Pension Wealth: How to Use Undervalued Dividend Stocks to Boost Your Retirement Savings

Description

Dividend shares offer more than just a generous income that grows over the long run. They also provide high levels of capital growth in many cases, with the reinvestment of dividends contributing a large proportion of an investor's total returns in the long run.

Through focusing on a company's fundamentals and investing for the long term, it may be possible to enjoy high total returns from dividend shares. With there being numerous stocks appearing to be undervalued at the present time, now could be the right time to kickstart your retirement plans.

Capital growth potential

Thinking of dividend shares as merely income-producing assets could mean that you miss out on their capital growth potential. In many cases, dividend stocks have produced high levels of capital growth over a sustained time period. This may be due to their defensive characteristics being attractive to investors, which leads to a rising share price. Or, it could be down to their status as dividend-paying companies highlighting their financial strength. This may also increase investor demand for their shares and lead to rising valuations.

Therefore, considering dividend shares as a means to build a retirement portfolio over the course of many years could be a good idea. They may offer more reliable returns than growth-focused businesses, as well as less volatility that may make them more attractive to risk-averse investors.

Fundamental focus

When choosing which dividend shares to buy, a focus on their fundamentals could be crucial in obtaining high returns and less risk. For example, a company that has modest levels of debt, as well as strong free cash flow, may be less risky than its peers. Furthermore, a stock that has a large amount of headroom when making dividend payments could produce more consistent and reliable income growth that makes it more attractive to investors.

In addition, focusing on the valuation of a company could lead to higher returns in the long run. Value investors such as Warren Buffett have enjoyed considerable success in purchasing stocks for below their intrinsic value. With the risks facing the world economy being high at the present time, there may be numerous opportunities for you to do likewise.

Long-term reinvestment

As mentioned, the reinvestment of dividends received can have a large impact on total returns. Therefore, it is important to avoid spending dividends as they are received. Not only does dividend reinvestment increase the impact of compounding, it also means that you will have a cash flow during uncertain periods for the stock market. This may enable you to capitalize on lower valuations without needing to hold vast amounts of cash.

As such, investing in dividend stocks for the long run can lead to a reliable and impressive level of passive income in older age. With global economic risks being high, now could be the right time to start buying them while low valuations are on offer.

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