Passive Income Investing: Top Tips for Canadians

Description

Most financial advisors will suggest individuals create multiple income streams that will help them build long-term wealth and benefit from the power of compounding interest. However, in order to earn income, you will have to deploy a certain amount of capital.

You can grow your capital at a steady rate, making it sizeable enough to replace your primary source of income over time.

Let's take a look at some passive income ideas right now.

Dividend Investing

The most attractive form of a passive income source is dividend investing. Here, you buy stocks that pay investors a dividend. Ideally, you need to identify companies with predictable cash flows, wide economic moats, market leadership, a low payout ratio, and the ability to increase earnings over time.

Several Canadian stocks such as **Enbridge** (TSX:ENB)(NYSE:ENB) pay investors attractive yields. For example, ENB stock has a forward dividend yield of 6.6%. So, if you invest $10,000 in Enbridge stock, you can generate $660 in annual dividend income.

Further, Enbridge has increased dividends at an annual rate of 10% in the last 26 years, making it a top dividend bet right now. Investing in blue-chip dividend-paying stocks will allow investors to benefit from capital gains as well.

Investors should note that a dividend payment is not a guarantee and can be suspended at any time.

Investing in real estate

You can get exposure to real estate and earn passive income either by purchasing a property or by investing in real estate investment trusts. Purchasing a property requires a significant amount of capital. For example, the average price of a 1,000 square feet condo in Toronto is close to $900,000 which suggests the majority of home buyers will have to take on a mortgage to fund the purchase.

The rental income generated from the condo needs to cover your mortgage payments as well as other expenses such as maintenance and taxes. In the best-case scenario, the rental income should surpass these expenses while the property rates should appreciate over the long term.

Alternatively, investing in real estate income trusts requires minimal capital. Similar to stocks, REITs are also traded on an exchange and are highly liquid. Essentially, REITs are entities that buy and rent a portfolio of properties. These properties may be residential, commercial, industrial, or even healthcare-focused.

REITs pay a significant amount of their taxable income to shareholders, which indicates that this asset class also pays investors a tasty dividend yield.

Investing in bonds

When you invest in bonds, you provide a loan allowing the investor to generate interest income. Generally, the interest rate has a direct co-relation to risk. So, a government-backed bond will have a lower interest rate compared to a corporate or a mortgage bond. This is a low-risk investment compared to buying dividend stocks, REITs, or real estate.

The Foolish takeaway

The type of investment that is suitable to you depends on a range of factors including your age, income level, risk appetite, and the total amount of available capital. Quality dividend-paying stocks should beat inflation rates over the long term, while bonds are generally preferred by those nearing retirement.

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