Want to Retire Early? 3 Reasons Why I'd Stop Saving and Start Buying Dividend Stocks

Description

Living within your means provides spare capital which can be used for a variety of purposes. For many people, an obvious destination for their spare capital is a savings account. While this offers minimal risk, its return potential is relatively low. As such, it is unlikely to bring your retirement date much closer.

By contrast, buying stocks with your excess capital could be a shrewd move. Not only could it lead to a higher income return in the case of dividend stocks, it may also produce capital growth that helps to build a nest egg from which a passive income can be obtained in older age.

Low cash returns

Interest rates on cash are low compared to historic levels at the present time. This situation may continue over the medium term, since the prospects for the world economy are somewhat uncertain. This may mean that a dovish monetary policy remains in place across the world economy.

The impact of this on cash returns could be negative. In some cases, cash may continue to offer a negative return after the impact of inflation has been factored in. Therefore, savers may find that the spending power of their cash holdings declines over the coming years.

Income potential

The income prospects for dividend stocks appear to be much more favourable than for cash savings. Due to there being a number of risks facing the world economy, such as a global trade war, the prices of a range of stocks have come under pressure. The end result is lower valuations, as well as higher yields, which may boost your income returns.

Furthermore, a number of companies currently have impressive financial outlooks. This may allowthem to raise dividends over the medium term, which could further enhance their income appeal when compared to savings accounts.

Capital growth prospects

In the long run, the prospects for the world economy appear to be relatively sound. Certainly, a recession and a bear market cannot be ruled out in the short run. But, over the coming years it seems likely that major indices and the world economy will deliver improving performances, as they have done in previous decades.

This could lead to capital growth being recorded across a wide range of income stocks. When combined with their dividend prospects, their total returns may bring your retirement date closer.

Emergency cash

Of course, holding some cash is always a good idea. This provides peace of mind, as well as capital that can be accessed at short notice for emergencies such as a car or house repair.

However, relying on cash savings to improve your retirement prospects could be a mistake. Their low returns may ultimately fail to beat inflation, while the total return prospects for dividend stocks could enhance your retirement plans over the long run.

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peterstephens