Passive Income: How I Make $1,000/Year With Value Stocks

Description

2022 has been a volatile year for the stock market. The major U.S. and Canadian indexes are down for the year, and investors are feeling the heat. I know how it feels, because I've experienced the volatility myself. While I've made a few profitable investments this year, large chunks of my portfolio are down year to date. One part of my return, however, is safe as it has ever been: dividend income.

By investing consistently in ETFs and dividend stocks over several years, I've built a portfolio that yields more than $1,000 per year. If I were a dividend-biased investor, I could have a much higher yield than that, but I hold many stocks with no dividends as well as ETFs with low yields. It only took me three-and-a-half years of investing to get to a $1,000 annual portfolio yield, and I don't have a particularly high income. In this article, I will show how I did it.

Buy consistently

One of the ways I got to $1,000 per year in dividend income is by buying consistently. I've bought in many different market conditions since I started investing in late 2018. Bull markets and bear markets — I've bought in all of them. In most cases, buying added significant dividend income to my portfolio.

One stock I've bought consistently over the years is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). It's my favourite Canadian bank stock because its U.S. retail business gives it considerable geographic diversification. The Canadian financial services market is pretty well saturated by the Big Six banks, but the U.S. is another story. TD is only the ninth-largest bank there, so it has considerable room to grow.

When I first started buying TD, it was at $74. At one point, it dipped to $55, at which point it had a 6% yield. I bought it at that level, too. Later on, I bought TD at $100 — a level that it has since declined from, but even that buy gave me about a 3.5% yield. So, all of my TD buys, in bull and bear markets, have added dividend income to my portfolio.

Hold dividends in tax-sheltered accounts

Another way I have grown my dividend income is by holding dividend stocks and ETFs in tax-sheltered accounts like a Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account. Technically, RRSPs are only “tax deferred,” but they are tax free for the period prior to you withdrawing. I hold many index funds, like **iShares S&P/TSX 60 Index Fund**, in my RRSP, and I’ve never paid a penny of tax on any of them. Sure, I’ll have to pay taxes on them when I retire, but that’s decades away, and I’ll have enjoyed +30 years of tax-free compounding by that time.

Foolish takeaway

As you can see, it doesn’t take much to get $1,000 per year in tax-free dividend income. In just a few years of saving and investing, you can get there. Right now, stock prices are low, and dividend yields are high. It might just be a good time to start building your own dividend stock portfolio.

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