Passive Income: Double Your Monthly Income With These 2 Stocks

Description

Your monthly passive income is simply the result of a yield on your investments. The higher you push this yield, the more cash you can generate per dollar of capital.

Unfortunately, investment yields have been plunging across the board. Interest rates on savings accounts, rental yields on investment properties and even dividend yields on stocks are all at historic lows.

The only way to push your portfolio's yield higher — and effectively increase your monthly passive income — is to seek out stocks with a higher-than-average payout.

Here are two options that could double your passive income in 2020.

Undervalued dividend stock

The average blue-chip dividend stock on the **TSX 60 index** pays a dividend yield of just 2.78% at the moment. However, some robust stocks pay more than double that amount simply because investors have suppressed their stock price in recent years.

A pessimistic outlook for the oil and gas sector has pushed energy giant **Enbridge's** stock to a historically low valuation. It now trades at just 19 times earnings and 1.86 times book value per share, while its dividends have remained steady.

A lower valuation coupled with steady payouts has pushed the stock's dividend yield to 5.95%, more than double the average dividend yield of the **TSX 60**.

The high dividend yield isn't the only aspect of undervalued dividend stocks that makes them attractive. If the valuation adjusts over time, investors could expect a hefty dose of capital gains to boost their overall total return.

Commercial real estate

Similar to stocks, property rental yields have declined as valuations surged over the past decade. Now, the average residential property offers a 4% gross yield. Real estate investment trusts (REITs) in the sector offer a similar dividend yield.

Investors can probably boost their returns by switching to commercial real estate instead. Commercial properties, such as office blocks and retail units, offer relatively higher rents than single or multifamily units.

Slate Retail REIT, for example, focuses on retail units such as malls and grocery stores. The stock currently offers an 8.5% yield, which is double the average yield on residential properties or REITs.

Slate, however, is exposed to the risk that malls and retail units start shutting down as more people shop online. If this is a concern for you, you could probably seek out other commercial REITs.

Other REITs focus on warehouses, offices, hotels, student accommodation and hospitals, all of which offer better yields than residential properties.

However, commercial properties face higher borrowing costs and are more exposed to the business cycle than residential properties. Investors must account for this higher risk profile.

Foolish takeaway

Extracting a yield on capital is the only way to generate passive income. The most common way to create passive income is to invest in real estate or dividend stocks.

However, by switching from blue-chip stocks to beaten-down stocks and from residential to commercial real estate, you could effectively double your monthly passive income.

Stocks like Enbridge and Slate Retail already offer dividend yields that are twice as high as the average blue-chip dividend stock or typical residential real estate opportunity.

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Date
2025/07/27
Date Created
2020/02/06
Author
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