



3 Steps to Find Top Dividend Stocks to Buy in November 2020

Description

Low interest rates mean that dividend stocks may become increasingly popular among investors. In many cases, they offer significantly higher returns than other income-producing assets such as bonds and cash.

However, there is more to successful dividend investing than simply buying high-yielding stocks. Considering a company's financial position, long-term outlook and the affordability of its dividends could lead to less risk and higher returns.

Buying dividend stocks with affordable payouts

Purchasing dividend stocks with high yields is of little use to an investor if they are unaffordable. As such, it is crucial to check that a company can pay its dividends – even if there is a period of weaker operating conditions ahead.

Assessing a company's dividend affordability can be done through comparing its net profit to its shareholder payouts. Dividing net profit by dividends paid shows how many times a company could have made its shareholder payouts. A figure of more than one means that it had headroom when doing so. This may become an increasingly valuable requirement due to the uncertain economic outlook that could cause profitability across a wide range of sectors to come under pressure.

Financial strength

Dividend stocks with solid financial positions may mean less risk for income investors. For example, a company that has a strong balance sheet with modest debt may be better able to survive an uncertain economic period. It may not need to reduce dividends to service debt or pay operating expenses. This may result in a more reliable dividend for investors, as well as a stronger share price performance.

Analysing a company's financial position can be undertaken via its investor updates and annual reports. They paint a picture of its financial standing that can be used to assess its risks. By looking at

a longer period of updates, it may be possible to gauge how a company's strategy is impacting on its financial position. This may provide income investors with a greater insight into how the company is run, and how its dividends could change in future.

Long-term growth outlook

Dividend stocks can become increasingly attractive if they are able to raise shareholder payouts at a fast pace. As such, assessing a company's long-term profit growth outlook could be a means of identifying the most attractive income investing opportunities.

Companies that have the capacity to adapt to changing consumer tastes may prove to be more successful in the long run. Similarly, companies with wide economic moats may face fewer challenges during economic turmoil and may also be able to generate higher profit growth in a period of economic growth.

Clearly, dividend stocks can experience unforeseen difficulties. Therefore, it is crucial to buy a diverse range of companies within a portfolio so that risk is spread among a broad spectrum of regions and sectors. This can lead to a more reliable passive income and higher returns in the long run.

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