Lazy Retirees: Earn a Growing Passive-Income Stream in These 3 Steps

Description

Generating a passive income in retirement does not need to be a particularly time-consuming event. In fact, there are a wide range of dividend stocks available that could offer the chance to earn a growing second income over the long term.

By investing in mature industries that reward shareholders, as well as reinvesting dividends received where possible, it may be possible to enjoy financial freedom in older age.

High-yield stocks

While it may be tempting to simply buy the highest-yielding stocks you can find at any given moment in order to maximise your income return, doing so may not be a shrewd move. That's because some stocks may have high yields due to them enduring a challenging period that has caused their market valuation to decline.

This could be because of weak industry operating conditions, or a poor strategy being employed by the business. Whatever the reason, avoiding value traps could be a worthwhile move for dividend-seeking investors, since it may be possible to obtain a better risk/reward ratio through buying stocks that offer greater sustainability over the long run.

As such, contemplating a company's financial strength, strategy and how its industry outlook compares to those of other sectors could ensure you buy high-yield stocks that offer favourable outlooks.

Mature businesses

Mature businesses generally reward their shareholders to a greater extent than younger companies. That's because mature companies often lack major growth opportunities, or at least do not require a sizeable proportion of free cash flow to capitalise on them. By contrast, younger companies usually require a significant reinvestment of profit in order to maximise their potential.

For investors who are seeking to generate a passive income from their portfolio, they may be better off focusing on mature companies due to their propensity to reward shareholders. As such, large-cap stocks in industries such as tobacco, utilities and consumer goods could be of particular interest to income-seeking investors. At the same time, technology businesses or those companies in industries that may require significant amounts of capital expenditure on plant and machinery could be worth avoiding, since they may not offer a significant amount of free cash flow in comparison to other industries.

Reinvestment

On the topic of reinvestment, investors may wish to reinvest dividends received where possible. Doing so could lead to a faster-rising portfolio that makes it easier to generate a generous second income over the long run.

Of course, retirees may take the view that they would rather spend their entire income in order to maximise their financial freedom in older age. However, even reinvesting a modest portion of dividends received in high-quality stocks can lead to surprisingly high returns in the long run. Ultimately, this may produce a more sustainable income during retirement that offers further peace of mind and a higher standard of living.

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