Millennials Moving Back Home: Make More Income With Your Savings

Description

This year's pandemic has triggered more millennials to move back home to live with their parents. Some did that to move away from COVID-19 epicentres. Others did so to be less alone or be closer with family, as the pandemic discouraged other gatherings.

If you're a millennial that has been working for a number of years, you could have made some serious savings. If not, living with parents might allow you to save more than before, such as cutting costs from food, internet, and utilities.

In any case, if you have some savings under your belt, you should highly consider making more income with it. You can make passive income from your savings starting now!

Invest in dividend stocks for more income

Investing in dividend stocks is very different from putting money in the bank. The bank would secure your principal and pay interests for your savings or GIC account. When you buy a stock, you are buying a piece of an underlying business. If the business does well, you'll make profits from price appreciation or dividends if the stock pays one.

You want to buy dividend stocks that are driven by businesses that generate stable and growing earnings in most years, because safe dividends are paid out from earnings. You'd also want to choose carefully dividend stocks that have sustainable payout ratios.

For example, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) has delivered annualized returns of about 11% per year over the last 20 years when bought and sold at its normalized valuation.

About 30% of the returns came from its dividends. The bank did not cut its dividend in the past two recessions. And it looks like it will also be maintaining its dividend during this pandemic.

Currently, TD stock provides a yield of 4.4%, which is a pretty good income. Investing $5,000 in the stock today will generate passive income of $220 a year … until it increases its dividend.

TD Bank and its peers have experienced a turbulent year. The fear of higher levels of bad loans and reduced earnings led to a setback in the banks.

For this fiscal year that ended on October 31, TD reported resilient results. Its adjusted net income fell 20% to under $10 billion. Adjusted earnings was $5.36 per share, while it paid out $3.11 in dividends per share, equating to a sustainable payout ratio of 58%.

If the bank has no problem maintaining its dividend during harsh economic environments — recessions and pandemics — there's a very slim chance it will cut it in the future.

How about growth stocks for capital gains?

Some millennials think dividend stocks that pay decent yields grow too slowly. They'd rather invest for capital appreciation in growth stocks. Indeed, investors can buy growth stocks and book profits as a form of income.

For example, while TD stock appreciated more than 40% from the March market crash bottom, a growth stock like **Shopify** appreciated 170%.

This year's market crash occurred in one month, while it took the market eight months to recover to pre-pandemic levels. So, keep in mind that your stocks could be under the water if you have a portfolio of growth stocks and you are forced to sell in a market crash for income.

The Foolish takeaway

If you've moved back in with your parents this year, you're not alone. If you've managed to put away some savings, you should consider investing it to augment your wealth.

Safe dividend stocks will still pay you an income stream during bad markets; they give you a return in the form of dividends without you having to sell any shares. That's what makes these dividend stocks a lower-risk investment than growth stocks.

That said, if you're managing your own stock portfolio, nothing is stopping you from owning a mix of dividend stocks and growth stocks. However, growth stocks could be more volatile and require more of your attention.

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