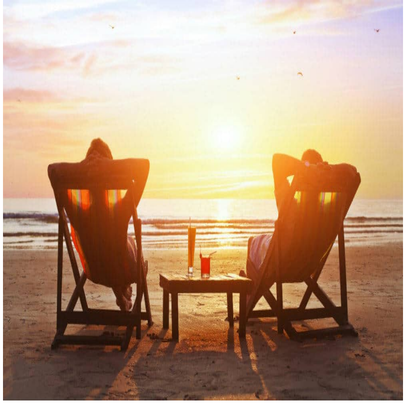

3 Simple Steps to Retire in Comfort With Dividend Stocks

Description

Building a robust passive income from dividend stocks may seem impossible at the present time. After all, the stock market has experienced a period of extreme volatility over recent months. And, looking ahead, the dividend growth rates for many businesses could be negatively impacted by the spread of coronavirus.

However, by focusing on the affordability of a company's dividend, diversifying across numerous sectors and keeping some cash on hand, you can enjoy a comfortable retirement from dividend stocks.

Dividend affordability

Assessing whether a company's dividends are affordable in a variety of economic conditions could improve the resilience of your passive income. For example, a company which can easily afford its current level of shareholder payouts may not need to cut dividend payments should its profitability come under pressure from weak operating conditions.

One means of judging the affordability of a company's dividends is to compare them to its net profit. Should there be substantial headroom when it makes dividend payments, its future shareholder payouts may be relatively robust.

Buying stocks which have solid balance sheets, strong cash flow and defensive characteristics may also increase the chances of dividends being maintained in periods of economic difficulty. This may enable you to obtain a more consistent passive income in retirement.

Diversification

Buying a wide range of shares means that you are less reliant on a small number of stocks to produce a passive income. This can be beneficial in a wide range of market conditions, since companies can experience disappointing financial performance at any time.

As well as holding a large number of stocks, it is worth purchasing companies that operate in a variety of sectors and geographies. Doing so may further spread your risk and enable you to benefit from different growth rates in attractive industries and regions. Ultimately, this may enhance your passive income in the long run and allow you to enjoy a greater level of financial freedom in retirement.

Cash savings

Relying on cash savings to produce a passive income in retirement is likely to cause disappointment. Interest rates are currently at relatively low levels, and may even fall further due to an uncertain economic outlook. Therefore, you may be unable to obtain a passive income from your cash savings which provides financial freedom in retirement.

However, having a limited amount of cash available in case of emergency could be a sound idea for most retirees. It could mean that you do not need to sell stocks to pay for unforeseen costs such as a car or house repair. It may also mean you worry less about the cyclicality of the stock market, and instead see it as an opportunity to buy undervalued dividend shares while they have higher yields and offer a greater opportunity to enhance your passive income.

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