



How Warren Buffett's Tips can Help you Generate a Growing Stream of Dividends

Description

Generating a growing stream of dividends is never an easy task. It requires a focus on a company's financial standing, as well as its potential to raise shareholder payouts in the long run.

However, by following the value investing strategy of Warren Buffett it may be possible to increase your chances of enjoying an increasing [passive income](#). His focus on the quality of a business, as well as the price paid, could lead to a favourable income return alongside the prospect of capital growth.

Quality businesses

Warren Buffett's main focus when investing has historically been the quality of the companies he buys. He concentrates on their financial strength, as well as their track record of profitability. When combined with their growth strategy, this provides a good guide as to the potential for them to raise dividends in the long run.

By focusing on the position of a business within its industry, Buffett also has a habit of buying the most appealing stocks within a particular sector. His consideration of the economic moat, or competitive advantage, of a business means that his investments may be able to outperform their respective sectors. Ultimately, this may mean that they are able to pay a growing dividend that is more resilient than those of their industry peers.

Valuations

As a value investor, Buffett focuses on the price paid for a business when compared to its intrinsic value. Essentially, he is looking to buy a stock for less than he thinks it is worth, which provides him with a margin of safety in case there are unforeseen challenges ahead.

Through focusing on the value of a business versus its price, it may be possible to obtain a higher yield than would otherwise be the case. After all, better-value businesses may trade on higher yields than stocks which offer a reduced margin of safety.

Long-term hold

Whatever the business, it requires time in order to provide a growing dividend. This may be to allow it to implement a strategy change, or for its position in fast-growing markets to have a positive impact on its bottom line.

Since Buffett's favoured holding period appears to be 'forever' according to various interviews, his strategy provides sufficient time for his holdings to come good. This means that they have the potential to pay higher dividends over the long run, as well as offer capital growth potential. A higher total return may ultimately make it easier to generate a rising income over a sustained period of time.

Takeaway

While Warren Buffett is not known for his focus on dividends, his value investing strategy could work well for income-seeking investors. Through focusing on the quality of a business, its value and adopting a long-term time horizon, it may be possible to increase your chances of generating a rising stream of dividends.

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Author

peterstephens

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