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

Description

The stock market nose-dived after the U.S. Federal Reserve made the predictable decision to raise interest rates by another 75 basis points. The **TSX** Composite Index fell 5.38% in a week as the price of oil fell below US$80 a barrel to its lowest price since January ($79.13). The biggest losers were energy, utilities, and REITs, which took a direct hit from interest rate hikes and oil price decline. This dip has created an opportunity for new investors to lock in higher passive income for a lifetime.

What passive income options does the current market present?

The trick to making money in stocks is generally to buy the dip and sell the rally. But recession fears cause emotions to run high, and investors often forget the basic rule of buying the dip only in stocks belonging to companies with strong fundamentals.

CT REIT

The automotive industry is in a slump as inflation and chip supply shortages have delayed recovery. Moreover, the retail sector also witnessed demand weakness. These are the two segments that define **Canadian Tire** (TSX:CTC.A). But the automotive, hardware, and sports retail chain has what it takes to thrive in hard times. I am personally fond of Canadian Tire's real estate investment trust **CT REIT** (TSX:CRT.UN) for three reasons:

- **CT REIT** (TSX:CRT.UN) has a 5.91% distribution yield, which it pays in 12 monthly instalments, creating a regular source of passive income.
- It is among the few REITs that have grown its distribution yield annually since 2014 at a compound annual growth rate (CAGR) of 3.2%. It even increased the yield during the pandemic.
- The REIT offers diversification and exposure to a more stable asset class of real estate that is not directly affected by a slump in retail and automotive sales. It has a beta of 0.95.

Beta measures a stock's volatility against the market, and the market beta is 1. The higher the beta value (above 1), the higher the volatility of the stock.

CT REIT has 371 properties across Canada and boasts a 99.4% occupancy ratio. As Canadian Tire is its largest tenant, it has one of the longest weighted average lease terms of 8.6 years. This means that the REIT can count on stable cash flows and will rebound in a recovery. High exposure (85%) to the retail sector creates concentration risk, for which the REIT rewards investors with a 3.2% distribution CAGR while maintaining its distribution payout ratio at 75.1%.

Rising interest rates have pulled down CT REIT's stock price by 19.5%, closer to the 2019 level. Now is the time to buy the stock through a Tax-Free Savings Account (TFSA), so you can enjoy earnings and distributions tax-free.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) stock dipped 5.3% in a week as oil prices fell below US$80, even though the pipeline stock is not directly affected by oil and gas prices. The stock is trading at a 13.7% discount from its June high when the price of oil touched US$127. This slump has created an opportunity to buy at the January price and lock in a handsome 6.73% distribution yield.

Enbridge has a 27-year track record of increasing dividends at a 10% CAGR. It slowed dividend growth (3%) in the last two years due to weak oil prices. But I expect the growth rate to accelerate to 5-7% in December, in line with its distributable cash flow CAGR guidance (5-7% between 2021 and 2024).

Enbridge's 65% dividend payout ratio provides the company with sufficient capital to increase the dividend, fund future projects, make strategic investments, and buy back shares. Its cash flows are secure because of its long-term contracts and government-regulated rates. Enbridge stock could very well rebound in an economic recovery.

The Foolish takeaway

CT REIT and Enbridge stocks are oversold. Analysts are predicting that these stocks will hit a new low as the economy pays the price of interest rate hikes. These stocks can provide you with regular passive income during the recession and capital appreciation during the recovery. If you invest $2,000 in each of these two stocks, they can earn you $250 a year in dividend income and even grow the dividend by 5-7% annually.

CATEGORY

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2. Stocks for Beginners

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1. NYSE:ENB (Enbridge Inc.)
2. TSX:CRT.UN (CT Real Estate Investment Trust)
3. TSX:CTC.A (Canadian Tire Corporation

4. TSX:ENB (Enbridge Inc.)

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pujatayal