



2 Secret Strategies for \$475 Monthly Passive Income

Description

Passive income depends on cash flow. If you can generate enough cash every month to meet your living expenses, you're financially liberated. However, most passive income strategies require too much capital or too much risk. An ultra-high-yield dividend stock is unreliable, while a blue-chip dividend stock needs millions in upfront capital to generate adequate passive income.

For most investors, neither strategy is ideal. Fortunately, there are other ways to boost your monthly cash flow that require a little research and planning. Here are the top two strategies I believe could help an ordinary investor generate \$475 in tax-free monthly passive income.

Dividend growth

Most investors focus on the dividend yield. However, investing is about making forecasts and taking calculated guesses about future performance. If the company you pick is set for a slowdown or earnings decline, the dividend yield is likely to be cut. We've seen this before with commercial real estate investment trusts and energy companies during the crisis in 2020.

In contrast, if your company is likely to see a windfall or upswing, the dividend yield could be deceptively low. We saw this with banks recently that announced 10% to 20% boosts to their dividends after regulators lifted restrictions last year.

In 2022, I believe energy companies could be in a similar position. **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) is an example. The stock offers a 6.3% dividend yield. However, I think that yield is deceptively low. That's because the price of oil and gas has accelerated by double-digits over the past few months. Some experts believe we could hit \$100 soon and keep rising beyond that level. That gives Enbridge enough room to boost dividends or declare a special dividend.

The company has a track record of annual dividend growth. From 2018 to 2021, the dividend payout amount has expanded by 8% to 11% annually, compounded. If the team can raise dividends by 10% in 2022, the yield-on-cost could be 7%. Deploying a maxed-out Tax-Free Savings Account (TFSA) with \$81,500 in Enbridge stock could generate 5,705 in passive income. That's \$475 a month.

Dividend + systematic withdrawals

Another way to boost your passive income is to tap into some of the capital gains your stock achieves. This strategy is known as a [systematic withdrawal plan](#) and most major brokerages and banks will help you automate it.

Here's how it works. Say you have a stock that pays a 5% dividend and the stock price grows 6% *on average* every year. You can safely sell 2% of your stake to boost your yield to 7% (5% + 2%).

In this way you could take a rock-solid dividend stock like **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) and boost your annual passive income. BCE pays a 5.5% dividend yield. Meanwhile, the stock price is up 33% since 2019. That's a compounded annual growth rate of 9.8%. You could invest a maxed-out TFSA (\$81,500) in the stock, collect dividends and sell just 1.5% of your holdings every year to generate \$475 in monthly passive income.

Of course, if BCE performs better than expected or keeps raising its dividends, your actual yield could be even better!

Bottom line

With a little research and an unconventional strategy, you could easily generate \$475 in passive income every month.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:ENB (Enbridge Inc.)
3. TSX:BCE (BCE Inc.)
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