Passive-Income Investors: How to Get Incremental Income Without Working

Description

Who doesn't like incremental income? As you work in an organization, you expect an increment in salary every year. Even the Canada Revenue Agency (CRA) gives you an increment in tax breaks and cash benefits every year. For 2021, it has increased the average monthly Canada Pension Plan (CPP) payout by $30 to $710.41 and the basic personal amount tax credit by $931 to $13,229.

An incremental income is important as inflation rises. If you keep earning what you have been earning, you will not be able to sustain your standard of living. Hence you need to increase your income, and this holds true even for passive income.

How to earn incremental income without working

If you don't want to work and still earn incremental income, you need to make your money work for you. That is how Warren Buffett went about building his fortune in the stock market. He always talks about the power of compounding — how a penny saved today can become 10 pennies in 10 years.

To earn passive income, you need sufficient money, and for that, you first need to invest in growth stocks. Growth stocks have the power of converting your $10 to $100 in five to 10 years. One such stock is **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX). This supply chain management provider has grown over the years by acquiring new clients organically and through acquisitions and broadening its solutions.

Descartes grew its revenue and adjusted EBITDA at a CAGR of 12% and 15%, respectively, over the last five years. For a company with such strong growth, a 180% increase in the stock price in five years, or a 20% CAGR, is reasonable. This means if you invested in Descartes back in November 2015, it would have converted $1,000 to $2,760 by now. You didn't have to work for this $1,760 income. Your $1,000 money invested in Descartes worked for you.

The longer you stay invested, the better the passive income

The simple rule of investing is the longer you stay invested, the more you earn. But the condition is, the stock should have strong fundamentals. For that, you need to keep yourself updated about the stock in which you have invested. For instance, if you invested in **Air Canada** five years back and you didn't withdraw your money before the pandemic, your investments will be negative for another five to 10 years. A 15-year investment with no incremental income is not something you want.

In this case, one stock that will give you regular incremental income every quarter for the next 20 years is **Enbridge** (TSX:ENB)(NYSE:ENB). The pipeline operator has a robust business model with over 40 sources of cash flow coming from different business lines, commodities, and geographies. This diversification has reduced the risk of decline in the cash flow.

Enbridge operates in the energy sector, which is capital intensive, and any change in trend is slow. This slow change in the trend gives the company ample time to understand the trends and invest in the future strategically. For instance, Enbridge was a pure liquid pipeline company back in 1949. It took over 50 years for natural gas to become a meaningful energy substitute in some areas.

Enbridge followed the trend and has been investing in natural gas transmission, distribution, and storage for over 20 years. Its investments are paying off. Today, it earns 42% of its revenue from natural gas. And in these 25 years, it has increased its dividend per share at a CAGR of 11%. This means if you earned $100 in dividend income in 1995 and you stayed invested, today you are getting $1,400 in dividend income on the same investment.

An incremental income for the next 20 years

Enbridge will continue to increase its dividend for the next 20 years. How? It will continue to build new natural gas pipelines and invest a fraction of capital in future energy facilities where it sees good returns. The company will sell the facilities that don't do well.

New pipelines plus an increment in its toll cost will increase cash flow from the transmission business. As the overall cash flow grows, its dividend per share will grow. This means a $100 dividend income now can become $1,000 or more in 20 years.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:DSG (The Descartes Systems Group Inc)
4. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Tech Stocks

Date
2025/08/25
Date Created
2020/11/12
Author
pujatayal