3 Ways to Earn Passive Income and Beat Inflation

Description

Are you worried about inflation? If so, you have options.

Inflation takes a bite out of your purchasing power, but there are ways to counteract its effects — chiefly, by building passive income. Passive income in the form of investments can boost your earnings power by giving you regular cash payouts that you don't need to do much work to receive. In this article, I will explore three passive-income opportunities you can take advantage of today.

Method #1: Rent out property

One of the easiest passive-income opportunities out there is renting out a part of your property. You might think this involves buying an expensive rental house and taking on a mortgage, but think again. If you have just a spare room in your house, you can rent it out on **Airbnb** and start collecting rent money immediately.

The downside of this method is that it's by far the least "passive" of all the passive-income opportunities on this list. Renting out property takes real work; for example:

- Creating listings
- Doing repairs
- Talking to prospective renters
- Collecting rent
- And so on

If you go the Airbnb route, rent collection is automatic. The downside with that method is that you're doing shorter-term stays and therefore have more cleanup to do when tenants leave. The upside is that the income is typically higher than with long-term rentals.

Method #2: Invest in bonds

A second passive-income opportunity you could consider is investing in bonds. Through bond funds like **BMO Mid-Term Investment Grade U.S. Corporate Bond ETF**, you can collect interest passively. Unlike renting out property, this method takes zero work after you have invested your up-front amount. The downside is that you need some money to get started and your returns may not beat the inflation rate.

Method #3: Invest in dividend stocks

A third and final option for beating inflation is to invest in dividend stocks. Out of all the options on this list, this offers the best combination of passivity and inflation-beating potential. Unlike bond interest, dividends can grow over time. This makes them a source of passive income that can keep you ahead of inflation.

Consider **iShares S&P/TSX 60 Index Fund** (TSX:XIU). It's a TSX index fund that yields about 2.5%.

2.5% may not sound like a huge yield, but it can grow over time. The TSX contains a lot of banks, utilities and energy stocks, and those kinds of stocks are well known for raising their dividends. Last year, several Canadian banks raised their dividends by 10% or more. That magnitude of dividend hike will put you well ahead of inflation. And if you invest in dividend stocks in the form of an index fund like XIU, you will enjoy ample diversification, low fees, and guaranteed "average returns."

Put simply, it's one of the best dividend-paying investments you can make in your RRSP or TFSA. Not only does it pay passive income, but it may even help you beat the inflation rate.

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