



## How I'd Start Earning Passive Income to Replace My Wages

### Description

Replacing a wage with a reliable and growing passive income is likely to be a key aim for many people. While that task can take many years to achieve, it is possible to gradually build an income stream from dividend shares that offer rising shareholder payouts.

With many dividend stocks currently trading at attractive prices due to the uncertain global economic outlook, now could be the right time to start investing money in income opportunities. Over time, they could ultimately fully replace a wage to provide financial freedom in retirement.

### Investing money in dividend stocks for a passive income

Despite the recent stock market rally, it is still possible to purchase dividend shares that offer high yields at the present time. Some sectors are unpopular among investors, which means that share prices are low. This could allow an investor to earn a relatively high passive income from their capital in 2021 and in the coming years.

Clearly, a large sum of capital would be required to earn an income return that is large enough to replace a wage. For most people, this will not be possible in the short run or even over the next few years. As such, investing money in companies that have high yields, as well as dividend growth potential, could be a shrewd move. They may be able to provide a growing income return that eventually replaces a salary.

### Identifying the right dividend shares

Finding the right dividend shares to buy now could be crucial to an investor's chances of generating a large and growing passive income. As such, buying companies that have affordable dividends could be a sound move. They may be less likely to reduce them. A stock's dividend affordability can be checked by dividing net profit by dividends paid. A figure above one suggests they are sustainable at their current level given recent profitability.

Identifying dividend growth shares is a more challenging task. They are likely to depend on profit growth, since a rising dividend requires a greater pool of capital to pay it. Companies that could raise their dividends at a fast pace include those businesses operating in industries with recovery potential after the recent economic challenges, as well as companies in sectors that are likely to benefit from long-term shifts in consumer spending and demographics.

Of course, even the highest-yielding stocks and companies with strong dividend growth prospects can fold. Unforeseen circumstances can negatively impact on their financial performances and capacity to make shareholder payouts. Therefore, it is crucial to diversify across a wide range of businesses to create a reliable passive income stream. Over time, and with regular investing in such companies, it is possible to earn a surprisingly large income that may be enough to provide financial freedom in place of a wage.

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