Retirement Hack: Cheap Dividend Stocks Could Make You a Million

Description

Making a million from investing in the stock market is never going to be a quick or easy process. However, buying dividend stocks while they trade on low valuations could be a means of improving your chances of reaching that goal.

Dividend shares could offer high total returns – especially compared to other mainstream assets. Since they offer good value at the present time, buying a diverse range of them and allowing compounding to boost your returns could lead to a surprisingly large nest egg in the long run which improves your retirement prospects.

Total return potential

Dividend stocks have historically offered impressive returns. A significant proportion of the stock market's past total returns have been derived from the reinvestment of dividends. Therefore, building a portfolio of dividend shares and reinvesting the payments you receive from them could be a means of obtaining a large retirement nest egg in the long run.

Ensuring that you purchase shares which offer a reliable income stream could be a crucial aspect of dividend investing. After all, if there are no dividends paid in some years, there is less of an opportunity for compounding to positively impact on your returns in the long run.

As such, focusing your capital on companies that operate in mature industries which offer defensive characteristics could be a sound move. Although they may not offer a dividend growth rate which is as impressive as those of companies operating in cyclical industries, the prospect of a reliable dividend may provide greater opportunity for reinvestment which ultimately boosts your portfolio returns.

Buying opportunities

At the present time, many dividend shares appear to offer good value for money. Investor sentiment has been highly changeable over the past year, with risks such as an ongoing global trade war and political risk in Europe weighing on the prospects for the world economy. This could mean that it is possible to obtain relatively high yields from dividend shares, as well as low valuations that provide a more appealing risk/reward opportunity.

With interest rates expected to remain at relatively low levels over the coming years, dividend stocks could become increasingly popular among income investors. Assets such as cash and bonds may continue to offer unfavourable income returns – especially when compared to inflation. As such, dividend stocks could offer capital growth alongside their income returns due to a rise in demand for them.

Through purchasing a wide range of companies which operate in a variety of sectors, you may be able to further improve your risk/reward ratio. Having a less concentrated portfolio can reduce company-specific risk, which is the threat of one stock's poor performance being detrimental to your wider portfolio. Diversifying this risk away could increase your chances of making a million in the long run, and help to improve your financial situation in retirement.

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