. If you're starting off with a lot of capital, picking robust, high-yield dividend stocks in stable industries like industrial chemicals or manufacturing is always a good bet.

If your nest egg is relatively smaller, you can always combine your annual dividend yield with systematic withdrawals to meet basic expenses.

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