Forget Gold! I'd Invest in Undervalued Dividend Stocks After the Recent Crash

Description

With the stock market having experienced a hugely challenging period over recent months, it is tempting to buy assets which carry lower risk. After all, the spread of coronavirus could continue, and it may lead to further volatility for stock prices.

One asset which may prove to be popular among investors in the short run is gold. It has a history as a store of wealth, and may benefit from falling interest rates.

However, for long-term investors a better idea could be to purchase undervalued dividend stocks. They have the potential to have a significantly positive impact on your financial prospects.

Gold's appeal

History shows that during periods of economic instability, many investors decide to buy gold. It has a track record as a store of wealth, and may therefore exhibit defensive characteristics while other asset prices are falling.

Investors may be even more bullish about gold because of the recent decline in US interest rates. Their fall helps to make gold more appealing relative to income-producing assets. It also means that the precious metal is potentially more attractive to buyers, as an interest rate fall often leads to a decline in the value of the dollar.

Buy low, sell high

A problem with buying gold today is that it is trading at a relatively high price level. This may mean that there is only modest scope for capital growth over the long run. Furthermore, investor sentiment is highly likely to improve over the coming years. This may reduce demand for gold, and cause its price to fall.

By contrast, it is possible to buy dividend stocks while they trade on low valuations today. Investor sentiment has weakened severely in recent months, which has led to many high-quality dividend stocks now trading on generous yields and low ratings.

Although they may fail to recover quickly, the stock market's track record of recovery suggests that a turnaround is highly likely in the long run. This could enable you to generate capital returns, and a high passive income, through buying a diverse range of stocks today.

Quality bias

Of course, it is logical to buy those companies which have affordable dividends, and that have some defensive characteristics. The ultimate impact of coronavirus on the world economy is a known unknown, and investors may be better off focusing on stocks with a solid financial outlook. This may reduce your overall risk, as well as increase your chances of generating a growing passive income in the long run.

Furthermore, through diversifying across a wide range of sectors and geographies you may be able to limit your stock-specific risk. Although you will continue to be exposed to the ups-and-downs of the wider stock market, its track record of recovery highlights the buying opportunities which appear to be on offer at the present time.

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