



## How to Plant Money Trees to Build a Robust Passive Income

### Description

It's more financially secure to earn income from multiple sources. It's even more so through the COVID-19 pandemic. Many people whose income was impacted wish they had passive income, which flows into their pockets without their having to lift a finger.

There's no free lunch. All passive income requires initial active work.

In terms of building a robust passive-income stream from quality dividend stocks, this is the type of initial work you need to do. Here are the steps to planting your money trees with dividend stocks.

This is a long-term endeavour. As long as you plant the right trees (buy the right dividend stocks), your passive income will last forever!

### Identify a list of dividend stocks to own

Set clear criteria for candidates in your money-tree portfolio. First, the dividend stocks should offer safe dividends. Second, diversification of the portfolio should be accounted for.

Third, ideally, you want stocks that increase their payouts over time. If a stock doesn't do that, it should either offer an above-average yield or is substantially cheap, which could lead to juicy price appreciation in the near term.

Canadian Dividend Aristocrats, dividend stocks that have increased dividends for at least five years, are a good place to begin your research. Currently, the top 10 constituents of the **S&P/TSX Canadian Dividend Aristocrats Index** are **SmartCentres REIT** ([TSX:SRU.UN](#)), **Keyera**, **Pembina Pipeline**, **Enbridge**, **Canadian Natural Resources**, **Fiera Capital**, **Exchange Income**, **Power Corporation**, **BCE** ([TSX:BCE](#))([NYSE:BCE](#)), and **TC Energy**.

Keyera, Pembina, Enbridge, and TC Energy are in the same industry of energy infrastructure. So, you might choose to own one or two at most. They're a good bunch to consider, as energy infrastructure stocks are relatively cheap compared to the market.

## Setting price or yield targets

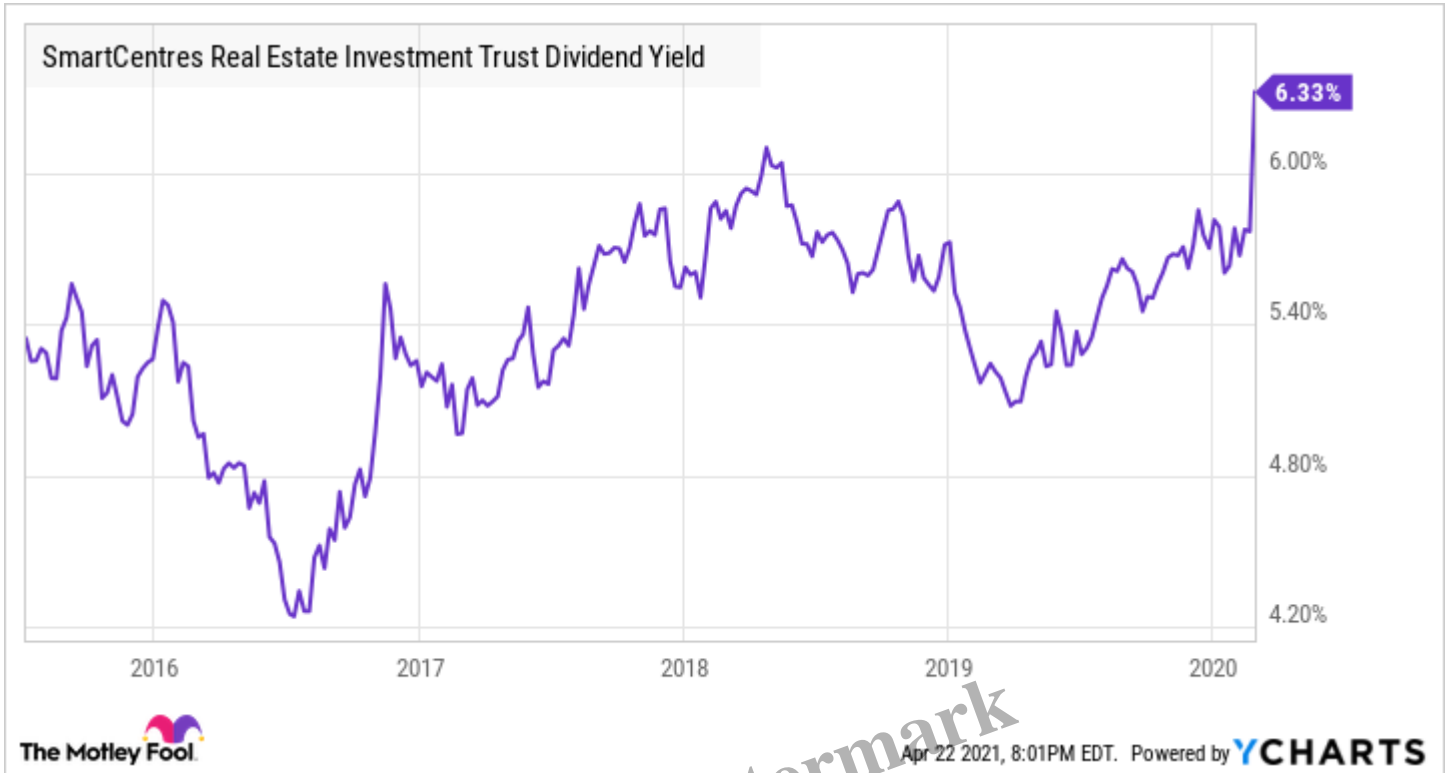
It's relatively easy to determine a maximum price or minimum yield to pay for Canadian Dividend Aristocrats that consistently increase their dividends. For example, [BCE](#) has increased its dividend by about 5% a year since 2013. This consistency has allowed its dividend yield to create some sort of support for the stock.

BCE's yield history shown in the chart below illustrates that it has support at around a 6% yield. So, you might consider buying it for passive income at a yield of 6% or higher.



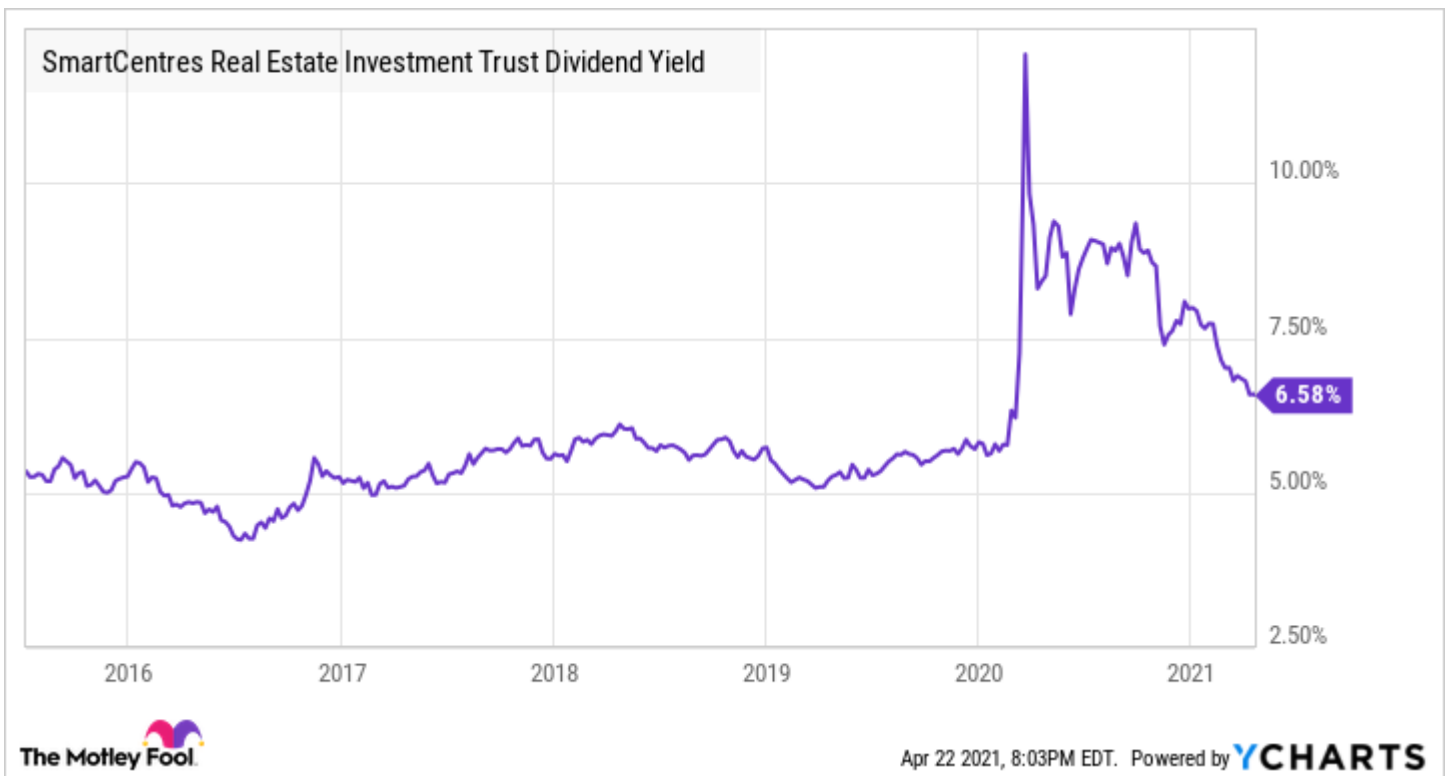
BCE Dividend Yield data by YCharts.

Notably, this logic can be broken in extreme market conditions. Using this sort of logic on [SmartCentres](#), one might have thought that a 6% yield is a pretty good place to buy the retail REIT for passive income before the pandemic market crash.



SRU.UN Dividend Yield data by YCharts. SmartCentres' yield history before the pandemic market crash in 2020.

Despite the REIT maintaining its cash distribution throughout the pandemic, its yield shot up to very scary levels in that market crash, as investors worried about the possibility of a dividend cut.



SRU.UN Dividend Yield data by YCharts.

Regardless of whether a dividend cut occurs or not, the substantial price cut in the stock was an opportunity to buy the income stock on the cheap. After the market crash, the stock stabilized roughly in the \$20 range before rising 40% to today's levels. Meanwhile, those who bought in the \$20 levels, which were not even the bottom, locked in a +9% yield!

## The Foolish takeaway

Once you buy safe dividend stocks at cheap levels, you can essentially hold the portfolio of diversified stocks for a lasting passive income without lifting a finger!

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

### POST TAG

1. Editor's Choice

### TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

### PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
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kayng

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