



## 3 Steps to Bring in \$1,000/Month in Passive Income

### Description

Who doesn't love passive income? The feeling of doing absolutely nothing and seeing payments flow in every month can be exhilarating. For many, consistent, high monthly income is a milestone on the way to being financially independent. That being said, getting to that point can be challenging.

Outside of investing in a rental property, there aren't too many ways to bring in \$1,000 or more in passive income every month. As the saying goes, "You have to invest money to make money". Still, there are ways for patient, long-term investors to get this going. Let's walk through the steps together.

### Step 1: Max out your TFSA contributions

Your [Tax-Free Savings Account, or TFSA](#), is a great place to start investing to meet future passive income goals. Dividends earned here and withdrawn are tax-free, which means more money stays in your pocket.

The current 2023 TFSA limit is \$6,500. This limit starts accumulating once you turn 18 years old. Depending on your age, you could have up to \$88,000 in contribution room if you have never invested in a TFSA prior to 2023. Make it a priority to max this account out as soon as possible!

### Step 2: Grow your TFSA

Even a maxed-out TFSA of \$88,000 isn't enough to provide \$1,000 a month in passive income without investing in risky high-yield assets or selling shares. That would require roughly a 13.63% yield. If any investment promises this high of a yield, run the other way.

So, we have to grow our TFSA nest egg. A great way to do this is via an [exchange-traded fund \(ETF\)](#) that tracks the S&P 500 index like the **Vanguard S&P 500 Index ETF** ([TSX:VFV](#)).

Historically, investing \$6,500 in the S&P 500 initially and then \$6,500 every year from 2000–2022 (22 years) thereafter would have resulted in a final portfolio value of \$616,267.

Portfolio	Initial Balance	Final Balance	CAGR	TWRR	MWRR	Stddev	Best Year	Worst Year
S&P 500	\$6,500	\$616,267 <sup>Ⓢ</sup>	21.88% <sup>Ⓢ</sup>	6.14%	9.15%	15.49%	32.18%	-37.02%

<sup>Ⓢ</sup> The number in parentheses shows the calculated value taking into account the periodic contributions.



## Step 3: Pick a lower-risk diversified investment

One you're ready to enjoy that sweet passive income, its time to de-risk. After all, you've already won, so there's no need to take excessive risk. The S&P 500 is a wonderful investment, but it is 100% stocks and can be highly volatile at times.

A great choice here is a lower-risk ETF like the **Vanguard Conservative ETF Portfolio** ([TSX:VCNS](#)), which is 40% global stocks and 60% global bonds. This ETF is as diversified as it gets and makes for a great all-in-one holding. Currently, the ETF has a 12-month yield of 2.44%.

Assuming VCNS's most recent December 2022 monthly distribution of \$0.161715 and current share price at time of writing of \$25.45 remained consistent moving forward, an investor who buys \$616,267 worth of VCNS could expect the following quarterly payout:

COMPANY	RECENT PRICE	NUMBER OF SHARES	DIVIDEND	TOTAL PAYOUT	FREQUENCY
VCNS	\$25.45	24,214	\$0.161715	\$3,874	Quarterly

When averaged out on a monthly basis, the quarterly payout of \$3,874 turns into around \$1,291 per month. That's the power of compounding and diversification at play.

## CATEGORY

1. Investing
2. Stocks for Beginners

## TICKERS GLOBAL

1. TSX:VCNS (Vanguard Conservative ETF Portfolio)
2. TSX:VFV (Vanguard S&P 500 Index ETF)

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## Date

2025/07/27

## Date Created

2023/01/18

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