Passive Income Investors: How I'd Invest in Dividend Stocks in 2021

Description

Making a passive income from dividend stocks in 2021 could be a sound move. They offer high yields compared to other assets, as well as the potential to deliver impressive dividend growth in the long run.

However, with the economic outlook being uncertain, buying companies with defensive characteristics could be a logical move. So, too, could purchasing a diverse range of stocks with affordable dividends. The end result could be a more resilient income in 2021.

Making a passive income from defensive dividend stocks

Risks such as political instability in Europe and the coronavirus pandemic mean that passive income investors face an uncertain outlook in 2021. As such, it could be worth buying defensive stocks that offer a more resilient financial outlook.

Examples of industries that have historically been relatively defensive include utilities and consumer goods, such as tobacco. They may be less impacted by the performance of the economy, since their earnings may be less dependent on consumer confidence and GDP growth. The end result could be more stable dividend payouts that provide investors with a resilient income return.

Dividend affordability

Passive income investors may also wish to make sure that any potential purchases can afford their current level of dividends. After the stock market crash, some companies offer very high dividend yields at the present time. As such, it is easy for an income investor to become overly-focused on yields, rather than assessing the affordability of dividends. And, while a high yield is appealing, it is of little use if it cannot be paid.

Assessing the affordability of a company's dividend can be undertaken through comparing shareholder payouts to net profit. If they are covered more than once by net profit then the company in question has headroom when making dividend payouts. Investors may wish to demand a figure above one at the present time due to the uncertain economic outlook. It may cause profit growth to stall, or even decline, for some businesses and sectors.

Diversifying among a number of dividend shares

Diversification is crucial for all passive income investors. They should avoid being reliant on a small number of companies for their dividends – especially if it is their main source of income.

Clearly, many sectors are facing difficult operating conditions at the present time. Therefore, holding a wider range of companies than is normally the case may be necessary in 2021. Although the economic outlook is due to improve, the first quarter or even half of the current year may prove to be a difficult period for many businesses.

Diversification can lead to a higher passive income in the long run. Through avoiding losses within a concentrated portfolio, an investor can enjoy a generous and rising income return in 2021 and in the coming years

CATEGORY

1. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Date
2025/08/25
Date Created
2021/01/20
Author
peterstephens