Forget the Top Cash Savings Rate. I'd Pocket a Rising Passive Income from Dividend Stocks

Description

Cash has been a highly popular asset through which many people have sought to generate a passive income. While this may have been possible in previous years, low interest rates mean that generating a substantial return after inflation has become highly challenging.

As such, now could be the right time to consider investing your cash in dividend shares. An uncertain outlook for the world economy could mean there are impressive yields on offer which offer a rising passive income in the coming years.

Potential returns

Relying on cash to provide a passive income could continue to be an inefficient use of your capital. Certainly, interest rates are likely to revert to higher levels in the long run. But the extended period of time which it may take for monetary policy to tighten may mean that your cash savings fail to offer a return which beats inflation over the medium term.

Clearly, cash is a relatively low risk asset when compared to investing in the stock market. However, by focusing your capital on a range of shares, you can reduce overall risk by lowering the prospect of one company having a detrimental impact on your overall portfolio. Furthermore, by purchasing companies with solid balance sheets and stable positions in their industries, your risk/reward ratio, as well as passive income, could be significantly improved.

Market timing

Buying dividend shares today could prove to be a good move due to the presence of investor uncertainty. In other words, risks such as a global trade war and the impact of the coronavirus outbreak appear to be weighing on investor sentiment. This could enable you to purchase high-quality stocks while they offer relatively high dividend yields, thereby improving your passive income.

Furthermore, the long-term prospects for the global economy appear to be positive. Emerging economies such as China and India are expected to enjoy continued high GDP growth which could catalyse the world economy. Companies could, therefore, enjoy strong operating conditions that enable them to post rising levels of profitability and pay higher dividends. The difference between your passive income from dividend shares and cash savings could widen over the coming years.

Getting started

Starting to invest in shares has become an easier process in recent years. There are a wide range of online sharedealing providers which offer low-cost accounts that can be opened in a short space of time. Therefore, building a portfolio of income shares is likely to be an easier and cheaper process than many investors realise.

Certainly, keeping some cash on hand in case of unexpected events is always a good idea. However, relying on cash savings to produce a high and rising passive income in the long run is likely to lead to disappointment. Buying dividend stocks now while they offer good value for money in many cases could be a shrewd move.

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