New Investors: The 2 Best Options to Earn Regular Passive Income

Description

Are you new to investing? If you would rather spend your time doing other things than looking after your investments, you should seek ways to generate regular passive income. "Regular" suggests that the income comes periodically — perhaps every month or every quarter. "Passive income" entails no work is needed to earn the income.

In reality, all passive income comes from some active work, at least, initially. There's no free lunch, after all! With that said, I believe the following to be two of the best options to earn regular passive income.

Canadian REITs for regular passive income

Real estate investment trusts (REITs) are managed by real estate professionals, who save investors from the headache of property management and maintenance if they were to buy individual properties and become landlords themselves.

Most, if not all, Canadian REITs pay out cash distributions monthly. Holding the units in your Tax-Free Savings Account (TFSA) then allows you to generate tax-free income. To earn passive income, you should be very selective about the REITs you choose.

The REITs should have stable and growing cash flows, high occupancy rates, and sustainable payout ratios. Ideally, you would buy the REIT stocks when they are cheap.

For example, **NorthWest Healthcare Properties REIT** (TSX:NWH.UN) has been a relatively resilient REIT in the REIT correction due to rising interest rates. Its real estate assets, including hospitals, are not usually accessible by retail investors.

It offers a cash distribution yield of close to 6.1%. Additionally, the stock trades at a 10% discount from the current analyst consensus price target of $14.66, as displayed on *Yahoo Finance*.

The global healthcare REIT's cash flows are expected to rise in today's high inflationary environment, because a proportion of its cash flows are indexed to inflation. Because of its long-term contracted and growing cash flows, its payout ratio is set to improve over time.

Earn regular passive income from dividend stocks

The Canadian banks make tonnes of money. Therefore, passive-income investors should consider picking up some big Canadian bank stocks in this market dip. They pay eligible dividends that are favourably taxed in non-registered accounts. That is, you pay lower income taxes on these dividends than your job's income, interest income, and foreign income.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) offers the biggest dividend yield out of the Big Six Canadian bank stocks. In the trailing 12 months, the international bank made more than $10 billion in pure profits! It paid out 48% of it as dividends, used 33% to buy back its common stock and had $1.88 billion left over.

In other words, investors can sleep with ease on the shares and collect a growing passive income. At writing, the dividend stock yields close to 5.3%. It also trades at a discount of about 14%. So, investors will get extra price appreciation, too, as a bonus.

Earning passive income from stocks

To summarize, for regular passive income, invest in a diversified portfolio of dividend stocks that have businesses that are profitable through economic cycles. These dividend stocks should ideally grow their profits over time and maintain sustainable payout ratios. You can compare a stock's payout ratio to the industry average to see if the payout ratio may be overextended.

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2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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