



TFSA: Invest \$2,000 in 2 Stocks and Get \$3,000 in Passive Income

Description

Is it possible to earn \$3,000 in passive income by investing \$2,000? It is if you invest \$1,000 in each of two growing dividend stocks when they are trading at their lows. The dividend income compounds when you reinvest your dividends. Regularly investing an additional small amount alongside the dividends can increase the power of compounding. An additional \$100 monthly investment in each of the two stocks for 10 years can provide you with a \$3,000 monthly passive income for the long term. But it all starts with a \$1,000 investment today through your Tax-Free Savings Account (TFSA).

How to earn \$1,350 in passive income from BCE stock

BCE ([TSX:BCE](#)) has consistent free cash flows from which it has been paying [dividends](#) since the 1980s. The telecom sector saw a shift to wireless, and BCE was at the forefront of it. And now, it is moving to fifth-generation wireless technology that will bring broadband-like speed to edge devices. The company also has a dividend reinvestment plan (DRP) in which it reinvests your dividends to buy more shares of BCE instead of paying you cash.

By taking advantage of this plan, you can save on commission and transaction costs. The stock is trading near its 2019 levels after the 2020 bear market pulled the stock price down 15% from its high. If you invest a higher amount in a bear market, you can get more units at the same price. A \$1,000 investment can buy you 16 shares of BCE. With each share paying \$3.68 in annual dividends, you can earn \$58.90. Though if you buy only one share of BCE, it may not generate sufficient income. But if you support the DRP with an additional \$100 monthly investment, you can add 20 more shares of BCE in a year.

The more shares you buy the more dividends you get. Plus, BCE also grows its dividend by 5%. All this adds up to 226 BCE shares that pay a \$5.99 dividend per share in 10 years, or \$1,350 in annual passive income by 2032. But this is based on the assumption that BCE continues to grow dividends by 5% and the stock price increases by 2% annually. If you allow for a 10% margin of error, BCE can still generate \$1,218 in passive income.

How to earn \$1,645 in passive income from Algonquin stock

If BCE impressed you, you might also like **Algonquin Power & Utilities** ([TSX:AQN](#)). This mid-cap [renewable electricity](#) supplier is new in the game. The utility has been paying regular quarterly dividends and [growing them](#) at a 10% average annual rate since 2010. Algonquin has 4.2GW of renewable energy generation capacity and plans to spend \$12.4 billion in the next five years to grow organically and through acquisitions.

The additional capacity will bring more cash flows and help the company grow its dividends for the next five years. Like BCE, a higher share count will help you generate higher dividends.

Algonquin stock is trading closer to its 52-week low at an 18% discount from its average trading price. Now is a good time to invest \$1,000 and get 65 shares of AQN. Each share pays a \$1 dividend, which means your \$65 in dividends can buy you over three shares of AQN. If you boost your DRIP with a \$100 monthly investment, you can buy 835 shares of AQN in 10 years without burning a hole in your pocket.

Assuming the company continues to grow its dividend at an average annual rate of 7%, one share will pay you a dividend of \$5.99 by 2032. All tallied, 835 Algonquin shares will pay \$1,645 in passive income by 2032. Even after a 10% margin of error, you have \$1,480 in free income for the long term.

Why invest in two stocks when you can get a higher dividend from one?

You might wonder why not invest all your money in AQN, as it pays higher dividends than BCE. We live in a dynamic economy, and events like the 2007 financial crisis have taught us that even the biggest companies can fail. The above calculation assumes that the economy will improve and investment plans will generate the desired outcome.

But there is always macro risk beyond the control of the company. You can offset this risk by diversifying your portfolio across different sectors and asset classes to mitigate macro risk.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

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1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:BCE (BCE Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:BCE (BCE Inc.)

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Date

2025/08/13

Date Created

2022/11/15

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