Pension 101: How to Generate a Sustainable Passive Income in a Volatile Stock Market

Description

The stock market's inherent volatility can make it difficult for an investor to obtain a robust passive income from equities. After all, the track record of indexes such as the S&P 500 and FTSE 100 shows that bear markets have been commonplace throughout their history.

While it is not possible to eliminate risk completely when buying stocks, investors who focus on companies that have defensive characteristics and solid track records of paying dividends may find that their income prospects are more reliable.

Furthermore, through diversifying across a range of industries and geographies, dividends could be more sustainable over the long run. This may lead to a more robust passive income for investors.

Defensive characteristics

Companies that exhibit defensive characteristics could offer relatively solid dividend outlooks. In many cases, they may be mature businesses that have been in existence for a long time period. This could afford them with strong cash flow that can be paid to shareholders as a dividend, rather than being reinvested to generate improving returns. The end result could be that the company in question has a dividend that is resilient and can rise over the long run.

In addition, defensive stocks usually operate in industries that are less dependent on the wider economy when it comes to their financial performance. For example, healthcare stocks, tobacco businesses and utilities may be less impacted by economic change than cyclical industries such as travel, retail and banking. As such, focusing your capital on industries with a greater independence from economic events could produce a more sustainable income stream.

Diversity

Of course, a key means of reducing portfolio risk is to diversify. This reduces the impact of one company's financial performance on your wider portfolio. Diversification is easier to achieve than ever, with the cost of sharedealing having fallen in recent years. As a result, it is relatively cheap for any investor to build a portfolio of companies that provide exposure to a range of geographies and industries.

Furthermore, with the world economy experiencing significant change at the present time, hedging your bets could be a sound idea. It is difficult to predict which regions of the world will deliver on their forecasts, and also which industries will become obsolete in the coming years. By having a mix of appealing dividend stocks, it may be possible to lessen this risk.

Track records

Although past performance is not a perfect guide to the future, companies that have a solid track record of dividend growth may be more likely to maintain this performance in the long run. Therefore, studying a company's past dividend payments, and how they have grown over the years, may increase the resilience of your passive income.

Clearly, stocks will always be riskier than other assets such as cash and bonds. But the returns they offer could make them a worthwhile means of generating a passive income in the long run.

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