Why I Think Today's Cheap Dividend Stocks Could Double in the Next 10 Years

Description

Buying today's cheap dividend stocks could be a very profitable move over the next 10 years. Not only do they offer the opportunity to make an attractive passive income, they could also deliver high capital returns.

Their low valuations and increasing popularity in a low interest rate environment could even mean that they double in price over the next decade. As such, building a diverse portfolio of income shares today could be a worthwhile idea.

Cheap dividend stocks with capital growth potential

Despite the stock market recovery in 2020, there are a wide range of cheap dividend stocks available to buy today. In many cases, they have dividend yields that are significantly higher than their long-term averages. This suggests that they could offer wide margins of safety that provide scope for capital growth over the long run.

The past performance of the stock market shows that company valuations generally revert to their long-term averages following bear markets. Certainly, this may take time in some cases – especially where companies face challenging near-term operating conditions. However, dividend shares with solid finances and affordable shareholder payouts may be able to overcome difficulties in the short run to produce impressive returns in the coming years.

The increasing popularity of dividend shares

One factor that could have a positive impact on the valuations of today's cheap dividend stocks is their income appeal on a relative basis. Investors who are seeking to obtain a worthwhile passive income in 2021 are unlikely to have much success elsewhere. High property prices have squeezed yields, while low interest rates have pushed income returns on bonds and cash to extremely low levels.

As such, demand for income shares could increase over the coming months and years. This may push their prices higher, resulting in capital gains for investors. And, with interest rates set to remain at low levels for a prolonged period of time due to economic uncertainty, the long-term outlook for today's cheap dividend stocks could continue to improve.

Doubling an investment in dividend shares over the next decade

A 100% return on today's cheap dividend stocks over the next decade may sound unlikely to some investors at the present time. After all, risks such as political instability and coronavirus are expected to persist in 2021.

However, a 100% return in 10 years requires an annual growth rate of around 7%. Given that the stock market has produced an annualised total return of around 8% in the past, a 7% return seems very achievable. It could even be argued that the low share prices of many dividend stocks mean that their returns could be above the long-term market average in the coming years. This may even allow an investor to double their money over a shorter timeframe than a decade as a stock market rally takes hold.

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