



## Why Dividend Stocks Offer More Than Just A Passive Income

### Description

Dividend stocks are often viewed as being suitable only for investors who are seeking to generate an income from their portfolio. While they are clearly appealing for such investors, they also offer the opportunity to generate impressive levels of capital growth. [Dividend stocks](#) may also have lower risk than growth stocks and, over the long run, could offer greater consistency when it comes to their total returns.

### Growth prospects

With interest rates in a variety of major economies set to remain low over the medium term, dividend stocks could become increasingly popular among investors. The income returns on a variety of assets including cash and bonds are generally lower than that which is available in the stock market. With that situation unlikely to change in the near term, demand for dividend stocks could help to drive their prices higher.

Investors may also be willing to pay a premium for dividend stocks that are able to deliver growing payouts. This may be seen as an indication that the companies are performing well financially, or are anticipating a rising bottom line over the coming years. Similarly, a company that can afford a higher dividend may be in a relatively strong financial position, which may mean that it is able to command a higher valuation compared to its sector peers.

### Uncertain outlook

With the world economy continuing to face a somewhat uncertain outlook, dividend stocks may become increasingly popular. Economic data released by the US has been disappointing of late, with jobs growth and retail sales showing signs of a slowdown. Similarly, economic data released by China has been mixed, and this may mean that investors become increasingly risk-averse in the coming months.

Since dividend stocks are often more stable businesses that can afford to reward shareholders, rather

than reinvest excess capital in the business, they may be viewed as more appealing investment opportunities. Often, they are mature businesses with wide economic moats and solid balance sheets. They are the types of companies that many investors may gravitate towards should the world economy experience an uncertain period.

Furthermore, if capital growth prospects for major global indices such as the FTSE 100 and S&P 500 dry up to some degree, the income return on stocks may become increasingly valuable. It may make up a larger part of total returns in future than it has done in the past, with the opportunity for compounding dividends becoming increasingly attractive.

## Balanced opportunity

With dividend stocks offering capital growth potential, income returns and potentially lower risks than growth stocks, they are a worthwhile investment for a variety of investors. They may offer a more balanced investment opportunity than growth stocks, which can prove to be volatile and erratic in terms of their returns.

As such, now could be the right time for investors to increase their exposure to dividend stocks – especially since the near-term prospects for major world economies such as the US and China are somewhat uncertain.

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### Author

peterstephens

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