3 Simple Steps to Replace Your Entire Wage With Dividends

Description

Generating a resilient passive income from dividend stocks may be a simpler process than you realise. It could even replace your entire wage in the long run, and allow you to enjoy financial freedom.

Through purchasing high-quality stocks that have affordable dividends while they offer good value for money, you can build a generous passive income which increases at a brisk pace over the coming years.

High-quality, defensive businesses

Buying companies that have solid balance sheets and strong cash flow could improve the reliability of your passive income. Such businesses may be better equipped to overcome difficult economic periods, and may be less likely to reduce their dividends should trading conditions deteriorate.

It may be a good idea, therefore, to focus your capital on stocks that have defensive qualities. In other words, buying companies that are less affected by the performance of the economy than most of their index peers. They include utility stocks, some consumer goods businesses and healthcare companies which generally enjoy relatively high levels of demand even if the economic outlook is weak.

Certainly, it may be possible to obtain higher dividend yields from cyclical stocks with less robust balance sheets. But they may be more likely to reduce their shareholder payouts at times during the economic cycle, thereby making them riskier investment opportunities for someone that relies on their portfolio for a passive income.

Dividend affordability

Companies that can easily afford their dividend payouts may be more likely to raise them, and less likely to reduce them. This can impact not only on whether your passive income increases at a faster pace than inflation, but also how robust it proves to be in the long run.

Assessing dividend affordability can be undertaken by comparing a company's net profit to its dividend payments. It may also be worth considering its track record of dividend payouts, and whether they have increased consistently. And, through contemplating a company's financial prospects and forecasts, you may be able to ascertain the likelihood of its dividends being paid at their current level. This can provide an insight into whether they are likely to offer a stable passive income in the coming years.

Low valuations

Of course, buying stocks while they trade on low valuations can help you to replace your wage with dividend payments. Lower valuations can mean higher yields, which may help you to maximise the income from your capital. They may also lead to strong capital returns in the long run which make it easier to generate a passive income.

Clearly, the stock market has experienced a hugely volatile period since the start of the year. This may continue in the near term, but over the long run dividend stocks appear to offer a relatively attractive means of generating a generous passive income. As such, now could be the right time for long-term investors to purchase income stocks.

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