Retirement 101: Why Dividend Stocks Can Boost Your Pension Income Right Now

Description

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With there being numerous risks facing the world economy at the present time, dividend stocks may not appear to be an appealing place to invest. After all, they could fall in value in the short run and lead to paper losses for their investors.

However, global economic and political risks could provide higher yields and more attractive valuations for long-term investors. Moreover, dividend stocks offer a higher income return than most mainstream assets and stronger growth potential.

Therefore, now could be the right time to buy a range of dividend-paying stocks to boost your pension income.

Risk equals opportunity

History shows that the best time to invest in the stock market is when risks are at their highest. For example, investing during the financial crisis felt illogical to many people. There were genuine fears as to whether the global financial system would be permanently damaged, and this caused many people to naturally seek safety in lower-risk assets.

However, the recovery of the world economy and stock market shows that even the worst recessions are unlikely to cause permanent damage to stock prices. Therefore, with risks such as a weak Eurozone economy and geopolitical uncertainty in Hong Kong weighing on investor sentiment right now, it could be an opportune moment to buy dividend shares while they offer higher yields than in the past. This could have a significant impact on your passive income in retirement.

Relative appeal

Dividend shares are relatively appealing for anyone seeking to generate a passive income. The yields on bonds and cash, for example, are relatively low at the present time. This situation could remain in place over the coming years, with a loose monetary policy likely to be extended due to the aforementioned risks facing the world economy.

In addition, property is a difficult asset to invest in from a liquidity perspective. It also requires a large amount of capital, and it is difficult to diversify. Therefore, dividend shares could present the most appealing risk/reward opportunity for income-seekers.

Dividend growth

As well as high yields, dividend shares also offer growth potential. Certainly, some of the world's major economies are experiencing periods of weakness at the present time. However, the IMF forecasts that global GDP growth will improve in 2020 versus 2019, with emerging markets such as China and India set to lead the way.

This could mean that owning a range of shares which have operations in a variety of economies leads to impressive dividend growth. With the cost of investing being cheaper than ever, it is straightforward to obtain a diverse range of shares that operate in different geographical locations. This may produce inflation-beating growth in your passive income that enables you to enjoy a greater degree of financial freedom in older age than would otherwise be the case.

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