



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

Description

Even though interest rates are relatively low at the present time, many income-seekers persist in holding cash savings. This not only means that they are likely to obtain a low level of income today, but may continue to do so in the long run as a result of the prospect for a slow rise in interest rates.

As such, investing in [dividend shares](#) could be a better idea than holding cash savings. Through diversifying across various companies, you can reduce overall risk. And, with many yields being high at the present time due to the stock market's pullback, now could be an opportune moment to obtain a rising passive income for the long term.

Risks

One of the concerns for many income-seekers when it comes to buying dividend shares is their risks. Unlike cash savings, investments in stocks can decline in value. As such, it is possible for your capital to fall and for your overall returns to be lower than they would be had they been held in cash.

However, the risks of investing in shares can be effectively managed. For example, the threat of a company's poor performance hurting your overall portfolio returns can be reduced through diversifying across a wide range of companies. And, while the risk of short-term declines in share prices cannot be eliminated, adopting a long-term timeframe can help you to overcome the disappointment of temporary paper losses.

Growth potential

While the risks of holding dividend shares are higher than those of cash savings accounts, the return prospects for the stock market are considerably higher. Not only do dividend stocks offer significantly higher income returns at the present time when compared to cash, they have the capacity to grow their shareholder payouts at a fast pace over the long run.

In addition, dividend shares offer capital growth potential. Although increasing the size of your portfolio may not be among your top priorities at the present time, a larger portfolio may make it easier to generate a generous passive income. As such, identifying dividend stocks that have the potential to offer growing profitability and which are undervalued could boost your financial prospects.

High-yield opportunities

Following the stock market's recent fall, a number of companies offer high yields at the present time. Therefore, there appear to be numerous buying opportunities where you can obtain a high income return compared to the interest rate on cash.

Clearly, focusing on the affordability of a company's dividends and its capacity to grow shareholder payouts is a sound move to make before purchasing any stocks. Through buying stocks with solid track records of dividend growth, modest debt levels and strong cash flow, you can build an attractive income portfolio which provides you with an improving financial outlook in the coming years.

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Author

peterstephens

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