Forget Saving Money! Generate a Passive Income From Dividend-Growth Stocks

Description

While living within your means is a good idea that can improve your financial prospects, saving surplus cash rather than investing it in the stock market can be an unwise move.

Certainly, having some cash in case of emergency is always a worthwhile idea. But holding cash over the long term can lead to reduced spending power in an era where relatively low interest rates could be set to stay over the coming years.

As such, long-term investors may be better off investing the money they have left over from living within their means. By investing in dividend growth stocks, they may be able to generate a surprisingly high return.

Cash returns

Although the world economy has experienced a period of relatively low interest rates in recent years, a loose monetary policy could be set to stay. Fears surrounding the prospect of a global trade war may lead to a continued low interest rate which causes cash savings to produce unsatisfying returns for many people.

The impact of this in the short term may not be particularly obvious. However, if the return on cash savings lags inflation then it can cause a loss of spending power over the long run. This may mean that savers fail to accumulate a sufficiently large nest egg for retirement, which may be detrimental to their long-term financial outlook.

Stock market returns

By contrast, investing in the stock market has historically been a sound move. Although global stock markets experienced a challenging period in 2018, and may yet face a period of uncertainty in theshort run, they have generally offered higher returns that other mainstream asset classes over the longrun.

Although investing in stocks is far riskier than having cash savings, by spreading the risk across a wide range of companies and sectors it may be possible to lessen the impact on a portfolio of a specific company experiencing a challenging period. While this will not remove risk entirely, it could make the risk/reward opportunity of buying stocks more attractive than holding cash.

Dividend growth opportunities

With there being a number of companies that currently have relatively high yields, it is tempting to simply buy such stocks and hold them over the long run. However, it may be more worthwhile to instead focus on the dividend growth opportunities that are on offer at the present time. Not only can this lead to a higher income return for an investor over the long term, it may also be the case that wider demand for a dividend growth stock increases as its income potential becomes more obvious to investors.

This could mean that an investor enjoys a high income return, as well as capital growth. In such a situation, the reward potential of stocks is likely to be far more appealing than that of cash.

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