Worried About a Market Crash? 3 Reasons Why I'd Buy Dividend Stocks Today

Description

With the prospect of a full-scale global trade war, investors may be feeling nervous at the present time. That's understandable. After all, the world's two major economies are adopting protectionist trade policies that could cause a downgrade in global GDP growth over the medium term.

However, now could prove to be the right time to buy a range of dividend stocks. Not only could there be value investing opportunities available, dividend stocks may be more appealing than other asset classes. And, with the world economy still expected to produce long-term growth, dividend stocks could offer capital return potential over the coming years.

Value opportunity

With global stock markets having experienced a volatile couple of years, there may be value opportunities on offer across a variety of sectors. Although undervalued stocks may continue to endure an uncertain period as political risks involving the US and China remain high, the cyclicality of the stock market suggests that the most opportune moments to buy are during challenging periods where investors are feeling increasingly cautious.

Certainly, buying stocks while they are cheap and unpopular is unlikely to lead to short-term profits for investors. But for investors who have a long-term outlook, it could be the best means of obtaining wide margins of safety and the most appealing risk/reward ratios.

Relative appeal

While it may seem safer to hold cash and invest in other asset classes such as bonds at the present time, doing so could lead to disappointment over the long run. Both asset classes have historically failed to keep up with the returns offered by stocks. And with interest rates continuing to be relatively low in many economies across the world, the present-day income opportunities within the bond market and cash are highly unappealing compared to the yields that are available on dividend stocks.

Furthermore, global interest rates could move higher rather than lower over the coming months. Although global economic data has been mixed of late, it has perhaps not been sufficiently negative to cause policymakers to adopt a looser monetary policy. As such, a rising interest rate could make bond prices fall, while cash returns may continue to lag inflation.

Economic growth potential

Despite the risk of a full-scale global trade war, the world economy continues to grow at a relatively fast pace. For example, in the current year it is expected to record GDP growth of 3.3%. Emerging economies such as China and India have growth rates of around double that level, which suggests that there are opportunities for investors to obtain capital growth in a number of different markets.

Certainly, there may be volatility present in the short run. But that has always been the case in all stock markets. Indeed, focusing on the long-term growth prospects for the world economy at a time when emerging markets are forecast to maintain their strong momentum may allow an investor to generate capital growth, as well as an income, from dividend-paying stocks.

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