



## Retirement Savings: 3 Reasons why Dividend Shares Could Help Make You a Million

### Description

Buying a range of dividend stocks could boost your long-term financial outlook. Although income stocks may be viewed by some investors as only being suitable for individuals who are primarily seeking an income, they could nevertheless deliver strong capital growth over the long run due to continued low interest rates.

Furthermore, [dividends](#) can provide an investor with guidance on the financial strength of a business. Meanwhile, the reinvestment of dividends and their compounding could produce a boost to your retirement prospects that increase your chances of making a million.

### Increasing investor demand

With interest rates currently being at a low level, demand for dividend stocks could increase over the long run. Many investors who are unable to beat inflation through their returns on cash or even bonds may turn to the stock market in order to generate a passive income. This could increase demand for dividend-paying stocks and lead to an increase in their price level.

Looking ahead, interest rates could remain at a low ebb over the coming years. The world economy faces a period of increasing protectionism that could lead to policymakers adopting expansionist monetary policies across the globe. This could intensify demand among investors for income-producing assets, such as dividend stocks, which ultimately increases their prices.

### Compounding

While growth stocks may naturally appear to be the most obvious means of generating capital growth over the long run, history shows that the reinvestment of dividends can have a bigger impact on total returns.

Dividends provide an investor with cash flow across a variety of market conditions that enable them to

invest in stocks while they trade on low valuations. Furthermore, reinvesting dividends maintains a disciplined approach from an investor, in terms of continually being a net buyer of stocks. Since the stock market generally produces growth in the long run, being a permanent net buyer of stocks (at least until retirement) can allow you to capitalise on the stock market's upward growth trajectory.

## Financial strength

Dividends provide an insight into the financial strength and outlook of a business. Certainly, the level of dividends being paid should not be taken by an investor in isolation when trying to determine the financial prospects of a business. But the attitude of a company's management towards its dividend, as well as its affordability and growth prospects, can provide guidance on how confident and well-prepared a company could be for the future.

For example, a business which has a strong track record of dividend growth and that has a highly affordable dividend may prove to be a less risky purchase than a cyclical stock that pays out the vast majority of its earnings as a dividend. By focusing on companies with bright dividend growth prospects, it may be possible to improve the risk/reward ratio of your portfolio in order to boost your chances of making a million.

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### Date

2025/08/26

### Date Created

2019/10/27

### Author

peterstephens

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