



How to Generate \$1,000 a Month in Dividends From Canadian Stocks

Description

It's possible to live off monthly dividend income if you have diligently grown your nest egg, and you could do so without taking on too much risk either.

In the good, old days, government and corporate bonds used to provide very reliable and, at times, risk-free, regular interest income, but these days the yields are no more, and they've even turned negative in some developed economies.

To generate respectable cash flows that will augment your Canada Pension Plan (CPP), Old Age Security (OAS) and Guaranteed Income Supplement (GIS) receipts (if one is eligible for all), one could construct a formidable dividend-generating portfolio of Canadian (and some international) stocks and real estate investment trusts (REITs) that could pay monthly distributions well into advanced age.

Now that stocks and REITs aren't as low-risk investments as GICs, bonds, and treasuries, due care is needed on how much risk to capital is posed with each portfolio constituent.

If one's target is to receive \$1,000 per month in dividends (and income distributions), which translates to \$12,000 in annual receipts from the portfolio, one has to be very realistic on what amount of capital should be deployed, and at what risk thresholds.

If a high-yield-at-all-costs asset allocation approach is chosen, then even a \$100,000 portfolio could be deployed to achieve the target, but at a 12% required average dividend yield, which would naturally require the assumption of elevated capital and income risk. Dividend yields beyond 7% are usually at risk of being cut, or they usually signal some potential fundamental problem on the stock.

With low capital, stocks and REITs that offer double-digit yields may be considered, while still [maintaining some reasonable level of diversification](#).

Options include the **Dividend 15 Split** ([TSX:DFN](#)) mutual fund, which declared its 189th consecutive monthly distribution in December last year. DFN's distribution has been flat at \$0.10 per share for several years, and it yields a mouth-watering 13.81%.

The fund's portfolio is invested in 15 high-quality dividend-paying Canadian stocks, including the Big Five chartered banks. Its prospectus specifies that the distributions will be paid out as long as the net asset value per unit remains above \$15, and thanks to a good run in Canadian stocks during the past year, the NAV increased from \$17.46 by May to \$17.74 at the end of 2019 (net of declared distributions). So, the margin of safety kind of increased recently.

To help sustain the high payout, the fund uses derivatives to leverage income generation, and this introduces added risk. It's important to closely monitor NAV quarterly to gauge dividend safety.

We can agree that there aren't many options that provide yields as high as DFN (besides its sister funds like **Financial 15 Split** and **North American Financial 15 Split** from the same fund manager). Some beaten-down stocks, whose yields are high for a good reason don't look very sustainable.

Since the portfolio still needs to be diversified to minimize asset specific risk, some lower-yielding securities with better risk profiles need be added to boost cash flows. However, the lower the yields, the higher the required minimum investment to generate \$1,000 a month in dividends.

Increase the capital outlay?

If capital is increased to say, \$200,000, the required portfolio yield can be halved to just 6% annually, and this is the region where some growing dividend-paying stocks can be found — and more reasonable risk levels.

A small and diversified **BTB REIT** ([TSX:BTB.UN](https://www.btbreit.com)) is [a promising hold](#) with improving portfolio occupancy, recently higher same-property net operating income growth rates, and improved distribution quality. Units offer a juicy 7.9% annualized yield today.

That said, one may not have the required funds to deploy a \$200,000 portfolio yielding 6% right away, but diligently adding small sums to the portfolio regularly and reinvesting received dividends back into some of the dividend-growth kings could compound the capital growth rate and allow the achievement of financial freedom much more quickly.

The more the capital invested, the lower the level of aggression necessary to generate \$1,000 in monthly dividends.

Consider improving tax efficiency by placing eligible dividend stocks in taxable accounts, while REITs and other income trust distributions, which are taxed at normal rates, should be placed in tax-advantaged accounts, preferably the TFSA, which allows for completely tax-free withdrawals.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DFN (Dividend 15 Split Corp.)

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1. Business Insider
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