



How to Earn \$500/Month in Passive Income and Sleep Well at Night

Description

While there's no free lunch, earning passive income is as close to a free lunch as you can get. Yes, there's initially some work involved in identifying great dividend stocks. That said, it won't be work if you're passionate about investing. I sure am! Allow me to show you how to build a passive income stream that requires as little work as possible. Let's set \$500/month as our first milestone. How do we get there?

First, we will go through how to choose the right dividend stocks. We aim to hold these dividend stocks for growing passive income. So, it's not necessary to sell them, which saves us from excessive decision-making. That is, we don't require any selling in this strategy. Second, we will calculate how much we need to achieve \$500/month.

How to choose dividend stocks

Some investors only look at monthly dividend stocks when they have a goal of earning a certain amount per month in passive income, perhaps because it makes the math calculation easier. If you limit investments to only monthly dividend payers, you will exclude tonnes of quality stocks.

We recommend focusing on dividend safety first when choosing your dividend stocks. Then, consider other things like dividend growth potential and the stock's valuation. If we deem a stock's dividend as unsafe, we won't even consider it in our passive income investment portfolio. We also don't care if a dividend stock pays a monthly, quarterly, or annual dividend. After all, it's the dividend yield that matters for the actual passive income we earn.

There are thousands of stocks to choose from. Where do you even start? You can immediately narrow your search by investigating stocks in the **S&P/TSX Canadian Dividend Aristocrats Index**. The **S&P Global** website indicates that stocks in the index "...have followed a policy of consistently increasing dividends every year for at least five years." Currently, its top 10 constituents are **Keyera, SmartCentres REIT, Pembina Pipeline, Enbridge, Canadian Natural Resources, Power Corporation, Fiera Capital, Exchange Income, Great-West Lifeco, and BCE**.

Since Keyera, Pembina, and Enbridge are in the same industry, it'd be smart to determine which you would prefer to own, instead of investing in all three. They are subject to similar risks and will move in tandem, as shown in the chart below.



Let's say you choose to own [Pembina stock](#) because its stock performed so well over the last five and 10 years. Since the stock is reasonably valued, you could buy some for passive income. Right now, the stock yields almost 6.3%.

How much money do you need to make \$500/month?

Earning \$500/month equates to earning \$6,000/year. On a 6.3% yield, you would need to invest about \$95,238 to make \$6,000/year of passive income. Another dividend stock that pays a yield of more than 6% and is also in the top 10 constituents is SmartCentres REIT. Most dividend stocks don't offer a 6.3% yield, though. You should be able to generate passive income on a safe yield of 3-4%. To generate \$500/month in passive income, it will require \$150,000 to \$200,000 of investment.

The Foolish investor takeaway

To sleep well at night, build a diversified portfolio of [dividend stocks](#) that pay safe dividends. You're sure to sleep even more soundly if you buy when the stocks are cheap. For example, in the chart above, we saw a tremendous sell-off in the stocks during the pandemic market crash in 2020. That kind of market correction will always happen again. So, always save some dry powder to buy stocks on market corrections. Doing this should accelerate your passive income growth and better protect your money.

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