Retirees: Here’s 1 Simple Trick to Boost Your Passive Income

Description

With interest rates having been at relatively low levels in recent years, dividend shares have become an increasingly popular means of generating a passive income.

While buying high-yielding dividend shares may seem like the most logical means of generating a high passive income in retirement, focusing on dividend growth could be a better idea. It could lead to a higher income return in the long run.

Here’s how you could identify which stocks offer [dividend growth potential], and why now could be the right time to add them to your portfolio.

Dividend growth

Many of the highest-yielding stocks are mature businesses that can afford to pay out a large proportion of their net profit to shareholders each year. They may not require reinvested capital, or do not have efficient use for it. As such, they are generally seen as reliable income shares.

While they can provide a solid passive income in retirement, they may lack dividend growth potential. After all, a slow-growing business may not be able to afford to raise shareholder payouts at a fast pace. Therefore, your income return may not change significantly over a long time period. It is likely to still beat inflation, but may not provide you with an improving level of financial freedom.

As such, buying shares that offer a lower yield, but that can raise dividends at a fast pace, could be a good idea. They may not offer an especially high income return today, but over the course of your retirement they may be able to deliver a larger total amount of income due to their rate of dividend growth.

Identifying dividend growth stocks

Selecting shares that can offer a rapid rate of dividend growth is not an exact science. However, investors can increase their chances of purchasing companies that offer strong dividend growth by focusing on their fundamentals.

For example, a business that pays out a relatively low proportion of net profit as a dividend may have greater scope to raise shareholder payouts than a company which has a high payout ratio. Likewise, a company with modest debt levels, a solid growth strategy and which is less mature than some of its rivals may be able to afford to pay higher dividends in the long run.

Similarly, companies that operate in faster-growing industries could deliver high dividend growth. And, those businesses which have a competitive advantage may be able to sustain an attractive rate of income growth over the long run.

Buying opportunities

With a wide range of stocks currently trading on relatively low valuations, now could be a good time to buy dividend growth shares. They may experience uncertain operating conditions in the short run, but the continued growth of the world economy may translate into higher shareholder payouts in the long run. This could boost your passive income in retirement and increase your financial freedom.

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