How Much Passive Income Can $10,000 in Dividend Stocks Earn?

Description

Dividend stocks are some of the best investments you can make for several reasons, in addition, of course, to the passive income they provide.

First, they are typically the lowest risk stocks with solid operations and well-established businesses capable of generating consistent cash flow to pay back to investors. But in addition to being low-risk, having stocks that consistently earn you passive income makes your returns a lot more predictable. Not to mention it can go a long way to helping you compound your money.

It's extremely difficult to try to get rich quickly when it comes to investing. Not only that, but in addition to the difficulty, the faster you try and grow your money, the more risk you naturally have to take on.

This is why taking a long-term approach is crucial. Not only does it allow you to buy safer stocks, but you can use the power of compound interest to your advantage.

And some of the best stocks to own over the long term if you're looking to compound your money rapidly, are dividend stocks that pay you passive income.

So let's look at just how much passive income you can generate, starting with just $10,000 in savings today.

How much passive income can you make if you buy $10,000 of dividend stocks?

How much actual passive income your investment can generate will depend largely on how much the dividend stocks you buy yield. If you bought all high-yield dividend stocks that average a yield of more than 6.5%, you could generate $650 a year, or more than $50 a month in passive income.

However, if you buy dividend stocks that averaged a yield of just 1%, you'd only earn about $100 per year, or less than $10 a month.

This simple example above makes high-yield dividend stocks look like better investments. But there are a couple of things to consider. First, super high-yield dividend stocks can often be a red flag and a sign the stock could be at risk of trimming the dividend.

However, in addition, even if the stock is in great shape, higher yield stocks typically translate to less share price growth. That's not all. Often dividend stocks that have lower yields but are high-quality companies will be increasing their dividend payments each year.

So higher-yield dividend stocks don't always mean better investments. In fact, some of the top dividend stocks to buy now have lower yields but offer exceptional dividend growth potential.

A top low-yield dividend stock to buy now

One of the best Canadian stocks you can buy today, especially considering the massive discount it trades at, is **goeasy** (TSX:GSY). goeasy is a dividend growth stock and a Canadian dividend aristocrat. In fact, during its recent earnings report, it increased the dividend by a whopping 33%. However, the stock still only offers a yield today of 2.7%, and that's with the stock trading cheap.

But goeasy, like many other low-yield dividend stocks, has an advantage because it can retain more of its earnings to invest in growth. And in goeasy's case, thanks to management's strong execution, the company has seen its net income skyrocket by over 360% in just the last 36 months. So although it offers less passive income than a higher yield stock, in most cases, it can grow your capital faster.

goeasy's business model earns it a return on equity of close to 30%, an extremely attractive figure and significantly more than its Canadian bank stock peers.

So it's the perfect example of why low-yield dividend stocks can be just as good as, if not better than, higher-yield stocks that earn you more passive income.

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