Is Dividend Investing Old-Fashioned?

Description

The investment world continues to change and it could be argued that investors should change with it. After all, communications and technology are now far faster and more advanced than they ever have been. Investors anywhere in the world can gain real-time access to prices, company accounts and other information which was simply unavailable a decade or two ago.

Therefore, it could be argued that investing for dividends is becoming rather old-fashioned. It became popular because it was relatively simple, easy to replicate for time-poor private investors and also did not rely on up-to-date information. Furthermore, it generally meant shares could be held for a long period, which meant commission costs were lower at a time when online sharedealing did not exist.

A changing world

However, the reality is that dividend investing could become more, rather than less, popular in future years. In the last decade, the popularity of income investing has increased as investors have sought a relatively stable and resilient means of building wealth. This is at least partly due to the credit crunch, which meant many investors were more aware than ever of the potential losses which come with investing. Therefore, buying more mature, financially stronger and more robust businesses which paid high dividends became a more balanced means of generating a high return.

Now, the global economic outlook is changing. While it was relatively straightforward to generate an inflation-beating income in the past decade, doing so in the next decade may prove to be a greater challenge. Higher spending and lower taxation in the US could raise inflation. This may be exported across the globe and lead to even greater demand for higher-yielding shares. As such, dividend shares could become even more in-demand in future.

A changing strategy

The central theme of dividend investing may change in future. While it has been seen as a means of generating a lower-risk return in the last decade following the credit crunch, in future it could be seen as a growth area by investors. In other words, companies may seek to offer inflation-beating dividend growth in the knowledge that this is likely to act as a positive catalyst on their share prices. This may lead to a range of companies which have not traditionally been seen as dividend stocks gradually become viable income plays for the long run.

Takeaway

While dividend investing may be viewed as a traditional and somewhat unexciting means of investing, it may be subject to a makeover in the medium term. Dividend investing in response to higher inflation may become much more fashionable and dividend growth in particular may become much more important not just to retirees, but also to growth investors seeking high capital gains.

The popularity of dividend stocks could be about to increase. Therefore buying stocks with high yields and the capacity to raise dividends at a faster pace than inflation may be a prudent means of generating index-beating total returns in 2017 and beyond.

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