How I'd Make $25,000 in Passive Income by Investing $500 a Month in Cheap Stocks

Description

Investing regularly in cheap stocks may not seem like a successful means of making a passive income to some investors. After all, many shares continue to trade at relatively low prices following the stock market crash.

However, over time, they have the potential to deliver sound recoveries. In doing so, they may produce impressive capital returns that contribute to a growing nest egg from which a generous passive income can be drawn in older age.

Buying today's cheap shares to benefit from a stock market recovery

There are currently a wide range of cheap stocks available to buy that could improve an investor's passive income prospects in retirement. Some sectors are relatively unpopular among investors due to their uncertain near-term operating outlooks. As such, they could produce impressive returns as the world economy's performance improves and investors become less risk averse.

Certainly, they may face difficulties in the short run. Risks such as political uncertainty in Europe and the coronavirus pandemic may weigh on their prospects. However, in many cases, their valuations may account for a period of slower sales growth and weaker profitability. They may even offer wide margins of safety that do not factor in their long-term recovery potential.

Buying cheap stocks has historically been a sound means of generating strong capital returns over the long run. The economy has always returned to positive growth following its downturns, while investors have continually returned to bullish viewpoints after bear markets. Therefore, investors who have purchased cheap shares and held them for the long term have often benefitted the most from a stock market recovery. This may mean there is scope for today's cheap shares to provide market-beating returns in the coming years.

Focusing on high-quality businesses

Of course, some of today's cheap stocks are priced at low levels because of fundamental flaws that could negatively impact on their prospects. For example, they may have high debt levels that mean they are under pressure when making interest payments from lower levels of operating profit. Similarly, some cheap shares may have weak competitive positions that are now being exposed by an economic slowdown. This may cause their financial performances to lag sector peers.

Therefore, focusing on high-quality companies that trade at low prices could yield higher returns, as well as lower risks. They may offer greater scope for capital returns in a stock market recovery that increases an investor's chances of building a large retirement portfolio.

Building a passive income in retirement

Even if an investor's purchase of cheap stocks provides a market rate of return of around 8%, they could build a worthwhile passive income with a modest regular investment. For example, investing $500 per month at an 8% return would produce a portfolio valued at $750,000. From this, a 3.5% annual withdrawal would provide a passive income in excess of $25,000.

However, through buying undervalued shares today it may be possible to make higher returns to build a larger portfolio. In doing so, an investor could make a greater passive income in older age.

CATEGORY

1. Investing

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/08/25
Date Created
2020/12/09
Author
peterstephens