How to Generate +$500 in Passive Income Every Month

Description

Many investors get overly fixated on the prospect of financial independence and set lofty, unattainable goals. Sometimes, its better to aim lower and work steadily towards more achievable, realistic goals. A good place to start is targeting monthly passive income of say, $500.

Today, I'll show investors how combining your Tax-Free Savings Account, or TFSA, plus a high-yield exchange-traded fund, or ETF, can help you start generating some decent cash-flow. If you're seeking consistently, tax-free monthly income, this article is for you.

Step #1: Max out your TFSA!

Your TFSA is the ideal account to use for passive-income generation. Canadian dividends and interest income earned here and withdrawn are 100% tax free, which means more money stays in your pocket.

Now, it takes money to make money. To start, consider aggressively saving and maxing out your TFSA every year. The contribution limit for 2023 is currently $6,500.

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. Once you have $88,000 or more, you can move on to step two.

Step #2: Invest in the right assets!

Personally, I would invest $88,000 in a TFSA into low-cost index ETFs, but that's because passive income isn't a goal for me.

For passive-income seekers, an actively managed ETF that targets high, sustained monthly income could be a good alternative to index ETFs and individual dividend stocks.

A good choice could be **BMO Covered Call Utilities ETF** (TSX:ZWU), which holds a portfolio of 74 Canadian and U.S. utilities stocks with a covered call overlay.

Basically, ZWU sells call options against its holdings, which converts the future share price appreciation of its underlying stocks into an immediate cash premium.

This cash premium is combined with the normal dividend income from these stocks and paid out to investors on a monthly basis. Currently, the ETF has an annualized distribution yield of 8.36%.

I like ZWU because its portfolio of blue-chip, large-cap utility stocks is generally less volatile and sensitive to economic fluctuations compared to the broad market.

Step #3: Profit!

Assuming ZWC's most recent December monthly distribution of $0.08 and current share price at time of writing of $11.65 remained consistent moving forward, an investor who buys $88,000 worth of ZWC could expect the following monthly payout:

COMPANY	RECENT PRICE	NUMBER OF SHARES	DIVIDEND	TOTAL PAYOUT	FREQUENCY
ZWC	$11.65	7,553	$0.08	$604.24	Monthly

That being said, sinking $88,000 into a single utility sector ETF isn't the best for diversification. Consider augmenting ZWU with a few choice Canadian dividend stock picks from other sectors (and the Fool has some great recommendations for those down below).

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