



5 Steps to Build a Passive-Income Dividend Stock Portfolio

Description

Investors can keep repeating the following five steps to build a passive-income dividend stock portfolio. Pick one quality dividend stock at a time. Identify the ones with the desired yield you want that trade at good valuations. [Dividend investing](#) can be a passive strategy, but it would be good practice to review your portfolio once a year to see if any changes are needed. Businesses are dynamic, after all.

Find quality dividend stocks

Often, quality dividend stocks have a long history of paying dividends. You can start with a 10-year history, though; the longer, the better. Some big Canadian banks and telecoms, including **BCE** and **Royal Bank of Canada**, have paid dividends for more than a century!

Ideally, you would want stocks that have a track record of *increasing* their dividends. This means that you can invest and watch your passive income grow without having to invest more. Though, it is a good idea to regularly save and invest to build wealth.

“Compound interest is the eighth wonder of the world.”
— *Albert Einstein*

Since many dividend stocks pay income that are larger than interests from fixed-income investments, compound dividends can potentially generate greater wealth in the long run.

Dividends should be covered by earnings or cash flow. The payout ratio is typically defined as dividends divided by earnings for a period. Compare the payout ratio for a company to the industry average to get an idea of a dividend stock's payout ratio safety. For example, Royal Bank's trailing 12-month payout ratio is about 40% of earnings, which is a healthy payout ratio of the big Canadian bank stocks that tend to keep their payout ratios at 40-50%.

Identify dividend stocks with your desired yield

Many passive-income investors want income now. It may not cut it for them to earn yields of 2% or less, despite these stocks might provide greater total returns or dividend growth. They might set a minimum-yield criterion, such as only considering stocks that yield 4% or higher. If so, both BCE and RBC stocks are potential candidates for passive income.

Evaluate the valuation of the dividend stock

You don't want to overpay for dividend stocks, which reduce your total-return and income potential *and* increase your risk of capital loss. Imagine buying stocks at the peak of the market. In the short term, if you're lucky, your returns will be low and if you're not, your stocks will be under the water.

Some investors believe it's time in the market, not timing the market, that matters. However, it does not make sense to pay more than you should for a stock. I'm all for identifying great dividend stocks and making sure they trade at good valuations (reasonable or cheap) before buying.

Sometimes, that means staying on the sidelines with an above-average level of cash. That's not today. The Canadian stock market has corrected close to 15% from its peak. Certainly, there are more [undervalued stocks](#) that pay good dividend income than there were a few months ago.

Review periodically

There's no free lunch. Ideally, you would want dividend stocks that you can hold forever for passive income, but businesses are dynamic. There's no guarantee that quality dividend stocks will remain quality forever. So, investors should still periodically review the components of their dividend stock portfolios — perhaps once a year — to ensure the businesses and their dividends are still healthy. No matter what, dividend stocks are as passive as it goes in earning largely passive income.

Switch out of dividend stocks whose dividends aren't safe anymore

If you find that some of your dividend stocks' dividends are becoming increasingly unsafe (say, for two consecutive years to give some time for management to do something), you might switch out of them for more solid dividend stocks.

CATEGORY

1. Dividend Stocks
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kayng
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date

2025/07/23

Date Created

2022/07/06

Author

kayng

default watermark

default watermark