



Passive Income: How to Make \$500 a Month Without Working in 2021

Description

Passive income is one of the best feelings in the world. The moment your money starts to work for you is a big step toward financial freedom. Even if you still have to work for the time being, having another stream of income is always nice.

Ideally, when investors are young and start to save, their investments will yield a certain amount of passive income. This will continue to grow over time as the portfolio compounds and more savings are added.

Eventually, the portfolio will have compounded so much that this income will far outpace the income from a job. Plus, if you make sure to invest this money in a TFSA, all of the income will be tax-free.

Here's an easy example of how Canadians can begin earning \$500 a month starting in January.

Use your TFSA to earn passive income tax free

When we ring in the new year this week, Canadian investors will be given an additional \$6,000 of contribution room in their TFSAs. This means that investors who have been eligible for the TFSA since the year it was introduced will have a total [contribution limit of \\$75,500](#).

Having over \$75,000 to invest in businesses where all the profits you make won't be taxed is a major opportunity. That's why it's crucial that Canadians maximize this opportunity the TFSA presents.

The TFSA gives Canadians a tonne of flexibility. In addition to giving investors flexibility when it comes to withdrawals in the account, it also allows Canadians to choose from various investing strategies.

Some investors like to buy growth stocks in their TFSA to save on capital gains. However, one of the best ways to use the TFSA is to set up a growing passive-income stream.

The potential of the TFSA

If you were to take your full contribution limit in your TFSA and invest it into dividend stocks, you would need to earn a yield of 7.9% in order to make \$500 a month in 2021.

While a roughly 8% dividend yield is relatively high, there are several high-quality Canadian stocks, you can find that yield 8% or more.

Furthermore, if you allow this income to compound and continue to contribute the maximum amount each year, that passive income will grow substantially.

An investor who grows their \$75,000 at 8% for the next five years and contributes an additional \$6,000 a year would have a total portfolio value of more than \$140,000 at the end of the five years. That would mean that the same 8% yield would earn investors just under \$1,000 a month of passive income.

A top stock for passive income

Receiving passive income is attractive, because investors don't have to do much to earn it. You can sit back and watch the money roll in and compound.

However, the one thing that Canadians are responsible for is picking the right stocks to add to the portfolio. This must be done in the first place to set the portfolio up. However, it will need to be continuously monitored and updated, as dividends start rolling into the account and new TFSA contributions are added.

One of the top stocks to consider adding to your portfolio today is **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)).

[Enbridge](#) is ideal, because it's such a massive business that you can count on it to be stable over the long term. The pandemic has temporarily impacted the company. However, long-term, it continues to be one of the best Canadian stocks for your portfolio.

The business is a cash cow, which has been crucial through the pandemic. Even with the impacts it's facing, the company continues to earn strong free cash flow and even elected to raise its dividend earlier this month.

And because Enbridge's stock is so cheap at the moment, the dividend yields more than 8.1% today — perfect for investors seeking passive income.

Bottom line

Finding high-quality stocks with robust operations to form your portfolio is key when building a passive-income stream. Companies that can consistently grow their dividend payouts, like Enbridge, are paramount to earning a growing stream of passive income.

Plus, when you can buy them dirt-cheap like Enbridge is today, you'll not only lock in a significant yield but also have the potential for major capital gains.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:ENB (Enbridge Inc.)

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