Retirement Savings: Dividend Stocks Offer The Fastest Route To A Million

Description

With monetary policy in a variety of economies across the world having been loose in the last decade, dividend stocks have provided an obvious route to income for investors. Cash savings rates and bond yields have been low, which has meant that many investors have relied on income-producing stocks to generate a passive income.

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As a result of this higher demand, though, dividend stocks have also generated improving capital returns in many cases. That's despite a rise in interest rates in a number of major economies in recent years, notably the US.

Here's why dividend stocks could still offer investors the chance to generate a seven-figure nest egg by retirement, with the potential total returns on offer from them being high.

Dovish monetary policy

Although interest rates in the US and other major economies may increase over the medium term, the pace of their rise could prove to be relatively slow. There are fears surrounding the performance of the US economy, with recent economic data on retail sales and jobs growth having been weaker than expected.

This could suggest that the rise in interest rates over the last couple of years is now starting to impact negatively on the rate of growth. As such, the Federal Reserve may adopt a more dovish stance on monetary policy that causes interest rates to remain lower than expected over the medium term.

Furthermore, the Chinese economy is experiencing a slowdown, while other risks such as Brexit and the prospect of a trade war remain on the horizon. Together, these risks could convince policymakers to hold off on interest rate increases, with there being an increased fear surrounding the potential for a more hawkish monetary policy to choke-off economic growth.

Increasing appeal

The impact of a slower-than-expected rise in interest rates on dividend stocks could be positive. Other income-producing assets such as bonds and cash may continue to offer relatively low yields at a time when many major global stock markets are still trading below their 2018 highs. This could indicate that stocks offer good value for money, with it being possible to generate a relatively high income return from dividend-paying companies.

Although growth stocks may also become increasingly attractive should interest rates fail to rise materially, they could be held back by weaker investor sentiment. Investors may become increasingly cautious about the aforementioned risks facing the world economy, and could decide they would rather buy lower-risk dividend stocks instead.

Therefore, while no asset class rises in perpetuity, dividend stocks appear to have some way to go before reaching their peak. From an income perspective, they appear to be highly appealing compared to other asset classes. Meanwhile, their perceived lower risk versus growth stocks that may be more cyclical could mean that they command higher valuations over the next few years, as risks facing the world economy increase.

As such, now could be the right time to add a variety of dividend stocks to a portfolio, with them having the potential to generate a large, and even seven-figure, nest egg for retirement.

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