



## 3 Steps to Make Passive Income With Just \$1,000

### Description

Most passive-income strategies focus on maximizing savings. However, if you already have a million or more dollars, generating passive income isn't really a big concern. Instead, passive income could be really impactful and life changing if you don't have much savings to begin with.

With that in mind, here's a practical three-step process to generate passive income with just \$1,000 in initial investment.

### Focus on GROWING dividends

All stocks fall into one of two camps: dividend or growth. The growth stocks pay no dividends and reinvest all their earnings to grow the business. Dividend stocks pay large sums every year but offer very little growth.

The trick to creating passive income with little capital is to invest in a stock that does both. Dividend-growth stocks pay a portion of their earnings to shareholders and reinvest the rest to expand the business.

**Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) is a good example of this. Over the past 10 years, Royal Bank's stock price and dividend payouts have been steadily expanding. In fact, the stock price has more than tripled in the past 10 years while the dividends have been [growing at an annual rate of 7.2%](#).

Today, the stock offers a sizable 4.4% yield. On a \$1,000 investment, that would deliver \$44 in annual passive income right away. However, you can unlock truly spectacular returns by following the next step.

### Reinvest dividends

Instead of taking your dividends upfront, reinvesting them in the stock could help you create a bigger stream of passive income in the future.

With a stock like Royal Bank, reinvested dividends amplify the natural growth rate of the stock and the growth rate of the dividends. It's a powerful combination that can create a truly sizable pot of passive income the longer you wait.

So, if you can wait 10, 20, or even 30 years, a simple dividend-growth stock like Royal Bank can be a life changing. For example, if you invested \$1,000 in Royal Bank in 2009, reinvested every dividend you received back into Royal Bank stock and waited 11 years, your current holdings would be 46 shares.

46 shares of Royal Bank at its current market price (\$97.5) would be worth \$4,485 — a whopping four-and-a-half-fold return! Furthermore, the 4.4% dividend yield would deliver \$197 in passive income every year.

If you invest today and wait for another 20 years, the results are likely to be much more impressive.

## Create a withdrawal plan

\$197 in annual passive income is great but not life changing. To boost your cash flow, you can sell a portion of your Royal Bank stock every year once the reinvestment phase is over.

For example, if you've waited 11 years for a \$1,000 investment to turn into \$4,485, you can start selling some stock to cash in on the capital gains. If Royal Bank stock rises 6% on average every year, you can sell 4% every year and never run out of money. This would add another \$180 to your cash flow.

A combination of collecting dividends and selling stock should generate \$377 in passive income every year. Enough to cover basic expenses for a month or more.

If you invest more upfront (\$10,000 or \$100,000) or wait for longer (20 or 30 years), you could certainly retire on this strategy.

### CATEGORY

1. Bank Stocks
2. Investing

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1. NYSE:RY (Royal Bank of Canada)
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