



Passive Income: How Soon Can You Replace Your Job?

Description

Full-time workers in Canada earn about \$54,630 a year. While that's not a lot, it should be enough to cover basic living expenses in nearly every part of the country. Which is why it's fair to say that if you can generate this amount in passive income you've achieved entry-level financial independence.

How long would the average investors, starting with \$0 today, take to reach this target? Here's a closer look.

Accumulating capital

If you're starting with \$0, it may be better to focus exclusively on accumulating capital for an extended period. This means you'll need to focus on aggressive growth stocks to expand your asset base as quickly as possible.

Constellation Software ([TSX:CSU](#)) is a good example. The stock has delivered a 3,200% gain over the past 10 years. That's a compound annual growth rate of 41%. This phenomenal pace of growth is precisely what you need to achieve financial freedom as quickly as possible.

Holding such [aggressive growth stocks](#) in a Tax-Free Savings Account (TFSA) is probably a good idea too. This will help you mitigate the tax impact of capital gains and dividends later. If you assume you can deploy \$6,000 in your TFSA every year, investing this in Constellation stock could help you accumulate \$1.2 million in just over 13 years.

Maximizing passive income

Accumulating \$1.2 million in 13 years is a phenomenal achievement, but that's only half the journey. You'll notice that Constellation Software doesn't pay much of a dividend. The dividend yield is 0.23%. On a million-dollar investment, that generates just \$2,300 a year. That's barely enough to cover living expenses for a month!

In fact, the Constellation team has reduced its dividend recently to deploy cash in more acquisition targets. This reinvestment strategy is typical for hyper-growth firms. After all, why would you pay dividends when you're compounding wealth at 41%?

But if you're seeking passive income, you'll need to divest your Constellation stake and invest your capital in a high-yield dividend stock. **BCE** ([TSX:BCE](#))([NYSE:BCE](#)) is a good example. The stock barely grows, but it pays a hefty dividend yield of 5.5%. On a \$1.2 million investment, that should generate \$66,000 in annual passive income.

To sum up, it could take less than 13 years for you to replace your full-time job with completely passive income.

Caveats

Growth stocks have had an extended period of outperformance recently. Constellation Software's 41% compound annual growth rate is far from common and finding the "next big thing," is tricky. If your pace of growth is slower, you may need to wait longer (perhaps 20 years) or combine dividend income with some sort of recurring withdrawal (selling 2% of BCE stock every year, for example).

Your path to financial freedom won't be easy or predictable, but with the right plan it is certainly practical.

Final takeaway

A combination of growth and income investing through tax-free accounts could help you replace your job in just 13 years.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:CSU (Constellation Software Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
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