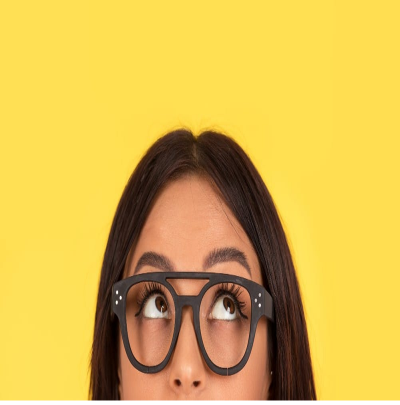

Why I'd Buy and Hold Cheap Dividend Stocks to Make a Passive income

Description

Making a passive income from cheap dividend stocks could be a neat solution to a challenging problem currently facing many investors.

The income returns on other mainstream assets, such as cash and bonds, are relatively low. By contrast, many dividend shares offer high yields, as well as long track records of reliable shareholder payouts.

Furthermore, the high yields on offer from dividend stocks suggest that they are cheap. This may mean they provide scope for capital growth in the coming years.

Making a passive income from cheap dividend stocks

Cheap dividend stocks provide a simple means of obtaining a relatively high passive income in 2021 and in the coming years. The 2020 stock market crash has left investors feeling downbeat towards a number of sectors. As a result, companies in industries such as financial services, defence and oil and gas currently have yields that are significantly higher than their historic averages. This could mean that an investor is able to enjoy a high income return simply from owning a diverse range of shares.

Of course, some companies with high dividend yields may face uncertain financial outlooks in the short run. This may mean that their dividends fail to grow at a rapid pace. However, those companies that have very affordable shareholder payouts alongside their high yields may offer attractive risk/reward opportunities. Investors may have factored in the risks they face through cheaper share prices, while their high dividend yields may be sufficient reward for higher risks.

A reliable track record of dividend growth

Cheap dividend stocks could also offer a worthwhile passive income because of their solid track records of shareholder payouts. As mentioned, some sectors are facing difficult near-term outlooks. However, some of the companies operating within them have good form when it comes to maintaining dividend payouts amid uncertain operating environments. In some cases, they may even have been able to raise dividends in the past despite tough sales and profit prospects.

Such companies may, therefore, offer a more resilient income outlook than investors are currently pricing in. The end result could be that they are undervalued at today's price levels. This may mean that they are able to offer a high, and dependable, passive income stream in the coming years.

Cheap dividend stocks offer capital growth

Cheap dividend stocks may offer much more than just a passive income over the long run. Their high yields may mean that they offer wide margins of safety that equate to scope for capital growth in future. Therefore, a strategy that seeks to buy and hold them over the long run could deliver attractive total returns that are significantly ahead of other mainstream assets. The end result could be a positive impact on investor portfolios in 2021 and in the coming years.

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