3 Reasons Why I'd Buy High-Yield Dividend Stocks in 2020

Description

Purchasing high-yield dividend stocks today could provide you with a relatively strong total return over the long run. Since a large proportion of the stock market's total returns have historically been derived from the reinvestment of dividends, buying income shares could mean that your portfolio valuation increases at a brisk pace in the coming years.

In addition, dividend shares could become increasingly popular among investors as a result of continued low interest rates. And, since high yields can suggest that stocks offer wide margins of safety, demand for income shares could rise. This could catalyse their prices and boost your overall returns.

Passive income

As mentioned, a large proportion of the stock market's historic total returns have been derived from the reinvestment of dividends. This suggests that as well as being attractive to income investors, dividend stocks could be highly appealing to investors who are seeking to grow the size of their portfolios over the long run.

Therefore, rather than buying cyclical growth stocks at a time when the world economy has enjoyed an extended period of rising GDP, now could be the right time to focus your capital on income stocks. They may not always be as exciting as growth stocks, in terms of their business models. But their 'slow and steady' returns could amount to significant profits if compounding has the opportunity to catalyse your portfolio's performance.

Increasing popularity

Low interest rates could last for longer than many investors had previously anticipated. Risks facing the world economy, such as a US/China trade war, look set to persist in 2020. This could mean that high-yielding stocks become increasingly popular among investors who are struggling to generate a passive income from other mainstream assets such as bonds and cash.

Rising demand for high yields could mean that the prices of income shares increase over the coming years. Companies that have a reliable track record of dividend growth, as well as the financial strength to pay rising shareholder payouts, could prove to be the most attractive to investors. As such, their share prices may benefit the most from rising demand among income-seekers.

Low valuations

A stock's dividend yield provides guidance on whether it offers good value for money. A high yield compared to its historic average, for example, could signal that a company is trading at a lower price level than it perhaps should.

Low valuations can provide an investor with a relatively attractive risk/reward ratio. In many cases, undervalued shares revert to their average valuation over the long run. Therefore, as long as the company in question has a solid balance sheet and is expected to pay a rising dividend over the coming years, its high yield could indicate that there is a buying opportunity on offer.

This may enable you to not only benefit from a high income return, but to also generate capital growth which improves your financial prospects.

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