Generate $347 in Weekly Passive Income With Just $150,000 in Capital

Description

$347 on a weekly basis is a substantial amount of money for any Canadian family. In most parts of the country, that's enough to meet rent for a young couple or basic grocery expenses for a family of four (unless you live in Toronto or Vancouver, of course).

This means that the ability to generate this amount passively from investments is the benchmark for financial freedom for most Canadians. Luckily, this benchmark seems within reach for anyone with over $150,000 in capital and a keen eye for stocks with sustainable dividends. Here's how you can hit this seemingly impossible target.

Aim for a 12% yield

A 12% yield on $150,000 is roughly $18,000 a year, or $347 per week in passive income. Unfortunately, a 12% yield is remarkably rare. Most cashable guaranteed investment certificates (GICs), and retail high-interest accounts offer yields between 1% and 2.5%, while relatively risky assets like real estate investment trusts (REITs) and stocks offer dividend yields averaging 2-5%.

However, some stocks offer dividend yields far beyond the average. **Chemtrade Logistics Income Fund, Vermilion Energy** and **Dorel Industries** all offer dividend yields in the double digits.

For investors willing to take a contrarian bet on the future of the Canadian oil patch, oil and gas giant Vermillion is an excellent bet. At its current price, the Calgary-based producer offers a 15.4% dividend yield.

If the oil patch is too risky for you, however, manufacturing company Dorel and specialty chemical supplier Chemtrade offer reasonable alternatives. Dorel's 14.5% dividend yield is nearly on par with Vermillion, while Chemtrade offers 11% at the moment.

Focus on stability

It's important to note that higher dividend yields usually imply greater risk. Investors have punished these stocks with lower valuations either because they believe the prospects of the company are less than ideal or the dividend isn't sustainable.

On closer inspection, this seems to be the case for Dorel Industries, which has more debt than equity and is currently losing money. Some of my Fool colleagues believe it could be an acquisition target . However, Chemtrade and Vermillion have much better fundamentals.

Vermillion trades at a mere 12% premium to book value per share, has less debt than equity, and generates nearly double the annual dividend payout in operating cash flow. Meanwhile, Chemtrade's business model is well-diversified across different products and regions. The stock trades at a price-to-sales ratio of 0.64 and a price-to-book ratio of 1.25.

Bottom line

Generating 12% or more in passive income is certainly possible. However, investors seeking this above-average yield may face above-average risks. Each of the three stocks mentioned above offer a stunning dividend yield that comes with several caveats.

Vermillion appears oversold, but it faces the immense geopolitical risks and infrastructure issues of the Canadian oil patch. Chemtrade has a diversified and stable business model, but the company needs to tackle its debt to shift investor sentiment. Dorel face a similar debt issue.

If these companies can overcome their near-term hurdles, investors will be rewarded not just with an incredible dividend yield, but also with substantial capital gains. For the moment, these are well suited to investors with a keen eye for distressed assets and an appetite for risk.

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