



Want To Retire Early? Why Dividend Stocks Could Offer Capital Growth As Well As Income

Description

For some investors, dividend stocks may only seem to be of interest for individuals who are seeking an income return. While they provide that opportunity, they could offer a number of other attributes that make them appealing for investors seeking to boost the value of their retirement nest egg.

Value for money

While a high yield does not necessarily mean that a company offers good value for money, it nevertheless provides an indication that it may have a wide margin of safety. This is especially relevant when a company's dividend yield is high relative to its historic level.

Investor sentiment towards the company may have deteriorated for a range of reasons, such as an uncertain financial outlook. In the long run, though, its yield may revert to its average level. This could mean that a stock with a relatively high yield is worth buying, with investors potentially looking to sell once its yield is at a lower level compared to its long-term average.

Defensive appeal

While buying and selling cyclical stocks can provide investors with the opportunity to 'buy low and sell high', dividend stocks generally offer greater stability over the long run. Dividend stocks are often more mature companies that do not require the same level of reinvestment as their younger peers. This means that they may be able to pay out a higher proportion of profit as a dividend each year.

Mature stocks may have stronger balance sheets, or more proven business models, relative to the wider index. This may mean that they have greater resilience during challenging economic periods, which can lead to increasingly risk-averse investors demanding them to a greater extent.

With the world economy facing a number of risks, such as a slowing China and increasing levels of protectionism, now may be a good time to consider stocks with resilient earnings profiles. A business

which has a track record of steady dividend growth in a variety of market conditions may therefore become increasingly appealing. This could be reflected in a higher stock price.

Dividend growth

[Dividend stocks](#), of course, may also become increasingly popular among investors as a result of rising shareholder payouts. A growing dividend may make them more appealing to income-seeking investors, which could produce a higher valuation. Stocks that are able to consistently produce above-inflation increases in dividends may benefit from a higher valuation over time. That may become a more relevant point in the coming years, with a long period of loose monetary policy in a range of economies having the potential to cause a period of higher inflation over the medium term.

Total returns

Dividend stocks may seem to be somewhat one-dimensional at first glance. However, their total returns could include a significant amount of capital growth, while their defensive business models may make them increasingly attractive as the risks facing the global economy play out during the course of 2019.

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