Being Lazy Pays: Compound Your Passive Income With 2 Dividend Stocks

**Description**

The growing inflation has reiterated the need for passive income investments that can come in handy when working income is insufficient. But the stock risk gives cold feet to investors, and they hoard cash. Cash is a depreciating asset in a high inflation environment. You can put your cash to work by investing in stocks that give you dividends.



## An investment where being lazy pays

The secret to making money in dividend stocks is being lazy. Some companies pay special dividends when they make windfall gains. Some companies pay regular dividends as they enjoy stable cash flows, and some pay even when they don't make sufficient profits to maintain a dividend track record.

You can either collect the dividend in cash or reinvest it through a dividend reinvestment plan (DRIP). Which option is suitable depends on the stock's performance, your cash needs, and other investment opportunities.

If you need passive income, you can collect dividends in cash. But if you are saving up for the long-term in a dividend aristocrat, you might want to consider a DRIP.

## Two dividend stocks to compound your passive income

Dividend aristocrats are companies that have a history of paying regular dividends and even growing them consecutively. Through a DRIP, you can reinvest the dividend amount to buy more stocks of the same company at a discounted price and save on brokerage commissions and administrative fees.

These regular contributions might look small, but if you think long term, they snowball into a larger amount through the power of compounding. You can terminate your DRIP plan and start collecting cash dividends whenever you need passive income.

As I said, cash is a depreciating asset, whereas a high-quality dividend stock is an income-generating asset. Here are two stocks that can compound your dividends when you reinvest them through a DRIP.

## TC Energy stock

**TC Energy** (TSX:TRP)(NYSE:TRP) has a long history of paying regular quarterly dividends thanks to its robust business model. The company develops and maintains pipeline infrastructure and charges toll money for transmitting oil and natural gas through them. This pipeline stock has been paying growing quarterly dividends for 22 years at a compounded annual growth rate (CAGR) of 7%. In these 22 years, the stock has surged over 400%.

The dividend growth rate is sufficient to beat the average inflation rate of 2%. But if you reinvested this amount, the number of shares would have multiplied severalfold, giving you the triple benefits of dividend growth, capital appreciation, and a higher share count.

For instance, if you invest $1,200 in TC Pipelines today, you will lock in a dividend yield of 5.69%. In a year, you will get a dividend of $68.28 that will buy you more than one share of TC Energy. If you cash in your dividends, the value of $68.28 will depreciate as per inflation. But if you reinvest that amount, the $68 will earn you a dividend of $5.7 per year and even grow in line with the stock price growth.

Next year your dividend amount would be $73.98 ($68.28+$5.7), and that will buy you more shares. You will also benefit from market volatility. If the stock price falls, you can buy you more shares with your dividend and lock in a higher dividend yield. This way you can compound your dividend income with TC Energy.



## Bank of Nova Scotia stock

Another good stock for DRIP is **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), whose history dates back to the 1800s. Scotiabank is among the Six Big Banks of Canada.

Since the bank declared its initial dividend at the rate of 3% per annum on July 1, 1833, it has continuously made dividend payments. This history gives confidence that your reinvestment won't compound losses. Since 2000, the stock has surged 455% and has grown its dividend at a CAGR of 6.57%.

## Foolish takeaway

Look for dividend history, CAGR, and the company's ability to continue paying dividends before investing in the DRIP. The right stock can compound your income, and the wrong stock can compound your losses. So invest wisely.

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**Date**
2025/08/23
**Date Created**
2022/08/11
**Author**
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