Passive Income Investors: How I'd Make $1,000 a Month Without Working

Description

Cheap dividend shares not only offer a generous passive income today, but in many cases, they have the potential to produce strong capital growth and dividend growth over the long run so that an investor can enjoy a rising income in the coming years.

Through buying a diverse range of high-quality dividend stocks at cheap prices, it is possible to ultimately replace a wage. They could deliver a sustainable and resilient income for a wide range of investors.

Buying cheap dividend shares for a long-term passive income

The high yields on offer from many dividend shares suggest that they offer good value for money, as well as a worthwhile passive income. Despite the stock market rally in the second half of 2020, a number of companies trade at prices that are below their long-term averages. This may mean that they provide scope for capital growth over the long run that enables an investor to build a surprisingly large nest egg.

Clearly, some high-yielding dividend shares face difficult operating outlooks in the short run. The impact of coronavirus on some industries has been significant. However, those companies that have solid financial positions, sound growth strategies and affordable shareholder payouts may become increasingly popular in a likely stock market rally in the coming years. An improving economic outlook and stronger investor sentiment may lift their prices – especially as other popular assets offer disappointing passive income opportunities in many cases.

Building a portfolio for a long-term income

Of course, the stock market's uncertain outlook means that there may be challenging periods ahead for passive income investors. For example, in the short run a portfolio of dividend shares could experience declines that lead to paper losses as a result of political change or a wide variety of other risks.

However, over the long run a diverse portfolio of high-quality income stocks could produce a surprisingly large portfolio. For example, indexes such as the FTSE 100 and **S&P 500** have produced annualised returns of around 8% over recent decades. Therefore, a $500 monthly investment could be worth around $300,000 within 20 years, assuming the same rate of return as the stock market has produced in the past. From this, a 4% annual withdrawal would equate to a $12,000 annual income that may provide greater financial freedom for many individuals.

Capitalising on today's buying opportunities

It may be difficult for many passive income investors to buy cheap dividend shares today. As mentioned, the world economy faces numerous risks that may derail its prospects.

However, today's low share prices for many dividend stocks may provide the opportunity to buy high-quality companies while they trade on attractive valuations. Over time, this may lead to higher returns that produce an even greater portfolio valuation and income in the coming years.

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