2 Ways to Make $543 a Month in Passive Income

Description

$543 in monthly passive income could cover the cost of groceries for a small family. Or it could cover the interest component of your mortgage in most parts of the country. Put simply, it's a tidy sum of money that could make a noticeable impact on your lifestyle.

However, generating that much without work isn't easy. You'll need a sizable pool of capital, say, a maxed-out Tax-Free Savings Account — to start. But even with all that capital locked away in a tax-resistant account, you'll need a clever strategy to extract monthly passive income.

Here are two ways you could potentially achieve that.

Growth stocks + systematic withdrawals

Here's a conventional passive-income strategy: pairing a growth stock with systematic withdrawals. Here's how it works: you simply sell a fixed amount of your stake in a growth company to capitalize on the gains every year.

Let's say you target a tech stock that is growing steadily — **Constellation Software** (TSX:CSU), for instance. Constellation Software has delivered a jaw-dropping 34.7% compounded annual growth rate (CAGR) since 2006. If you assume that the growth rate will slow down to 15% in the future, you can still sell a sizable chunk of that every year and never run out of capital.

So, selling 8% a year through a maxed-out Tax-Free Savings Account (TFSA) ($81,500 in total contributions) would deliver $6,520 in annual passive income. That's $543 in monthly passive income, tax free!

To be clear, this strategy accounts for volatility. Constellation stock could deliver negative returns in some years and positive in others. But as long as the *average rate is higher* than your annual withdrawals, it works out fine. If Constellation underperforms for an extended period, you could consider lowering your annual withdrawal rate.

Dividend stocks

If the growth + systematic withdrawals strategy is too messy for you, ultra-high-yield dividend stocks are another option. Some undervalued dividend stocks offer payouts that are far higher than the stock market average.

Fiera Capital (TSX:FSZ) is a good example. The Montreal-based company is a mid-sized investment manager with $180.8 billion in assets under management. It deploys this capital in niche private equity and real estate deals across the world. The portfolio includes infrastructure, private debt, commodities, and mixed-use properties across various geographies.

While management has sustained a steady payout for years, the stock has been flat. That's pushed the dividend yield to a ludicrous 8.06% right now. Again, deploying $81,500 from your TFSA into this dividend stock could deliver $543 in monthly passive income.

If you're worried about volatility or Fiera's risk profile, note that the company has maintained its dividends and market cap throughout the pandemic. In other words, it's been less volatile than most mainstream stocks on the market.

Bottom line

To expand your passive income, you may need to get creative with your investment strategy. I prefer pairing a growth stock with a systematic withdrawal program. But you could also use an ultra-high-yield dividend stock to bolster passive income.

CATEGORY

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