



Make \$25,000 in Passive Income Starting With Just \$0

Description

If you have absolutely no savings, you're not alone. Millions of Canadians have set aside little to no cash for retirement or emergencies. That's perfectly fine considering the government's generous safety net can protect you and your family from financial disaster. However, creating a source of passive income could give you something the government cannot: freedom.

With a substantial flow of passive income every year, say \$25,000, you could ditch your job and do something you love. Travel the world or simply spend more time with your family. Financial freedom is unlike any other achievement, which is why it makes sense to aim for this right away.

Here's how you can potentially create your own stream of passive income starting with \$0.

Changing habits

Any life-altering decision hinges on your ability to change a habit. If you've never saved any money before, now is the perfect time to start. Socking away just \$100 a month will put you on a path to financial freedom. However, if you want to get there sooner, you need to set aside a larger amount.

I believe a dual-income family should have no trouble saving \$20,000 a year. Deploying that cash in stocks is the next step.

Aiming for growth

While the average stock is expected to deliver 6% to 7% growth every year, some stocks can grow much faster. Technology stocks, in particular, can have extended periods of double-digit returns that help you [compound wealth](#) at a blazing pace.

Take enterprise software giant **Constellation Software** ([TSX:CSU](#)) for example. If you invested \$10,000 in the stock in 2010, your holdings would be worth \$340,000 today. In ten short years, you could have turned the value of a nice car into the down payment on a nice house. That's an annual compounding growth rate of 42.28%!

Of course, stocks like Constellation are rare and difficult to spot. Fortunately, you don't need an excessive growth rate to achieve passive income. Just 10% compounded over 10 years (with \$20,000 added every year) will generate \$490,000 in wealth. That's the magic of compounding returns in the stock market.

The final step is to switch this half-million nest egg from growth stocks to income stocks for passive income.

Passive income through dividends

Growth stocks like Constellation are great for expanding wealth, but not for steady income. For that, you need a robust dividend stock. Top dividend stocks like **Royal Bank of Canada** offer dividend yields as high as 4.65%. On average, a reliable dividend stock with a good track record should be able to provide a 5% yield.

This means you can generate \$25,000 in annual income by switching your \$490,000 nest egg from growth stocks to dividend stocks after your 10-year wait.

Bottom line

Going from \$0 in savings to \$25,000 in annual passive income may seem impossible. Yet, a simple three-step strategy, a little discipline and a little patience can put you in this position.

We here at the Motley Fool believe the path to financial freedom is simple. You don't need to do anything extraordinary for extraordinary results over time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

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2. Koyfin
3. Msn
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5. Quote Media
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