3 Smart Moves to Boost Your Passive Income Through Dividend Stocks

Description

Generating a passive income through dividend stocks can be a worthwhile strategy for many investors. It could provide an income in older age, or even supplement a primary source of income in some cases.

However, obtaining a reliable passive income that has the potential to rise at a faster pace than inflation can prove to be challenging. With that in mind, here are three simple steps that could enhance your passive income in the long run.

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Dividend growth

Although a high yield may be the priority for many dividend investors, the rate at which shareholder payouts could grow in future may be more important. Due to the impact of compounding, a company that is able to grow its dividends at a consistently high pace over the long run could generate higher overall income returns than a high-yielder that offers a slower rate of dividend growth.

Therefore, it may be worth focusing on stocks that are forecast to post impressive earnings growth, as well as those that pay out a relatively limited proportion of their profit as a dividend. In both circumstances, dividends could rise at a fast pace, thereby leading to higher income returns for investors in the long run.

Track record of dividend payments

While the past is not always a perfect guide as to what will happen in future, companies with reliable track records of paying dividends may be less likely to cut them. This could be because they have a dominant position within a stable industry, or may be because of their strong financial position, for example.

With annual reports being available online for a variety of listed companies in a number of markets across the world, it may be relatively straightforward for an investor to research the track records of dividend stocks. Furthermore, annual reports may provide guidance on a company's past dividend

policy. This could provide an insight into the prospect of future dividend growth, with historic trends often playing out over the long run in many cases.

Smaller companies

While many investors often focus on blue-chip stocks when seeking to generate a passive income, it may be worth considering smaller companies. Clearly, they can be more volatile and riskier than their larger peers, but they may also offer a higher dividend growth rate due to being less mature, or simply because they have greater scope to grow within a given industry.

Provided an investor owns a range of smaller companies, and is able to reduce company-specific risk through diversification, they may benefit from exploring mid and small-cap stocks. This could provide them with a higher rate of growth in their passive income, as well as the potential to generate stronger capital returns due to the prospect of higher earnings growth among smaller companies.

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