



Why I Think a Growing Passive Income Is the Key to Financial Freedom

Description

For many people, achieving financial freedom is likely to be a main goal within their lifetimes. This will enable them to enjoy greater independence and, in some cases, a better quality of life.

However, a large sum of money does not necessarily lead to greater financial independence. Rather, it is the passive income it provides that can make the biggest impact on an individual's financial outlook.

Therefore, now could be a good time to start investing in cheap dividend stocks with long-term growth potential. Over time, they could make a real difference to an investor's quality of life.

Achieving financial freedom via a growing passive income

Building a large portfolio during a lifetime is likely to be viewed as a means of achieving financial freedom by many investors. While this is partially correct, the reality is that spending capital is rarely a good idea. Over time, the size of an investor's portfolio will decline if they are spending capital, rather than the income it produces. This can mean that they eventually run out of money and face a tough financial situation.

As such, the passive income provided by a sum of capital is likely to have a bigger influence on an individual's financial prospects. For example, a large sum invested in dividend shares is likely to provide greater financial independence through producing a larger income return compared to capital held in cash savings at a low interest rate.

Furthermore, the rate at which a passive income grows can have a significant impact on an individual's financial freedom. Should it fail to rise at an above inflation pace, they may find that their spending power deteriorates over time. As a result, buying high-yielding shares with the potential to offer dividend growth over a sustained time period could be a sound move.

Investing today to achieve financial independence

Clearly, how an individual invests today depends on their stage in life. For those investors seeking to achieve financial freedom in the long run, buying a diverse range of high-quality businesses at low prices could lead to impressive capital returns. A stock market rally that causes valuations to revert to their long-term averages appears to be likely. This could produce high returns that catalyse an investor's portfolio in the coming years.

For those investors who are seeking to make a passive income from their capital today, investing in stocks with dividend growth prospects could be the main priority. They could include companies that pay out a low proportion of their profit as a dividend, as well as those businesses that have bright financial futures. They may be able to afford to deliver strong dividend growth that makes a positive impact on an investor's financial freedom in 2021 and beyond.

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