Stop Saving, Start Buying Dividend Stocks: a Simple Plan to Retire Early

Description

Retiring early is an attainable goal for almost anyone. However, many people make the task more difficult than it should be as a result of them holding cash rather than investing in stocks. This could lead to disappointing returns on their capital, and reduce the chances of them achieving their goal of retiring early.

Certainly, buying stocks entails a higher degree of risk than holding cash. But for anyone with a long-term time horizon, the stock market can deliver significantly higher returns than cash. As such, now could be the right time to stop saving and start buying dividend stocks.

Savings disappointment

Living within your means is an excellent way to increase your chances of retiring early. However, many people then go on to hold their surplus capital as cash over the long run. Since interest rates are relatively low at the present time, this is likely to lead to a highly disappointing return.

Furthermore, interest rates could remain low over the coming years. Global economic growth forecasts have been downgraded in recent months, and this may encourage an increasingly dovish monetary policy from lawmakers. This may mean that the returns on cash savings lag inflation over the long run, thereby reducing your spending power and failing to improve your prospects of retiring early.

Dividend potential

By contrast, dividend stocks have historically offered significantly higher returns than cash. This is largely due to their additional risk, in terms of there being the potential for a loss of capital.

However, it is possible to reduce overall risk of loss through diversification. Owning a wide range of companies within a portfolio can lead to lower company-specific risk, whereby the negative impact of a fall in the stock price of one company is minimised in terms of how it affects the wider portfolio.

In addition, many people who are aiming to retire early have a long time horizon that means they have the capacity to take risks with their capital. In other words, short-term falls in the valuation of their portfolio may not pose a threat to their retirement goals, since they will have sufficient time available for a recovery to take place prior to their retirement.

Buying opportunity

With investor sentiment having weakened across the global economy in recent months, now could be a good time to buy dividend stocks. In many cases, they offer relatively high yields and trade on lower valuations. This could lead to strong total returns in the long run that improve your chances of retiring early.

Certainly, there may be difficult periods ahead for the world economy. Trade wars and geopolitical risks could weigh on investor sentiment in the short run. But over the long run, buying dividend stocks could be the fastest and simplest means of building a portfolio than can provide a passive income in retirement.

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