Why Dividend-Paying Stocks Are More Valuable Than Ever!

Description

The search for yield is now a global game. Wherever you live in the world, interest rates have crashed to all-time lows. In Japan and much of Europe, rates have gone negative. The US Federal Reserve is the only central bank that is even considering a rate hike, but so far this year it hasn't dared hike once.

This has been an absolute nightmare for savers, who are lucky to get even 1% on cash, making them the blameless victims of the financial crisis. The only saving grace is that inflation is also low, which means their money isn't being eroded so quickly in real terms. But it certainly is not growing in value.

Fruitless search

Savers have almost nowhere to turn. Bonds are equally unappealing, with many offering yields of less than 1% over terms as long as 10 years. Today's sky-high bond prices also leave investors vulnerable to a crash. Property has performed well over the last decade but it is now expensive, illiquid and over-priced by most conventional measures.

Gold has shone but, after a remarkable bull run that has seen its price increase more than 300% in 15 years, it is also vulnerable. The gold price has plunged in the past and taken years to recover. Worse, it doesn't pay any interest while you wait. Never has leaving your money under the mattress seemed more appealing.

Right answer

One major asset class still has something to offer: *stocks and shares*. The stock market has been on a bull run since the financial crisis, yet many investors remain suspicious, noting that share prices have been propped up by low interest rates, quantitative easing (QE) and other central banker stimulus.

Rarely has the old saying that the "stock market climbs a wall of worry" been more appropriate than today. It is likely to continue climbing, with central bankers set to intervene every time it slips, giving investors a safety net. But the most attractive thing is that today's market answers the question every saver is asking right now: how can I generate income in today's low interest rate world?

Feel the yield

Currently, the **FTSE 100** trades on a yield of 3.69%, with any share price growth on top of that. The **Euro Stoxx 50** yields 3.62%. **The S&P 500** yields 2.08%, but has grown strongly in share price terms. The **iShares MSCI Emerging Markets ETF** yields 2.06%.

You can get higher income by investing in individual stocks: in the UK, for example, oil giants **BP** and **Royal Dutch Shell** both yield 7% (although be warned, their dividends could be cut unless the oil price rises higher). There are plenty more global stocks offering solid yields of around 4% and 5% a year,you can build a portfolio cheaply and easily using an share dealing website.

You should resist the temptation to take this as income but re-invest these dividends back into stock, as this will generate almost two thirds of the returns you make from stocks and shares.

In today's low-yield world, dividend-paying stocks are king. They may *seem* riskier than cash in the short term, but if you are investing for five, 10, 15 years or longer, they should ultimately prove far more rewarding.

Onwards and upwards

We love a dividend at the Motley Fool, but what we *really* love is a rising dividend.

Our crack team of analysts reckon they have found a top dividend stock with great prospects, which they name in our new report, "A Top Income Share from The Motley Fool".

While many leading UK companies are slashing their dividends, this FTSE 250 star has been increasing its payout at astonishing speed.

Our analysts are so impressed by this company's ambitious growth plans that they are happy to call it one of the best income stocks on the market today.

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Harvey Jones has no position in any shares mentioned. The Motley Fool UK has recommended BP and Royal Dutch Shell B. We Fools don't all hold the same opinions, but we all believe that considering a diverse range of insights makes us better investors.

CATEGORY

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