2 Ways to Make $679 a Month in Passive Income

Description

Passive income is defined as cash flow that's enough to cover basic living expenses and is generated without any work. Unfortunately, most essential costs are sky high, so offsetting them with passive income is a tall order.

However, there are some relatively aggressive strategies that can help you achieve this. In fact, two time-tested investment strategies could help you generate up to $679 a month in passive income. That's enough to cover the utilities for *two* families, the car payments for a couple, or a substantial portion of your monthly rent.

Here's what you'll need to do.

Growth stocks + systematic withdrawals

This may come as a surprise, but growth stocks that don't pay dividends can actually help you generate passive income. There are three essential ingredients for this strategy to work:

- Max out your Tax-Free Savings Account (TFSA)
- Find a growth stock with a track record of steady, double-digit growth
- Create a systematic withdrawal plan

Here's how this strategy works. A reliable growth stock like **Dollarama** (TSX:DOL) has achieved a compounded annual growth rate of 25% since 2009. Holding this steady growth stock in a maxed-out TFSA ($81,500) could generate 25% annually in capital gains. You can then sell a fixed portion of these gains (say, 10%) every year to generate tax-free passive income.

So long as Dollarama's growth doesn't dip below 10%, this strategy should help you generate cash flows without eroding capital. In other words, you can safely create $8,150 a year, or $679 a month, in passive income while preserving your wealth.

High-yield dividend stocks

I'll admit it: the first strategy is a little risky. Predicting growth rates over the long term isn't easy. Fortunately, there's an easier way to make $679 a month in passive income. Here are the ingredients for strategy number two:

- A maxed-out TFSA (again)
- An undervalued, high-yield dividend stock
- A systematic withdrawal plan (again)

A robust, high-yield dividend stock like **Enbridge** (TSX:ENB)(NYSE:ENB) is a great target for this. The stock offers a 6.6% dividend yield, which is far better than the average yield of the Canadian stock market. You could stop there and generate $448 a month in passive income by deploying your maxed-out TFSA.

But where's the fun in that? Why not apply a small systematic withdrawal plan to boost passive income? Selling just 4.4% of your annual capital gains could push your yield to 10%. That means you can generate $679 in monthly cash flows.

For this strategy to work, Enbridge needs to sustain its dividend and deliver capital gains that exceed 4% or so on average. Indeed, the company has consistently paid a stellar dividend every year for decades. As for capital gains, the stock is up 20.8% over the past year alone! That covers roughly five years of systematic withdrawals at 4.4%.

Bottom line

Focusing on reliable growth or dividend stocks and maxing out your TFSA contribution room is essential for passive income. But if you're retired and looking to add a special boost, consider a systematic withdrawal plan.

CATEGORY

1. Dividend Stocks
2. Investing

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3. TSX:ENB (Enbridge Inc.)

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Date
2025/07/21
Date Created
2022/01/27
Author
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