Why Quality Dividend Stocks can Boost Your Passive Income Today

Description

The yields on a wide range of income stocks have increased significantly in recent months. The stock market's decline means that investors can now build a more attractive passive income through equities than through other assets, such as cash and bonds.

Clearly, there is scope for further volatility in the stock market. But by focusing on high-quality businesses and adopting a long-term outlook, you can enjoy a generous and rising passive income over the coming years.

High yields

Even though there were numerous opportunities for income investors to obtain high dividend yields before the recent market crash, today a significant number of companies appear to offer excellent income returns. As such, you may be able to maximise your portfolio's income potential to a greater extent than at any other point in the last decade.

Certainly, there is scope for stock prices to move lower in the near term. The ultimate impact of coronavirus on the economy is a known unknown. But in many cases investors seem to have priced in this risk. As such, from a risk/reward standpoint, buying dividend stocks today could prove to be a logical move.

Relative appeal

While dividend yields have risen significantly throughout the stock market, the income returns of other assets have come under pressure. Low interest rates over recent years have meant that the returns on assets such as cash and bonds have been relatively disappointing. Now, with policymakers likely to adopt increasingly loose monetary policies, the returns on cash and bonds may worsen yet further.

Alongside this, a lower interest rate could help to support inflation. This may not be a priority for most investors at the present time, but over the long run a widening difference between interest rates and inflation could lead to a loss of spending power for bondholders and individuals with cash savings accounts. As such, now may not be the right time to move your capital in cash savings or bonds due to their exceptionally low returns.

Fundamental focus

Investors seeking to capitalise on high yields to build a passive income stream may wish to focus on the fundamentals of the companies they decide to purchase. For example, stocks that have solid balance sheets, a history of resilient dividend payments and strong market positions may be less likely to reduce their shareholder payouts, and more likely to raise them.

Furthermore, by adopting a long-term stance towards dividend stocks, you may benefit the most from the recent market crash. History shows that while recoveries from bear markets can take several years on average, stocks have always delivered successful turnarounds to post new record highs.

Therefore, through buying a diverse range of companies today which offer strong income prospects, you may enjoy a generous and growing passive income over the coming years that is significantly greater than that offered by other assets.

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