Investing $25,000 in This 1 Safe Stock Can Earn You $1,800 in Dividends Every Year

Description

One of the mistakes people often make is that they become too dependent on a single source of income. What the pandemic has reminded us is how quickly sources of income can disappear without notice. While pandemics like COVID-19 may happen just once a century (hopefully), people get laid off much more often and with technological evolution, many jobs are disappearing completely. By diversifying your income, you can make yourself more resilient to adversity. And while it won't replace your income, dividend stocks can help provide you with an additional source of cash flow that can be an important piece of that diversification.

The more money you've got saved up, the more dividend income that you can earn. **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is a top bank stock that's fallen about 30% in 2020. As a result of that decline, its quarterly dividend payments of $0.90 are now yielding 7.2%. A $25,000 investment in Scotiabank shares would generate $1,800 in annual dividend income. And if you've got room inside of your Tax-Free Savings Account (TFSA) to make that investment, then all that income becomes tax-free. If you were working a nine-to-five job, you'd probably have to make more than $2,500 to be able to net an additional $1,800 in after-tax income.

Growing your savings is key to even more dividend income

Imagine your savings are 10 times larger at $250,000. With the same yield, your dividend income could become $18,000. You don't necessarily need to invest all of your money into Scotiabank. Other similar yielding stocks could generate comparable dividend income. There are many good dividend stocks out there, but what's important is for investors to build their savings.

The pandemic gives investors a great opportunity to cut back on expenses and create habits that will facilitate greater savings once it's over. Minimizing travel and not going out to eat at restaurants could save hundreds, possibly thousands of dollars over the course of the year for many families. According to Statistics Canada, in 2017, the average household was spending just under $2,600 per year on food purchased from restaurants.

Why now is a great time to load up on dividend stocks

What makes a stock like Scotiabank an attractive buy today is because it's fallen so much in price. Bank stocks will recover from the pandemic, and they may not stay at the prices they're at today for long. It could take a year or longer for them to recover. But if you were to buy Scotiabank at around $50 per share, and it recovered back to $75, where it was before the pandemic, that's a return of 50%. And that would be on top of the dividend income you would earn. There is the danger that banks may cut their dividend payments or at least stop increasing them during the pandemic, but those would be temporary measures should they happen.

Once the economy recovers, bank stocks will get back to where they were before the downturn. This isn't the first or the last time that the economy will face adversity. And each and every time, it's recovered, and so too have bank stocks. While it may be unnerving to invest in them right now, for long-term investors, it's a great time to add them to your portfolio.

CATEGORY

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Date

2025/08/18
Date Created
2020/05/24
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