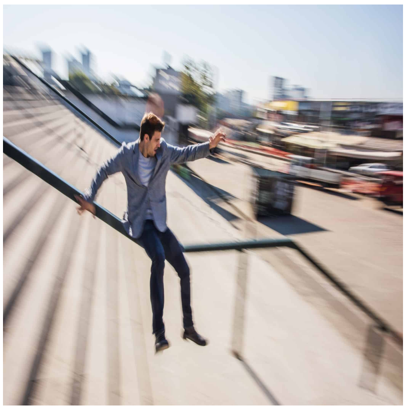

3 Steps to Creating a Passive-Income Portfolio From Scratch

Description

When it comes to creating a passive-income portfolio, I think Motley Fool investors may focus a bit too much on the stock they have in mind. While there are certainly some great dividend stocks out there, that can always change. Today I'm going to focus on how anyone can create a great passive-income portfolio, even if they're starting out with nothing in an investing account.

Create some income

Let's say you're a Canadian that simply does not have the cash coming in from a full-time job to afford money for investing. There are still ways that you can create some extra income and have it still fall in the "passive-income" category.

What passive income means is creating income that you don't have to work for. While there is the initial process of setting it up, once in place, that cash keeps coming in like clockwork. And one of the best ways to get into this is real estate.

Don't panic! I'm certainly not talking about buying up a property. Instead, use what you have. That could be renting out a garage, storage unit, shed, or heck, even a parking space! In Toronto you can bring in about $300 per month to rent out your parking spot, for example. That's $3,600 right there you can use to invest.

Set up your goals

Now comes what in my view is the hardest part. You'll want to take the step of figuring out your goals with investing. That's not "to be a millionaire." Instead, perhaps it's to send your children to university and pay for all the costs. Or maybe it's to retire by age 60. No matter what your goal, meet with a financial advisor. They'll help you look over your budget and find out what's realistic for you.

That $3,600 is certainly a great place to start. And if you put it directly into a Tax-Free Savings Account (TFSA), all your passive income will be tax free! But don't stop there. If you want to meet your goals, short or long term, then you need to be consistent.

So, when you decide on a passive-income stock, make sure you continue to contribute to it. A great method you can use is the dollar-cost averaging method. This reduces volatility by contributing the same amount to a stock on a regular basis, rather than a huge sum all at once. Don't risk timing the market; instead, find a great stock and stick to it.

The great stock

Again, it really doesn't matter which passive-income stock you choose, as long as it's a solid and stable company. This could be one of the Big Six banks, a commodity stock, and exchange-traded fund — you name it. But it should be something that has history behind it and a growth path ahead, and that ideally trades with great value for your consideration.

For the sake of this example, let's look at **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). Let's say you contribute each quarter to CIBC as your passive-income stock. Further, let's assume that your goal is to retire by age 60, and you're 30 right now. That's 30 years of growth, where you're adding $900 each quarter to this stock.

In the case of CIBC, the passive-income stock offers a dividend of 5.27% dividend yield that's grown at a compound annual growth rate (CAGR) of 5.22% in the last decade. Shares have grown at a CAGR of 11% during that time. So, if you were to invest $900 every quarter and reinvest dividends for 30 years, you could have $1,283,897 in your passive-income portfolio.

That's all from taking $0 out of your own income, and it's all tax free. I'd say that's enough to retire on, wouldn't you?

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

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. alegatewolfe
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/07/08
Date Created
2022/07/31
Author
alegatewolfe