No Savings at 50? I'd Buy High-Yield Dividend Stocks to Retire on a Passive Income

Description

Buying dividend stocks today may seem to be a bad idea. After all, the stock market has experienced a severe decline in recent weeks which could continue over the short run.

However, even at age 50 you are likely to have a long time horizon until you decide to retire. As such, there is likely to be sufficient time for your stocks to recover from their present lows.

Through buying undervalued stocks today, you could generate high returns which lead to a growing passive income in retirement.

Short-term risks

In the coming months, the stock market looks set to experience further challenges. The risks from coronavirus may persist, which could lead to challenging trading conditions for a wide range of businesses and sectors. This may contribute to weak investor sentiment that produces disappointing returns for investors.

However, most investors are likely to have a number of years left of working until they decide to retire. For example, at age 50 you may have 15 years or more until you cease working. This is very likely to afford stocks the time they require to recover from their present woes. In the past, bear markets have often lasted for a number of months, or even a few years.

As such, there is a high chance of a bull market returning stock prices to higher levels prior to your retirement. This may mean that buying stocks now enables you to benefit from their future recovery.

Return potential

Stocks may have fallen in recent months, but their long-term performance continues to be highly attractive. Over a long time period, the stock market is likely to produce significantly higher returns than other mainstream assets. For example, low interest rates mean that cash and bonds may fail to produce positive after-inflation returns.

Furthermore, buying stocks while they trade at a low ebb has historically been a means by which investors such as Warren Buffett have generated high returns. As with any asset, buying it while it is trading at a lower price level can provide greater scope for high returns. And, while news flow may have been highly negative of late, the stock market's historic performance suggests that a recovery is highly likely over the coming years. This could provide a catalyst for your retirement nest egg.

Risks

Reducing the risk of loss from your portfolio can be achieved through diversification. Some companies may not make it through the current difficulties, so if you hold a wide range of businesses then you will be less reliant on a small number of stocks to fund your retirement.

Similarly, buying stocks with low leverage, affordable dividends and a sound strategy can maximise your chances of generating high returns in the long run. At age 50, there is still time to build a portfolio from which you can enjoy a growing passive income in older age. The recent fall in the stock market could make now the right time to start that process.

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