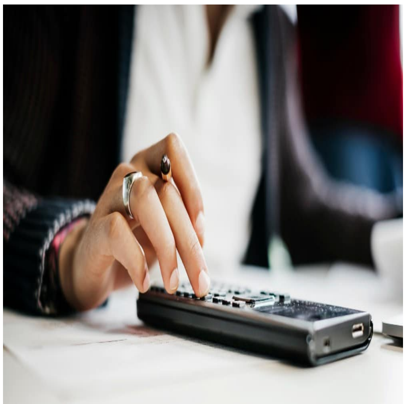

Passive Income Investors: These 3 Stocks Could Generate an Excellent Source of Income

Description

Many investors, including myself, dream of one day building a portfolio that can replace their primary source of income. This would allow an investor to become financially independent and free up some of their time to do more of what they want, instead of having to work. One way you can build a stream of passive income is by investing in dividend stocks. When it comes to choosing the right dividend companies for your portfolio, it's important to focus on the right things. Here are three stocks that could generate an excellent source of income.

One of the best dividend companies in Canada

When choosing dividend stocks to hold in your portfolio, the first thing that investors should look for is whether a company has a long history of increasing dividends. This is important because it tells an investor whether a company's management team is able to allocate capital intelligently over long periods. If not, then the dividend may not be very reliable.

Another reason investors should want to hold companies with a long history of dividend increases is that it allows your dividends to beat, or at least keep up with, inflation. If your dividend income doesn't increase over time, then your passive income will be worth a lesser amount each year.

One company that has done an excellent job of increasing dividends over time is **Fortis**. In each of the past 47 years, Fortis has always increased its distribution, giving it the second-longest active dividend growth streak in Canada.

This dividend has skyrocketed over the past few years

Another aspect to consider when choosing dividends to hold is how fast a company's dividend continues to grow. If a company is able to increase its dividend each year, but at a low growth rate, it may not be worth holding on to that company. Therefore, investors should target companies that are able to increase dividends significantly each year. An example of such a company would be **goeasy** (TSX:GSY

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The company has managed to increase its dividend each year since 2015. From 2014 to 2015, goeasy raised its dividend by 17%. The next year, the company increased its distribution by 25%. The following year, goeasy's dividend increased 44%. In 2018, the company raised it again by 25%. The next year, goeasy increased its dividend by another 37%. During the pandemic year of 2020, goeasy increased its dividend by 45%. This year, its dividend increased by another 46%. That represents a pure increase of about 776% since 2014.

Look for companies with a low payout ratio

Finally, investors need to be conscious of a company's payout ratio. A high payout ratio suggests that a company is paying a larger proportion of its earnings, which could make it difficult to sustain a dividend over time. Therefore, companies with lower payout ratios should be more attractive. An example of a company with a low payout ratio is **Brookfield Asset Management**. As of this writing, its payout ratio is 28.25%. This suggests that the Canadian Dividend Aristocrat has sufficient room to continue increasing its dividend in the future.

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