Forget Saving Money! Dividend Stocks Are a Better Way to Get Rich

Description

Living within your means in order to save money may appear to be a good idea at first glance. After all, it means that you will have cash available in order to plan for retirement or purchase a property, for example.

However, cash savings are likely to disappoint when it comes to their long-term return potential. Historically, cash has significantly underperformed other assets such as stocks. This could mean that it fails to provide the financial future that many people are aiming for.

By contrast, investing at least some of your savings in dividend stocks could be a sound move. They provide the potential to generate higher returns which, for investors with long-term time horizons, could make them highly desirable.

Return prospects

At the present time, it is possible to obtain a higher return from dividends than it is from cash savings. Over the long run, this could lead to a significant difference in financial performance from the two assets – especially since dividends are likely to grow at a faster pace than interest rates rise in many cases.

In fact, the prospects for the world economy remain relatively bright. Certainly, there are risks ahead in the short run, such as Brexit and an ongoing trade war between the US and China. But with many stocks having exposure to emerging economies that could catalyse their earnings growth rates, their dividend growth prospects could be impressive.

Alongside their income potential, stocks could deliver high capital returns. As such, diversifying among a range of dividend-paying stocks could produce total returns that vastly outperform cash holdings in an era where interest rate rises may prove to be somewhat limited.

Risk profile

Of course, deciding to invest in stocks instead of holding cash is dependent on your attitude to risk, as well as your time horizon. Some people may feel that they do not wish to risk losing money, which may lead them to hold cash. However, for someone who has a long-term time horizon, it may be more efficient to have at least some exposure to dividend stocks, since there may be sufficient time available for short-term losses to be recovered.

As such, apportioning at least part of your excess capital to the stock market in the form of dividend stocks could prove to be a shrewd move. With there being a wealth of information available regarding all listed companies, it is possible to unearth companies that have sound strategies, solid finances and improving growth prospects. Selecting the most appealing dividend stocks could not only improve your long-term returns, but also reduce the risk of losing money, or of dividends being reduced.

Takeaway

Cash holdings can serve a useful purpose in terms of providing financial flexibility for unexpected events. However, when it comes to generating wealth over a long time period, dividend stocks may prove to be a more prosperous home for your excess capital.

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Author
peterstephens