No Savings at 50? I'd Buy Cheap Dividend Stocks to Retire in Comfort

Description

Having no savings at 50 may naturally cause a degree of worry regarding your prospective level of income in retirement. After all, starting to plan for retirement at a younger age provides more time for your nest egg to grow.

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However, at age 50 there is still time to build a retirement portfolio which can provide a growing passive income in older age. Here's why now could be a good time to start that process, and how dividend shares could offer a mix of income and capital returns over the coming years.

Growth potential

The capital growth potential of dividend shares is often overlooked by investors. A large proportion of the stock market's total returns are derived from the reinvestment of dividends, which means that buying income shares could be a worthwhile means of building a retirement portfolio over the long run.

One feature of dividend shares which can affect their capital returns is the speed at which they are capable of increasing their shareholder payouts. Companies which offer a fast pace of dividend growth often become increasingly popular among investors, and could therefore be a good starting point for someone who has a long time horizon until they plan to retire.

As such, assessing factors such as the affordability of a company's dividend, its profit growth forecast and overall strategy may provide guidance as to the likelihood of its shareholder payouts rising at a fast pace.

Income prospects

As well as scope for capital growth, dividend shares offer high relative income returns. Compared to assets such as cash, bonds and property, they have the potential to deliver a significantly higher passive income in the long run. As such, investing in dividend stocks rather than holding other mainstream assets could improve the size of your passive income in older age.

Furthermore, with it being relatively cost-effective to diversify your portfolio across a range of stocks due to low sharedealing costs, reducing company-specific risk is likely to be a realistic process for many investors over the long run. Company-specific risk is where a disappointing performance from one stock impacts negatively on your wider portfolio. Through buying dividend shares which operate in a range of economies and industries, you can build a more robust passive income in retirement.

Uncertain outlook

The uncertain outlook for the world economy may mean that you are cautious about buying dividend stocks at the present time. In the short run, risks such as coronavirus could weigh on equity markets and lead to paper losses for investors.

However, at age 50 you are likely to have a long time horizon until you retire. Therefore, there is likely to be sufficient time for your stocks to recover from short-term challenges. Moreover, with dividend yields being high at the present time and many stocks appearing to be undervalued, now could be a perfect opportunity to capitalise on the stock market's weak recent performance to improve your chances of retiring in comfort on a growing passive income.

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