How I'd Make a Growing Passive Income With Cheap Dividend Stocks in 2021

Description

Cheap dividend stocks could offer more than just a high yield in 2021. In many cases, their financial positions and profit potential means that they could deliver a rising dividend in the coming years.

As such, now may be the right time to buy a selection of income shares with affordable dividends and improving financial prospects. They could provide a generous passive income in an era where other assets offer disappointing returns.

Selecting cheap dividend stocks with growth potential

Some cheap dividend stocks may face difficult futures at the present time. Risks such as coronavirus and political change could hold back their financial performances in the short run.

As such, it is important to assess their financial prospects before buying them. For example, companies with low debt levels and solid financial positions may find it easier to pay a rising dividend despite challenging operating conditions. Similarly, businesses that currently pay a modest proportion of their profit to shareholders as a dividend may have greater scope to raise their income payouts in 2021 and in the coming years.

Meanwhile, cheap dividend stocks with bright long-term futures may be among the most attractive means of generating a growing passive income. For example, companies that stand to benefit from the increasing digitisation of many industries, such as retail, could generate higher profitability that translates into a rising dividend.

Managing risk for a sustainable passive income

Of course, an uncertain economic outlook means that buying a selection of cheap dividend stocks is arguably more important than ever. Investors who rely on a small number of companies for theirincome may find that their financial prospects are negatively impacted even if a small number of themstruggle in 2021.

Diversifying across not only different industries, but also various regions, could be a shrewd move. The coronavirus pandemic is affecting different parts of the world to differing extents. Therefore, it could be a sound move to spread investment across dividend stocks that operate in multiple geographies. Doing so may limit the negative impact of challenging economic circumstances in localised areas caused by lockdown measures.

A long-term view

While obtaining a growing passive income via cheap dividend stocks is an achievable goal in 2021, taking a long-term view is still a good idea. It may take some of today's most attractive income shares a number of years to deliver on their potential. Weak investor sentiment that makes them attractive purchases today due to their low valuations may take time to reverse in sectors that are currently struggling to grow sales and profitability.

As such, by taking a long-term view, it is possible to fully benefit from a likely economic recovery. Over time, this could lead to a fast-paced growth in passive income that improves an investor's financial situation.

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Date
2025/08/25
Date Created

2021/01/12
Author
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