How I’d Replace My Entire Wage With a Passive Income From Dividend Shares

Description

Replacing an entire wage with the passive income from dividend shares could be a more realistic aim than it appears at first glance. Certainly, this year’s stock market crash has highlighted the risks of holding shares. However, with low interest rates and high property prices, there may be few other options to make a worthwhile income elsewhere.

Through purchasing a diverse range of dividend shares with affordable payouts, it may be possible to generate a high and growing income over the long run.

A resilient passive income from robust dividend shares

Clearly, the most important aspect of a passive income that replaces an entire wage is its reliability. There is little point in having high-yielding dividend shares that do not provide stability in terms of their payouts over the long run.

As such, assessing the resilience of a company’s dividend is of great importance. This can be undertaken through analysing its affordability. Comparing net profit to dividends shows how many times a company could pay its dividend. If it is easily covered by profit, and could be paid several times over, it suggests that the business in question may be able to maintain shareholder payouts even if sales and profitability decline.

Furthermore, a passive income from a company with defensive characteristics may be more valuable than a payout from a cyclical business. Defensive stocks may be less impacted by an economic downturn than cyclical shares. This may lead to a more reliable income over the long run – especially given the presence of risks such as the coronavirus pandemic.

Dividend growth opportunities

A growing passive income may become increasingly important in the long run. The large amounts of monetary policy stimulus that have been used to counter this year’s decline across major economies may lift inflation in the coming years.

As such, investing money in dividend shares that can realistically grow their shareholder payouts could be a shrewd move. For example, they may pay out a low proportion of net profit as a dividend. This could indicate that they can afford to make larger shareholder payouts. Similarly, a company with upbeat profit prospects could decide to raise dividends at a fast pace.

Diversifying an income stream

It may be tempting to purchase the highest-yielding stocks for a passive income and disregard other companies. However, the uncertain economic outlook means that building a diverse portfolio of stocks is more important than ever. Some sectors and regions may experience a prolonged period of difficulty that causes their dividend growth to slow.

A diverse portfolio of shares can offer a more resilient income return over the long run. It may be able to replace an entire wage if the amount invested is large enough. It may also provide capital growth over the long run as the stock market recovers from the challenges faced this year.

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Date
2025/08/24
Date Created
2020/12/23
Author
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