



Lcbs-2023-10-22-WhatILoveAboutPassiveIncome-part3.pdf

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decisions on investing. Consult a Broker or Lawyer before making any investment.

What I Love About Passive Income – Part 3

What is greater than Passive Income? I started asking that over a month ago in our first article on Passive Income. I think that every investor needs to make it a goal to build a large stream of Passive income.

What Is Passive Income?

In our first installment of What I Love about Passive Income, we discussed the vast number of methods for creating Passive Income. One of my favorite methods of passive income is to buy an asset. That could be a rental property, but my choice is to buy stocks and ETFs (Exchange Traded Funds) that make me money via dividends.

Investing with ETFs

Read The Whole Part One Article on [What I Love About Passive Income](#)

There are so many good dividend-paying stocks. I like to use my Schwab IRA to buy 'stock slices' in companies I feel are good dividend payers and also are potential growth companies. This is called DGI / Dividend Growth Investing. These are companies that will make you steady dividend income, but due to growth may also gain in value as their stock prices go up.

What is Dividend Growth Investing

This week US News Investing wrote an article In October 2023 on 7 of the highest-paying dividend stocks available. I have some of these in my Schwab Portfolio.

Article on Seven High-Paying Dividend Stocks

In the past year, I have come upon another class of investments that are making me money which are called Preferred Stocks. Briefly, the advantage of Preferred Stocks over normal stock is they sell at a fixed par

value which is normally either \$25 a share or \$10 a share. And because the stock market is liquid, these vary in price a lot.

[Article on Understanding Preferred Stocks](#)

So, buying a company's preferred stock that is out of market favor will sell at a discount to par. I try to buy all of mine on those with 14 to 70% discount to par. The dividends are still paid on the par value. And if purchased at a discount, normally these move back closer to par value over time.

[Complete article on Part 2 of What I Love About Passive Income on Preferred Stocks.](#)

In the second part of What I Love about Passive Income, we covered real estate. It is truly one of the best passive income sources. If you don't have the volume of dollars to invest in additional houses or apartments, a good way to invest in real estate is by buying ETFs on REITS. (Real Estate Investment Trusts.)

[Article on Investing in REITS](#)

In that article, we discussed a super simple method to get into real estate with minimal investments. Some ETF names are given to help you get started.

This week we will wrap up our articles on What I Love about Passive Income by covering the last 2 of my four favorite methods. These last 2 are a huge reason this year's income is way up over 2022.

My two highest-paying Passive Income investment providers are CEFs (Closed End Funds) and BDCs (Business Development companies.)

[What are Closed End Funds?](#)

Read the full article above for all the details, but in summary, Closed-End Funds are like mutual funds in regards to how you are diversified over a large number of stocks based on the contents of the CEF. Closed End Funds are much different than mutual funds in that they have a set amount of shares. This is set at the time of IPO (Initial Public Offering) when introduced.

The number of shares does not change without a management decision. Normal mutual funds constantly buy and sell more shares, but not CEFs. This gives them less volatility, and they have a NAV (net asset value) which gives you an idea of what the fund is worth. But the CEF rarely trades at the NAV value. Many can be purchased at a large discount to their NAV. If you can buy a CEF at a large discount to NAV value, not only will you receive dividends, but most likely the stock price will rise coming back closer to the Net Asset Value.

One of my favorite CEFs is the Pimco company. I probably own more of their holdings than any other. I love the fact that they don't just pay a quarterly dividend, but they pay MONTHLY. Steady consistent income stream many times above 10%. Check out the PIMCO CEFs of PDI, PDO, and PCI. NLY is another good non-Pimco CEF.

Just because a fund is a CEF does not make it a good investment. You must study any kind of investment to be sure it is a quality product.

Here are two websites to help you find good CEFs. I use both of these for research on Closed-End Funds.

CefConnect.com

CEFA.com – Closed End Fund Association.

The last passive income category we will discuss in this series is BDCs. (Business Development Companies.)

What are Business Development Companies?

Business Development Companies are a lot like a bank. They provide financing to small to medium-sized companies who may have trouble obtaining financing. Many relate these to REITs (Real Estate Investment Trusts), but they are not specific to the Real Estate business. They can provide financing to any kind of business.

So if you are looking for those who loan just to Real Estate investments, you must research and see who they provide financing. In many cases, I

have found those tied to real estate to be safer than some others. However, each company must be researched in all aspects of their business, as no specific type of loan is a sure bet. It truly depends on the success of the borrowing company and its management.

Perhaps one of the reasons these tend to pay excellent dividends is due to their design. These were specifically organized by the government to allow special tax preferential status. They can distribute up to 90% of their profits to their investors. No other type of company has this unique taxing advantage to my knowledge.

Read that article on [Making Money on Business Development Companies.](#)

In that article, I list a large number of BDCs that have worked for me. And it goes into greater detail about BDCs. Some of them include MAIN, ARCC, ORCC, TPVG, and HTGC. I believe we all need to consider Preferred Stocks and BDCs in our investment portfolios. These two have been solid income producers for me.

I want to close with a recommendation to read this week's article on No Side Bar about viewing life properly. None of us are perfect, and we need to embrace life and accept our limitations but REALLY LIVE. I love the whole article. Rachel Oberholtzer gives reflections on [What Would Sunshine Do?](#)

Another great article on the same website explains about the [15 types of Minimalists.](#) I found it quite interesting and found I fit into multiple categories.

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