



## How High-Yield Dividend Stocks Can Help an Investor to Retire Rich

### Description

High-yield dividend stocks could offer much more than just a generous passive income. Reinvesting dividends could lead to a growing retirement portfolio that provides a worthwhile income in older age.

Furthermore, the low valuations on offer across the stock market and the potential for rising demand for high-yield opportunities may help to lift share prices. This may produce capital growth that improves an investor's retirement outlook.

### Reinvesting a passive income from dividend stocks

Dividend stocks could offer an attractive total return in the long run. A large proportion of the stock market's past total returns have been derived from the reinvestment of dividends. Therefore, dividend shares may be of interest to a wider range of investors than just those individuals who are seeking a passive income today.

In fact, the stock market crash has caused many income shares to trade at low prices. This means that they offer high yields in many cases. As a result, they could provide scope to reinvest significant sums of capital in the stock market on a regular basis. Over time, this could lead to a growing portfolio that improves an investor's retirement prospects.

### Low valuations after the stock market crash

The 2020 market crash also means that dividend stocks could offer capital growth potential. In some cases, they trade at low prices due to uncertain near-term operating outlooks that could negatively impact on profitability. However, some income stocks with low valuations have the financial strength and strategies to overcome their short-term risks so that they can deliver improving profitability over the long run.

Therefore, investors who identify financially-sound businesses today while they trade at low prices could benefit from a long-term stock market recovery. With indexes such as the FTSE 100 having

always returned to previous highs after their various bear markets, the long-term turnaround prospects for undervalued high-yield income shares appear to be relatively bright.

## Increasing demand for income shares

Dividend stocks may also deliver strong capital growth that boosts an investor's retirement prospects because of a lack of other passive income opportunities. For example, low interest rates mean that the returns on cash and bonds are relatively low. Their returns may even fail to keep pace with inflation over the long run. Similarly, high house prices may mean that the yields on property investment are somewhat disappointing relative to income shares.

This could mean that demand for income shares increases over the coming years. The end result could be rising prices for income shares that produces capital gains for their holders. As such, now could be the right time for investors to build a diverse portfolio of dividend shares that offer good value for money and solid financial positions. They appear to have the potential to produce a retirement portfolio that can provide a generous passive income in older age.

### CATEGORY

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2. Investing

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