



How to Generate \$500 in Passive Income Each Month

Description

Invest today to earn returns tomorrow. That is the right approach to investing. One way is to diversify your portfolio and accept whatever market momentum there is. But that strategy is for those willing to take the risk. What if you reverse this process? Determine how much passive income you want every month and engineer your investments around the desired outcome. This strategy comes with its risk.

“Risk comes from not knowing what you’re doing.”

—[Warren Buffett](#)

How to earn \$500 in monthly passive income

In this article, I will reverse engineer a goal to earn \$500 per month while adding up possible risks. You should know what you are doing and have a plan B when plan A hits road bumps.

Canadian dividend stocks give an average yield of 6%. So, if you want to earn \$500 a month, you need \$6,000 a year in dividends, and that needs a \$100,000 investment. If you invest \$500/month in dividend stocks that give your portfolio a 6% yield, it would take you 17 years to reach \$500/month in passive income.

But you can achieve this goal in almost half the time (eight years). You need to invest in a dividend-reinvestment plan (DRIP) of a company that increases its dividend at a compound annual growth rate (CAGR) of 3.5%. This plan carries two significant risks: either the company might cut dividends or pause the DRIP. That is where you would stop investing in them and look for other stocks that meet the DRIP and 3.5% CAGR expectations.

Invest \$500/month and get \$500 in passive income from 2030 onward

I have identified two dividend stocks that don't have a dividend legacy but stable business and cash flows. They are mid-cap stocks with over \$3.5 billion in market caps, which makes them riskier but also gives them the potential to grow.

CT REIT

A [real estate investment trust \(REITs\)](#) will always pay you a monthly distribution, because that's the criterion that gives it the status of a trust. A REIT funds its distribution largely from rental income. It can cut these distributions if its occupancy drops below a certain level, as it did during the pandemic. Hence, I suggest investing in **CT REIT** ([TSX:CRT.UN](#)). **Canadian Tire** occupies more than 90% of the properties of CT REIT, giving CT REIT the longest-weighted average lease term (8.5 years) in the sector.

Canadian Tire is a resilient stock with ample cash flow to pay its investors a dividend yield of over 4%. While CT REIT may not be a legacy, it has the backing of a legacy company. CT REIT is among the few REITs that have been increasing their distributions at a 3.9% [CAGR](#) from 2016-2021. The REIT shows no signs of pausing its growth. Moreover, it has a DRIP and a stable stock price.

If you invest \$500 monthly under the DRIP, the growing distribution can buy more shares of CT REIT that trade in the \$15-16 range. In eight years, your \$48,000 investment would buy you 3,067 shares that pay a dividend of \$1.15 per share (assuming a 3.5% CAGR). The end calculation gives you \$3,527 per year by 2030.

You don't want to earn all your passive income from one stock. Diversify your investment into different sectors.

TransAlta Renewables

TransAlta Renewables ([TSX:RNW](#)) is making strides in wind energy. The stock is not quite popular among investors seeking growth. But it earns stable cash flows from the electricity generated. The stock has been falling with other [renewable energy stocks](#), as the sector faces higher commodity prices and rising interest rates. TransAlta's free cash flow decreased by \$8 million year over year in the nine months, but its dividend-payout ratio remained a healthy 74%. The company has been paying regular and stable dividends since 2014.

If you invest \$500 per month, your \$48,000 investment in eight years would buy you 2,667 shares (at an average trading price of \$18 per share). Each share would pay a dividend of \$0.94, assuming stable dividends, giving you total passive income of \$2,506 per year by 2030.

Passive-income tip

While planning your investment, take into account after-tax returns. Invest through Tax-Free Savings Account, as it makes your investment income tax-free.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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1. TSX:CRT.UN (CT Real Estate Investment Trust)
2. TSX:RNW (TransAlta Renewables)

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