



Passive Income: Make \$500 Every Month Tax-Free!

Description

As the economy normalizes and the government pulls back the safety net, Canadians must seek out ways to create their own stream of passive income.

Unfortunately, passive income is a rare commodity these days. Interest rates are at record lows, so you can't generate it from savings accounts and most [real estate investments](#) are cash flow negative. That means investors must turn to the stock market.

Here are two ways investors could generate up to \$500 in monthly passive income through stocks.

Aggressive passive income

The average dividend yield of the 60 largest companies in Canada is a mere 2.5%. That's simply not enough to generate sizeable passive income. Instead, investors need to focus on smaller businesses in niche industries that are relatively overlooked.

Alaris Equity Partners Income Trust ([TSX:AD.UN](#)) (formerly known as Alaris Royalty) is an excellent example. The Calgary-based company provides growth capital to private businesses. This usually means private credit at relatively high corporate interest rates. In other words, Alaris is a bank focused on small- or mid-sized private businesses across North America.

Most of the companies Alaris targets generate over \$3 million in free cash flow a year and need somewhere between \$10 million to \$100 million in capital. Target returns are between 13% and 15% for most deals. Since Alaris is structured as an income trust, most of this high yield is passed onto stock investors.

Alaris currently offers a 6.9% dividend yield. Investing a maxed-out Tax-Free Savings Account (TFSA) in this stock could generate roughly \$440 in monthly passive income. That's more than the government currently offers under the Canada Recovery Benefit. And this income is tax-free!

However, high-yield dividend stocks like Alaris are a little more volatile and susceptible to economic cycles. A recession or stock market crash could disrupt this stream of passive income. Investors looking for a safer, more predictable option should pick a high-yield stock from the market leaders.

Safe passive income

BCE ([TSX:BCE](#))([NYSE:BCE](#)) is an excellent example of a safe and reliable stock with high yields. Wireless services and home broadband are absolutely essential utilities now. That means Bell's business model isn't prone to economic cycles. The company managed to sustain its income and margins throughout the crisis in 2020.

In fact, BCE boosted its dividend last year, cementing its reputation as a [dividend rockstar](#). The stock currently offers a 5.6% dividend yield, which is just slightly lower than Alaris. At that yield, a maxed-out TFSA could generate \$350 in monthly passive income.

However, investors can boost this passive income by taking some capital gains. BCE's stock has delivered a 5% annual gain on average over the past few years. Investors can safely sell 2% to 3% of their stock every year to boost their passive income. Selling 2.4% of your capital gains on BCE stock every year could enhance your monthly passive income to \$500 or more.

This strategy is practical only because BCE's stock and dividend yield are less volatile. For investors looking to make truly stress-free, tax-free, long-term passive income, this is probably the ideal strategy.

CATEGORY

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