



TFSA Investors: Make Passive Income With Just \$500

Description

You really need passive income if you don't have much money to begin with. If you're already a multi-millionaire, passive income is both easy to obtain and inconsequential to your life. But if you're living paycheck to paycheck, every little in passive income helps.

Unfortunately, generating passive income with very little upfront capital isn't easy. That being said, it is certainly possible. As a thought experiment, here are two ways you can generate reasonable passive income with just \$500.

The trick

The trick to creating annual income with a very small investment is to find a dividend stock that not only pays an attractive dividend but also *expands the dividend every year*. These are companies that have plenty of cash flow and enough room to grow.

Take utility giant **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)), for example. Over the past 20 years, the company has been steadily reinvesting its earnings to build or acquire new power plants. In turn, this has pushed its earnings power higher every year. If you'd invested \$500 in the stock in 2000, that would be worth \$3,625 today — a seven-fold increase.

However, that's just the stock price. Fortis has also paid a lucrative dividend along the way. In fact, the company has increased the dividend amount *every year for 47 years*. It's an unprecedented and breathtaking example of shareholder wealth creation.

Finding a stock like Fortis (or investing in Fortis itself) is the key trick to creating substantial income. Here are three ways the average investor could create a healthy income stream through Fortis stock alone.

Long-term passive income

A relatively young investor could reinvest Fortis's expanding dividends to achieve passive income later in life.

For instance, instead of taking Fortis's annual dividends in cash, this investor could choose to [reinvest the dividend back into the stock](#). By buying more stock and avoiding paying taxes on dividends, this investor could turn a \$500 investment into \$7,620 instead of the \$3,625 gain mentioned previously.

In this example, the investor can expect \$266 in annual income based on Fortis's dividend yield of 3.5% today.

Short-term passive income

Of course, the example above works best if you don't need passive income right away and are young enough to wait and reinvest for 20 years. However, if you're closer to retirement age and are looking for passive income right away, you can achieve that with Fortis stock too.

Investing \$500 in Fortis stock today will deliver a paltry \$17.5 in annual passive income. You can supplement that by selling a small fixed amount of Fortis stock every year. Fortis's stock price has expanded by an annualized 10.7% every year for the past 20. If you sold 10% of your investment every year to cash in this gain, your passive income could jump from \$17.5 to \$67.5.

Since you're only selling based on the stock's capital appreciation, you should still have \$500 in Fortis stock at the end of every year after your annual income.

Amplified passive income

If \$67.5 or \$266 in annual income sounds like too little, you could always amplify your return by waiting longer and investing more. For example, if you waited 40 years instead of 20, your reinvested dividends would have turned \$500 into \$116,507. At a 3.5% dividend rate that would mean \$4,077 in passive income every year.

If you added \$500 in extra investment *every year* instead of a one-time investment, your reinvested dividends would turn into \$911,081 within 40 years.

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