Millennials: Why I Think Dividend Stocks Could Make You A Retirement Millionaire

Description

Dividend investing may not be the most exciting of ways to try and make a million. Growth companies and trading stocks frequently may seem like faster and more interesting ways to build wealth. However, the reality is that stocks with high yields and fast-growing dividends could generate impressive total returns in the long run. As such, they could be worth buying and holding over an extended time period for investors of all ages.

Dividend strength

Assessing the fundamental strength of a company is always necessary before making an investment. Dividends provide guidance on the financial standing of a stock, as well as how it could perform in future.

For example, a company which is expected to increase dividends at a fast pace may be in a relatively strong financial position. Its management team could be anticipating a rise in profitability over the medium term, which can justify high dividend growth. In contrast, if a company is struggling to afford its dividend, it may signal that its financial outlook is set to disappoint.

Return potential

Although the vast majority of investors may not require the income stream which dividends provide, they could still make a significant impact on total returns. The reinvestment of dividends has consistently been shown to make up a significant part of an investor’s total returns over their lifetime. Therefore, ruling out dividend-paying businesses simply because their income potential seems to be unappealing pre-retirement could be a flawed decision.

Furthermore, dividend stocks are generally popular among investors. If a company is able to grow its dividends quickly, it could be a buy signal for a large number of investors. This may help to push its market valuation higher, and could lead to it outperforming its industry or index.

Investor appeal

While not all dividend stocks have defensive characteristics, many high-yielding stocks offer lower positive correlation to the wider economy than the majority of cyclical companies. Therefore, they may be able to offer a degree of resilience during challenging economic periods. This could reduce an investor's portfolio volatility, and create more stable returns over the long run.

Additionally, a stock with a high dividend yield may offer a margin of safety. During periods of decline for the stock market, dividend yields usually increase. Therefore, the level of dividend yields which are available among a basket of stocks compared to their historic averages could provide an investor with guidance on whether it is an opportune moment to buy them. Adding stocks when their yields are high and selling them when their yields are low relative to their historic range could be a sound investment strategy.

Takeaway

While dividend stocks may appear to be only relevant to investors who require an income from their portfolio, they could be of interest to a range of individuals. Through buying high-yielding stocks with dividend growth potential, it may be possible to generate impressive total returns in the long run.

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Date
2025/08/26
Date Created
2019/02/24
Author
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