



## 3 Reasons Why I'd Buy the Best Dividend Shares Today

### Description

The best dividend shares could offer more than just a relatively high passive income. The stock market crash has caused a wide range of high-quality businesses to trade at low prices that do not account for their recovery prospects.

As such, undervalued companies with impressive shareholder payouts could become more popular in a low interest rate environment. This may boost their prices and lead to impressive total returns in the coming years.

### The passive income potential of dividend shares

Of course, the most obvious reason to buy the best dividend shares today is their passive income prospects. The stock market crash has caused many income stocks to trade at lower prices than at the start of the year – even after the recent market rebound. Therefore, it is possible to obtain high yields from high-quality income shares that may not be available permanently in many cases.

A large proportion of the stock market's past total returns have been derived from the reinvestment of dividends. Therefore, income shares may be of interest to a wider range of investors than those who are purely interested in a passive income. Over time, many companies may also be able to increase their dividend payouts as the economic outlook improves. This may further improve their total return potential over the coming years.

### Relative income appeal

At the same time as dividend shares offer a generous passive income, many other assets currently fail to provide a worthwhile income opportunity. Low interest rates mean that the returns on cash savings accounts have fallen to historic lows. Similarly, the returns on investment grade bonds may struggle to keep pace with inflation over the long run. This may reduce an investor's spending power and make it more difficult to obtain a worthwhile passive income over the coming years.

Meanwhile, high house prices mean that the yields available on property may be relatively unattractive. Investors must also pay various fees when owning investment property, while it is likely to be more difficult to diversify when owning property directly. This may increase overall risk, and could lead to a less stable passive income than that on offer via a portfolio of dividend shares.

## Capital return prospects

Dividend shares also offer scope for impressive capital returns. As mentioned, their prices have fallen in many cases due to the stock market crash. This could mean that their financial prospects are currently undervalued by investors. As the world economic outlook improves and investor sentiment strengthens, income shares could make capital gains that have a positive impact on investor portfolios.

Therefore, building a diverse portfolio of income shares could be a logical approach. Their low prices, passive income potential and relative appeal could make them a profitable investment for a wide range of investors over the coming years.

### CATEGORY

1. Dividend Stocks
2. Investing

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