Why You Can Make A Million With Dividend Stocks

Description

Making a million from the stock market is a realistic goal for a wide range of investors over the long run. While buying growth stocks that could post rapidly-rising net profit could be one means of doing so, dividend stocks may also provide the vehicle through which investors are able to achieve financial freedom.

Although dividend stocks may not offer significant earnings growth prospects in some cases, they could come with lower risk. They often have solid finances that are beneficial during bear markets, while their economic moats may be relatively wide. With the effect of compounding dividends being significant over the long run, they could therefore be worthy of investment.

Risks

While global stock markets have experienced a bull market which has now lasted for over ten years, a bear market will almost certainly occur at some point over the coming years. The track record of the stock market shows that neither bull nor bear markets last in perpetuity. Therefore, owning stocks that have financial strength could be a shrewd move.

Although not all dividend stocks have sound balance sheets and strong cash flow, many of them are better placed in this respect than growth companies. This may be because they are more mature businesses, or that they have a more dominant position in their industry which provides them with greater confidence to pay a high dividend. They could also have a wider economic moat than some of their sector peers, which means that their stock price could suffer less during a recession than is the case for the wider index.

Return prospects

Owning a stock that is able to pay dividends in a variety of market conditions may prove to be useful for an investor looking to generate high returns in the long run. Dividend stocks provide an investor with cash flow, which can then be invested into a variety of stocks. Should dividends be received during bear markets, this can provide an investor with the opportunity to buy stocks at low prices. Doing so may enable them to capitalise on the cyclicality of the wider stock market.

Companies that trade on relatively high yields may also offer good value for money compared to growth stocks. A high yield may suggest that a company offers a wide margin of safety, while in many cases a business that is expected to post high earnings growth may already have much of its future prospects priced in by investors. This may mean that while from a business perspective it has appeal, its investment potential could be somewhat limited. In contrast, a high-yield stock that is able to grow dividends at a pace above inflation may become increasingly popular over the long run.

Therefore, as well as offering less risk than growth companies, dividend stocks could have more enticing return potential over the long run. They may be able to deliver superior performance in a wider variety of market conditions, which could help an investor to generate a seven-figure portfolio within their lifetime.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/26
Date Created
2019/04/19
Author
peterstephens