TFSA Passive Income: Invest $5,000 Today, Earning $400 in 5 Years

Description

Passive income: it's a popular phrase, yet many may not be aware of the true definition. While there are many investors seeking income through investing, they're *actively* investing. That's constantly buying and selling stocks to make an income.

This is risky for a few reasons. First, you never know if a potential growth stock is going to soar, as it could just as easily collapse. This puts your entire portfolio at risk. Unless you're a fund manager, I wouldn't recommend this kind of investing.

Instead, passive income is far simpler. It's money you make passively — that is, it comes in without you doing *anything*. You buy the shares and leave them alone. That's it. Today, we're going to look at how you can make a large amount in just five years.

Invest what you can afford

First off, don't think that investing is some get-rich-quick scheme. It certainly is not. It's time in the market that could make you millions, not timing the market, as the trope goes. With that in mind, you certainly don't want to start investing a whole whack of money with the hopes it will soar upwards.

Instead, invest what you can afford. For this example, let's say that's $5,000 per year. Now, I'm not saying you should simply cash out at the end of each year. Instead, put those funds aside each paycheque. If your goal is $5,000, then that means investing about $417 each month. But again, only do what makes sense to your budget.

Choose the rights stocks

Choose the stocks that make the most sense. To create passive income, that, of course, means creating money through dividends. There are blue-chip companies out there that have raised their dividends again and again over the last few decades — some on an annual basis. These are a great place to start.

For me, I like financial institutions and infrastructure right now. You'll notice I didn't say energy. That's because oil and gas are going out, making them risky. Meanwhile clean energy is coming in, also making it volatile. Instead, I would choose something more solid.

You really cannot go wrong with a Big Six bank. I would recommend **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which has a long track record of growth and performance. TD stock and its exposure in the United States is great for investors seeking a diversified portfolio. Further, TD stock and its growing online presence and options for do-it-yourself bankers gives it every opportunity to keep creating cash.

TD stock offers a 4.21% dividend yield that's grown at a compound annual growth rate (CAGR) of 10.1% over the last decade. Shares are down 8.6% year to date, though they are up 209% in the last decade for a CAGR of 11.93%.

Creating passive income

Based on this historical data, we can see exactly how much passive income that could be made in five years with $5,000. Let's say you were to invest that cash once and reinvest dividends over the next five years. If this were the case, you could double your portfolio to be worth $10,631!

Furthermore, you would now have increased your shares from 58 to 70. That would be about $400 in annual passive income you can look forward to! That's not bad for one investment over just a few years.

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