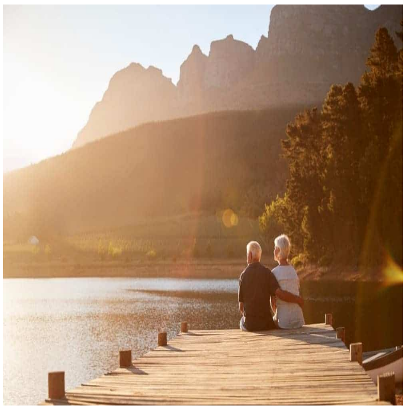

Passive Income: Buy Dividends to Rule Your Retirement

Description

If you're looking for passive income, dividends are the way to go. The vast majority of "passive-income" opportunities you see advertised online either don't work or are not passive. Dividend stocks are the real deal. Paying out steady streams of cash to your brokerage account, they can be the key to ruling your retirement.

You can't just run out and buy any old dividend stock, though. As you're about to see, having a diversified portfolio of dividend stocks is necessary to protect you from the risk of one stock having its payout cut. If you build the right kind of dividend portfolio, you can truly live off dividend income for the rest of your life. If you choose dividend stocks unwisely, you might find yourself regretting your decision.

Why dividends are the best source of passive income

Dividends are the best source of passive income, because they are genuinely passive. After you buy a dividend stock, you collect income once per quarter or once per month. There's really not much more to it than that. In contrast, other passive-income opportunities involve a lot of work, or don't work at all. For example:

- Becoming a landlord requires doing repairs and collecting rent.
- Affiliate marketing is time consuming and expensive.
- Becoming a social media influencer usually takes years of work before you even make one dollar.

Dividend stocks are a piece of cake compared to all of this. Quite literally, you just research some investments, buy the good ones, and then collect payments. The only "catch" is that you need some money to invest up front. You also need to be careful about which dividend stocks you buy, as I'll explain in the next section.

The best way to get into dividend stocks

If you want to break into dividend investing, your best bet is to start with an ETF like **BMO Equal Weight Banks ETF**

(TSX:ZEB). These banking sector ETFs are diversified, providing you with some protection against the risks in individual stocks. I choose ZEB to highlight because it has a pretty high yield. Coming in at 3.87%, its payout can generate $3,870 per year on an initial investment of $100,000. The fund also offers equal weighting, which enhances the diversification benefit by preventing any one stock from becoming too heavy a component of the portfolio. It would be a great place to start with dividend investing.

You could also consider holding broad market index funds like **iShares S&P/TSX Capped Composite Index Fund** (TSX:XIC). These funds aren't marketed as dividend funds, but the Canadian markets on the whole offer a pretty high yield. XIC yields 2.5%, which is better than you'll get with any GIC. It also has a very high level of diversification with 240 stocks.

Whether you choose to go with a sector fund like ZEB or an index fund like XIC, you'll be safer holding funds than you will be holding individual stocks. Funds offer built-in diversification, which reduces your risk level. So, if you're just getting started with investing, they're the way to go. Passive income awaits!

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)
2. TSX:ZEB (BMO Equal Weight Banks Index ETF)

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