Retirees: Max Out Your Passive Income Using 1 Simple Strategy

Description

Buying stocks with high dividend yields may seem to be an obvious means of boosting your passive income in retirement.

While this strategy may make a notable difference to your income in the short run, over the long term you may benefit to a greater extent from buying stocks with strong dividend growth potential.

Over time, the income they produce could surpass the dividends received from higher-yielding shares. As such, now could be the right time to buy dividend growth shares – especially since many of them appear to offer good value following the recent pullback in the stock market.

Growth versus yield

The yields on offer from companies that have impressive dividend growth potential may not be among the highest that are available in the stock market at the present time. After all, their share prices may have been buoyed by strong investor sentiment due to their improving financial prospects.

However, purchasing them today and holding them for the long run may lead to a higher overall income return than focusing your capital on higher-yielding stocks with slower dividend growth prospects. The impact of compounding could mean that a relatively modest dividend today becomes a highly attractive income return after several years of growth. Therefore, any income investor with a long time horizon may be better offer accepting slightly lower yields today in return for strong growth potential in the coming years.

Identifying dividend growth stocks

Clearly, identifying the most attractive dividend growth stocks is not an exact science due to the future being filled with uncertainty. However, investors may be able to increase their chances of buying companies which have a greater opportunity to grow their shareholder payouts through considering the fundamentals of a wide range of stocks.

For example, companies which have a modest dividend payout ratio may be able to increase their dividend payouts at a faster pace than their earnings growth. The dividend payout ratio is calculated by dividing dividends paid by net profit to determine the proportion of earnings that are distributed to shareholders.

Likewise, assessing a company's earnings growth potential by considering its outlook and trading conditions may provide insight into its capacity to raise shareholder payouts. In addition, considering its management's attitude towards reinvesting profit or paying it to shareholders could help you to identify companies with strong dividend growth potential.

Buying opportunity

With many companies that offer impressive long-term dividend growth prospects currently trading on low valuations, now could be the right time to buy a diverse range of stocks.

Certainly, risks such as coronavirus may cause a slowdown in earnings growth across a range of sectors in the short run. But by focusing on your long-term passive income prospects, you may be able to capitalise on the cyclicality of the stock market and boost your dividend growth rate in the coming years.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/08/24
Date Created
2020/03/10
Author
peterstephens