1 Reason Why I'd Buy High-Yield Dividend Stocks and Never Sell Them

Description

Dividend stocks offer much more than just a passive income. In fact, a large proportion of the stock market's total return has historically been derived from the compounding of reinvested dividends.

As such, dividend stocks may be highly appealing for growth investors, as well as income-seeking investors. This could mean that they are worth buying today while they trade on low valuations in many cases, and holding for the long run.

Total return prospects

While investing in growth stocks can produce impressive capital gains, the total return potential offered by dividend stocks could make them more attractive for many investors.

Notably, dividend stocks have historically produced more resilient capital gains than growth stocks. This may be due in part to the types of companies that pay generous and sustainable dividends. They may be less likely to be impacted by economic challenges than cyclical growth shares, for example.

This could mean that investors who are able to buy a range of dividend shares and allow compounding to catalyze their overall returns end up with a substantially higher portfolio value in the long run. Certainly, the short-term profit potential offered by dividend stocks may be less appealing than that of cyclical growth stocks that are able to capitalize on favorable operating conditions. But the steady and consistent total returns offered by dividend shares could add up over a long time period so that they outperform many cyclical growth stocks.

Buying opportunities

Risks such as the US election in 2020, geopolitical uncertainty in Hong Kong and ongoing European economic weakness seem to be causing investors to adopt a relatively risk-averse stance at the present time. This means that many dividend stocks appear to offer good value for money.

As such, there may be a wealth of buying opportunities available today. Income seekers may be able to capitalize on high yields that make dividend stocks more attractive than other mainstream assets, such as cash and bonds, which offer modest real-terms returns in many cases. And with the world economy's near-term outlook being uncertain, growth investors may benefit from the relatively defensive characteristics of dividend shares when compared to cyclical companies.

Risk/reward

Clearly, buying dividend stocks is not without risk. There is always the potential for a business to experience a difficult period which causes it to reduce dividends, or for its share price to decline. Therefore, diversifying across a range of income shares is of high importance. It reduces company-specific risk and may enhance your portfolio's risk/reward ratio.

Looking ahead, the long-term total return potential of dividend shares means that their risk/reward ratio may be relatively attractive. As well as being more appealing than bonds, cash and property on a long-term basis, they may outperform growth stocks. Therefore, now could be a good time for investors to purchase dividend shares and hold them for a long period of time.

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