Got $500? Create Passive Income of $5,000 Today!

Description

There are a lot of Motley Fool investors out there who likely don't have much cash to spare right now. They want in on the recent market correction but remain quite nervous about whether they'll get that cash back anytime soon. This is why passive income has been such a big focus.

Passive income through dividends allows you to bring in cash right now, while you wait for shares to grow further. This is ideal if you're a long-term investor. You can see your shares grow safely over time but have the cash coming in on a regular basis for years.

Even if you can only scrape together $500, here is how you can turn that into passive income of $5,000.

Consider your options

First of all, if you're going to put $500 into an investment, try and see if you can do so every year. It's one thing to have that $500 sitting around, but consistency is key. So, consider what you can afford to put aside, and start trying to save and put that aside each year — ideally, each month.

There are ways to make this happen. It might be cutting back on entertainment spending, getting rid of one bought lunch per week, trying low-cost brands at the grocery store, or even simple things like biking to work instead of driving to save on extremely expensive gas. All of this can add up significantly, making it easier to put money towards your annual investment.

Keep it safe

Now, you want to choose a safe stock if you can only put aside $500. You don't want that to suddenly disappear overnight. So, while there are stocks out there with high dividends, don't be fooled. Those dividends could be slashed suddenly should the company need it to cover costs.

That's why an exchange-traded fund (ETF) is an excellent choice. The ETF isn't a business but invests in businesses. These stocks and bonds are actively traded in many cases to make sure, in the case of a dividend ETF, that it continues to pay out a solid ETF.

This also usually means that growth is far more stable — low, but stable. And over time, investors have seen time and again that this method of investment brings in far more growth than even the best growth stocks.

Put that $500 to work

For me, I'd consider an option like **iShares S&P/TSX Composite High Dividend Index ETF** (TSX:XEI). This ETF focuses on high dividends, as you can see by its name. That dividend comes out at 3.90%, every single month. Right now, that comes to $0.083 per share on a monthly basis.

As for shares, they've climbed by 33% since coming on the market 12 years ago. So, yes, it's not substantial growth. But it's *steady*, which is key. This comes from holding blue-chip companies across all the major Canadian industries to bring in the best and most stable dividend yield.

So, if you have only $500 to put aside today, that would bring in $1.61 per month, or $19.29 per year. That's definitely not much. But let's say you were to put aside $500 each *month* and invested no matter what. To bring in $5,000 in annual passive income, it would take you just short of 19 years. And if you add to that, you could have a portfolio worth $191,062!

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:XEI (iShares S&P/TSX Composite High Dividend Index ETF)

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alegatewolfe