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 Dividends earned here and withdrawn are tax-free, which means more money stays in your pocket.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	Stdev	Best Year	Worst Year
S&P 500	$6,500	$616,267	21.88%	6.14%	9.15%	15.49%	32.18%	-37.02%

* The number in parentheses shows the calculated value taking into account the periodic contributions.

Portfolio Growth

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

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

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