How to Build a Passive Income With Blue-Chip Dividend Stocks

Description

Building a passive income from blue-chip dividend stocks is a realistic goal for many investors. Doing so could lead to a worthwhile second income, or increased financial freedom in older age.

Of course, there is a temptation to lock-in profits made from successful investments. Similarly, spending dividends received, rather than reinvesting them, may also seem like a good idea in the short run. However, sticking with stocks that are delivering high growth and rising dividends could be the best means of producing a sustainable income in the long run.

Reinvesting dividends

Although it can be tempting to spend dividends received each year in order to supplement a primary income, the impact of reinvesting them could be far more appealing in the long run. In fact, various studies have shown that it is the reinvestment of dividends which accounts for a large proportion of total returns over the long run.

Reinvesting dividends ensures that an investor is a continual net buyer of stocks. This means that they may be able to benefit from the cyclicality of the stock market, in terms of buying stocks when they are experiencing challenging economic conditions. Dividends provide the cash flow to do so, and their reinvestment at opportune moments in the investment cycle could lead to growth and income opportunities for the long run.

Similarly, reinvesting dividends is a good idea due to the impact of compounding. Receiving an income on capital that itself was previously paid out as a dividend can have a significant impact on a portfolio's value in the long run.

Long-term focus

It may also be tempting to sell blue-chip stocks that have delivered a strong performance since being purchased. Should there be a significantly better investing opportunity available elsewhere, then this approach may be logical. However, in many cases a stock's price has risen because its strategy is performing well, and it has the potential to deliver further growth.

Warren Buffett has always been willing to hold on to his top performers, with his favourite holding period apparently being forever. He has been a shareholder in a number of his major holdings for decades, with them having a distinct competitive advantage that has enabled them to deliver above-average growth over a sustained period. Even though in some cases their valuations have moved to relatively high levels, their ability to generate consistent profit and dividend growth means that they have been worth holding.

Today's opportunity

While today may not seem to be a perfect opportunity to build a passive income due to the risks that blue-chip stocks face from a possible global trade war, there are a number of stocks that could offer wide margins of safety. As ever, there are risks facing the stock market. But with investors having priced them in across a number of industries, now could be the right time to start building a portfolio of large-cap dividend stocks.

With a focus on holding over the long term and reinvesting dividends, it may be easier than many investors realise to successfully build a sustainable passive income.

CATEGORY

1. Investing

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/08/26
Date Created
2019/05/18
Author
peterstephens