3 Reasons Why I'd Buy High-Yielding Dividend Shares Today for Passive Income

Description

High-yielding dividend shares could offer a generous passive income relative to other mainstream assets. Low interest rates mean that the returns on cash and bonds are low, while high house prices may limit yields on property.

Furthermore, high-yielding dividend shares may offer opportunities for income growth over the long run as the economy's performance improves. Their high yields may also suggest that they offer good value for money after the 2020 stock market crash.

High-yielding dividend shares can offer a generous passive income

With interest rates currently at low levels, there are more limited opportunities to make a passive income than there have been in the past. Previously, many investors have relied on cash or bonds to provide an income. However, they currently offer very disappointing returns in many cases. In fact, it may prove difficult to obtain an income return that is above inflation from those asset classes.

Furthermore, relatively high house prices mean that the yields on property may be low. Alongside the risk of buying property directly, such as difficulties diversifying, and the large amount of capital it requires, buying high-yielding dividend shares for a passive income could be a more attractive opportunity.

Dividend growth opportunities

As well as a generous passive income today, high-yielding dividend shares could produce growth opportunities in the coming years. The economic outlook is currently challenging, which may mean that dividend growth is somewhat limited in the near term. However, over the long run, the prospects for the world economy could improve.

Fiscal and monetary policy stimulus in many of the world's major economies could have a positive impact on the operating environment for many businesses. This may mean that they pay larger dividends to their shareholders, thereby increasing their income investing appeal relative to other mainstream assets. This could make them increasingly popular among a broader range of investors, and could contribute to capital appreciation over the coming years.

Low valuations may lead to high capital returns

High-yielding dividend shares could offer more than just a passive income. Their high yields suggest, in many cases, that they offer wide margins of safety. Investor sentiment has improved significantly since earlier this year. However, some stocks trade at low prices, which could mean that they offer recovery potential in the coming years as market conditions and investor confidence towards risky assets improves.

Certainly, there are risks ahead for high-yielding dividend shares. Brexit and the coronavirus pandemic may mean that investor sentiment is weak and share prices fall in the near term. However, with a lack of income opportunities available elsewhere and the stock market having a solid track record of recovering from even its very worst declines, the total returns on offer from dividend stocks could be relatively attractive over the long run.

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