Passive Income: How to Maximize Your Dividends in 2020

Description

Low interest rates mean that many income-seeking investors are turning towards dividend stocks to generate a passive income from their capital. However, risks such as the spread of coronavirus mean that the stock market's volatility is high at the present time. This could continue in the near term, which means that buying companies with affordable dividends could be a shrewd move.

In addition, focusing on defensive sectors where dividends may be more resilient could be a means of maximizing your dividend income in 2020. Meanwhile, buying companies which offer long-term dividend growth potential could be a worthwhile decision while they trade on relatively low valuations at the present time.

Dividend affordability

Since the full impact of coronavirus on the world economy is a known unknown, ensuring that the companies in your portfolio can afford their dividend payments could be a sound move. Coronavirus is disrupting global supply chains and may negatively impact on consumer demand for a range of non-essential products. This may cause many companies and sectors to experience challenging trading conditions which limit their profit growth potential.

As such, ensuring that a company's net profit adequately covers its dividend payments may improve the resilience of your passive income in 2020. Furthermore, by focusing on companies which have scope to continue to pay a rising dividend despite risks facing the world economy, you may be able to benefit from an inflation-beating increase in your passive income over the coming months.

Defensive sectors

Buying shares in sectors which have defensive characteristics may also maximize your dividends in what could prove to be an uncertain calendar year. While sectors such as utilities, tobacco and healthcare may not have been as popular as cyclical industries over recent years due to the strong performance of the world economy, they may prove to be better places from which to generate a passive income in 2020.

Certainly, defensive sectors may not offer the long-term growth potential of cyclical industries. But their financial performance may not be as dependent on the prospects of the world economy compared to cyclical companies. This may enable them to post resilient earnings growth and a rising dividend in 2020.

Dividend growth

Of course, lower share prices present an opportunity for investors to buy undervalued businesses which have long term dividend growth potential. This strategy may not enhance your income or capital returns in the near term, but it could lead to a stronger performance from your portfolio in the coming years.

The stock market has always recovered from its lows to post new record highs. While the threats faced by the world economy may seem to be high at the present time, history shows that long-term investors can benefit the most from buying during such periods and holding their stocks over many years.

Therefore, buying undervalued stocks which have the potential to raise their dividends in the long run could enhance your passive income beyond 2020 and improve your financial future.

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