This Is the Easiest Way to Generate a Passive Income Stream

Description

A passive income stream is exactly what it sounds like: a stream of regular income that you collect without needing to lift a finger. Whether it's $100 per week or $5,000 every month, think of what you could do with this extra cash.

But how do you create a passive income stream? It's actually quite simple, but don't confuse simple for easy. If you want free cash, you need to make the proper arrangements. Let's get started.

Crunch the numbers

How big do you want your passive income stream to be? The first step is to determine how much interest you can generate. After that, you can do some math to figure out how much you'll need to save.

The average interest rate of a Canadian bank account is only around 1% — a paltry sum. If you wanted to generate a passive income stream of $10,000 per year, you'd need to have $1 million saved. That's ridiculous.

High-yield bank accounts, however, offer interest rates up to 2.5%. At that rate, you could generate $10,000 in annual income with only $400,000 in savings. That's certainly a step in the right direction, but still a difficult goal to meet.

What if you could get an interest rate of 6%? If possible, it would make the math *much* easier. If you wanted to generate $10,000 every year, you'd only need $167,000. That may still be a high bar, but it's within reach if you're diligent about saving.

Pick your stocks

How can you earn 6% in annual interest? Certainly not with a traditional bank account. Instead, you'll need to tap into the power of dividend stocks.

Dividend stocks typically generate excess cash, which the company then distributes back to shareholders. Think of it as free interest simply for owning the stock.

When it comes to dividend stocks, pipeline companies take the cake. Pipelines are the fastest, safest, and most cost-effective way to transport oil and gas.

They can cost billions to build, often taking a decade to fully permit and construct, so competition is fairly limited, giving pipeline companies impressive pricing power — enough to consistently generate excess cash to pay to shareholders.

The largest pipeline companies in Canada include **TC Energy Corp.** (TSX:TRP)(NYSE:TRP), **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), and **Inter Pipeline** (TSX:IPL). If you owned an equal amount of each stock, your average dividend yield would be around 6%.

This 6% dividend yield is riskier than a bank account, but all of the data that we have suggests these payouts are solid. Pipeline companies typically charge based on volumes, so no matter where oil prices go, their profits remain the same. As oil and gas output is expected to rise through 2030 and beyond, all three operators should see continued success.

With these three stocks, building a passive income stream is a breeze. Simply figure out how much income you'd like to receive each year and then divide that number by 0.06 to determine how much you need to invest to generate that income stream.

For example, let's say you'd like $100 every month in extra cash, which amounts to $1,200 per year. Divide $1,200 by 0.06 to get $20,000; you'd therefore need to invest a total of $20,000 into the pipeline stocks above to give you annual cash payouts of $1,200 per year for as long as you own shares.

At any time, you can liquidate your investment and get your original cash back — a pretty good deal.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TRP (Tc Energy)
3. TSX:ENB (Enbridge Inc.)
4. TSX:TRP (TC Energy Corporation)

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