Dividend Stocks: The Only Way To Generate A Retirement Income?

Description

Generating an income in retirement can be somewhat challenging. There are a variety of options available to investors, with bonds, savings accounts, property investments and dividend stocks being obvious choices.

Of course, loose monetary policies in a number of major economies means that cash and bonds may lack appeal at the present time, while property prices may be prohibitively expensive in a number of locations. As such, dividend stocks could offer an attractive compromise between risk and reward for many retirees.

Income potential

Historically, dividend stocks have offered relatively high income returns. That's particularly the case at the present time. Across a variety of economies, interest rates are relatively low when compared to their historic average. This means that holding cash in order to generate an income in retirement may be an inefficient use of capital that may even lead to a loss in spending power in the long run.

Similarly, with interest rates being low, bond yields remain relatively unattractive. Certainly, bonds can offer higher returns if an investor is willing to accept a higher level of risk, with sub-investment-grade bonds generally having higher yields. However, their income returns may still be lower than those offered by dividend stocks – especially with a number of major stock markets having experienced declines during the course of 2018.

Property may also appeal for investors seeking to obtain an income in retirement. However, with property prices in a number of regions having risen significantly since the financial crisis, it may be more challenging for retirees to access properties. There may also be a lack of value in some markets, which could mean lower yields versus historic levels.

Balanced approach

With dividend stocks potentially offering higher income returns than other mainstream assets, it may be a good idea to focus on them when seeking to generate a retirement income. Buying stocks in a variety of industries could be a shrewd move, with it being possible to buy income stocks in the property sector, for example. This could help to diversify an investor's portfolio, and may mean they are able to capitalise on future growth in property prices without the concentration and liquidity risks that often come with buying property directly.

Of course, having some cash in case of emergency is always a shrewd move. Likewise, bonds can help to reduce the overall risk, and volatility, of a portfolio. But with their returns being low, and many global stock markets still offering good value for money after major falls in 2018, dividend stocks seem to offer the best risk/reward ratio for the long term.

Otherwise, an investor may find that while in the short run their portfolio provides a sufficient income in retirement, in the long run it becomes less able to do so. As such, buying a diverse range of dividend stocks at fair prices seems to be a worthwhile move for retirees.

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