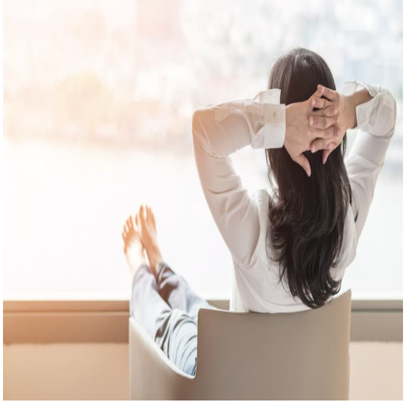

How High-Yield Dividend Stocks Could Make a Generous Passive Income

Description

The 2020 stock market crash may mean that some investors look outside of dividend shares for a passive income. For example, they may decide to purchase bonds or hold cash for their lower risks and more stable outcomes.

However, the high yields currently available across the stock market could mean that dividend shares are a more attractive option. They could also offer dividend growth over the long run.

Meanwhile, building a diverse portfolio of financially-sound businesses could mean less risk in an uncertain economic period.

Making a passive income with high-yield dividend stocks

High-yield dividend stocks could offer a far more attractive passive income than other assets. Although some shares have recovered from the 2020 stock market crash, many others continue to trade at low prices. As a result, their yields are above their historic averages.

By contrast, income-producing assets such as cash, bonds and property may offer relatively unattractive income prospects. Low interest rates could remain in place over the medium term, as policymakers seek to stimulate the economy. This may mean that the returns on cash and bonds struggle to beat inflation. Over time, this may lead to a loss of spending power. Meanwhile, high house prices may mean that investing in property yields a relatively low level of income compared to dividend shares.

High-yield dividend stocks could also offer a growing passive income. The current economic woes facing the world are unlikely to last over the long run. Positive GDP growth has always followed recessions on a global basis. Therefore, investors could benefit from dividend growth as a result of their holdings generating higher profits as the world economy recovers.

Reducing risks from dividend investing

Of course, making a passive income from dividend stocks is riskier than other mainstream assets. Even the very best companies can experience periods of disappointing performance that disrupts their ability to pay dividends. Therefore, it is a good idea for an investor to try to reduce risks wherever possible.

One simple strategy to achieve this goal is to build a diverse portfolio of stocks. In doing so, an investor reduces their exposure to a specific business, sector or region. This can mean their income is more stable and reliable than it would be in a more concentrated portfolio. It may also provide them with greater opportunity to benefit from growth prospects in a wider range of industries and countries.

Meanwhile, selecting the most financially-sound businesses for a passive income may mean risks are further reduced. Companies with strong balance sheets, wide economic moats and solid track records of performance in a range of economic conditions may offer a more stable income return over the long run. They may also be better able to adapt to changing operating conditions, which could lead to rising dividends in the long run.

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