How to Generate a Monthly Passive Income From Dividend Stocks

Description

While the stock market offers the potential to generate high levels of capital growth over the long run, it also provides the opportunity to earn a high and rising passive income.

Of course, investing in any stock entails risk. There is always the chance of losing money should a business fail to deliver on its expectations. However, this risk can be reduced through diversification, while obtaining a high yield may help to make the risk/reward ratio from buying dividend stocks highly appealing.

Furthermore, by holding income shares over the long run it may be possible to keep costs to a minimum, while enjoying a growing passive income.

Diversification

While many investors may prefer to focus solely on the return potential from investing in the stock market, considering how to reduce risk could be the most logical starting point. After all, there is little to be gained from receiving a passive income in the short run, only for a portfolio's valuation (and dividend income) to be hit by major losses further down the line.

As such, seeking to reduce company-specific risk could be a worthwhile move. This is the threat posed by difficulties which are encountered by a business that leads to a decline in its stock price. In a portfolio which has a small number of stocks, company-specific risk will be high due to even a single stock's decline leading to major losses for the wider portfolio. However, a portfolio that is well-diversified may not be impacted to a large degree even where one of its members experiences financial difficulty.

High yields

While it may sound somewhat obvious to state that buying high-yield stocks is a sound means of generating a monthly passive income, it is nevertheless the fastest means to achieving that goal.

When deciding which stocks may be of interest to an investor seeking to generate a passive income, it could be worth working backwards. In other words, first determine how much income you require per month. Then consider the average yield you will require from your portfolio in order to achieve it. Following this, you will be in a position to potentially exclude those stocks that offer dividend returns that are too low to provide your desired level of monthly income.

Long-term hold

With so many stocks available to investors in a variety of sectors and countries, it is tempting to continually switch from one stock to another depending on the current state of the economy.

This may seem to be a good idea at the time, in terms of being the most efficient use of capital, but the reality is that buying and selling regularly can lead to inflated dealing costs. It may also mean that stocks held in a portfolio are not provided with the time they need to come good, in terms of management strategy being able to make an impact on financial performance.

As such, holding dividend stocks over the long run could be the best means of generating a passive income. It means less effort on the part of the investor, as well as the potential for higher returns.

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