



3 Steps to Buying Better Dividend Stocks

Description

While dividend investing may seem simple at first glance, it can be difficult to pick the very best income stocks. Indeed, there is much more to consider beyond buying stocks that have the highest yield in an index at any given time.

Investors looking to unearth the most attractive income stocks may wish to consider a variety of factors, including the track record of a stock during challenging economic periods, how affordable its dividends may be, as well as whether management is incentivised to pay higher dividends or reinvest in the business.

While that may not be an exhaustive list when it comes to the areas on which to focus when seeking the best dividend stocks, considering those areas could help you to find the most appealing risk/reward opportunities among dividend-paying stocks.

Resilience to economic downturns

Some companies may be better equipped than others to cope with an economic downturn. They may be less cyclical, for example, with their goods and services being demanded through the economic cycle.

As such, they may offer relatively resilient dividend prospects when compared to some of their index peers. This may be appealing for income investors, since it could mean that their income is less likely to be negatively affected by the ups-and-downs of the economic cycle.

With the last major global recession being the financial crisis, it may be worthwhile to consider how a company or industry performed during that period. Certainly, stock prices are likely to have fallen, as investor sentiment was exceptionally weak. But in some cases, companies were able to maintain their dividends. Given the uncertain outlook for the world economy at the present time, and the risk of a full-scale trade war, considering a company's dividend sustainability could be a shrewd move.

Dividend affordability

While a high yield may be initially appealing, ensuring that a company can continue to make payments to shareholders is a key consideration when [investing in dividend stocks](#).

In order to do this, investors may wish to focus on the company's balance sheet. With interest rates having been at a low level for many years, some companies have debt levels that may become unsustainable over the medium term. Interest rate rises could lead to reduced interest cover, and dividend growth may suffer as a result.

Therefore, as well as checking dividend cover based on today's profitability, it may be worth contemplating how a changing economy could impact on a company's ability to make payments in future.

Management incentives

While focusing on how company management is incentivised may not be a key consideration for many income investors, it can help to shed light on future dividend policy. In some situations, management may be rewarded for increasing earnings per share, for example. This could lead them to favour stock repurchases, as opposed to paying a higher dividend, which may not be beneficial to an investor who is seeking to generate an income from their portfolio.

Likewise, company management may be incentivised to increase sales. In this scenario they may favour the use of capital for acquisitions over dividend payments, which could impact on the long-term income appeal of the business. Ensuring that company management is incentivised on total shareholder returns may help to align their financial future with those of income-seeking stockholders.

CATEGORY

1. Investing

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/08/25

Date Created

2019/05/24

Author

peterstephens

default watermark