How I’d Obtain a Passive Income of $40,000 Per Year From Buying Dividend Shares

Description

Dividend shares do not only offer the chance to make a generous passive income right now. They also have the potential to deliver impressive total returns over the long run as a result of a lack of other income opportunities available to investors.

This could increase their popularity, and mean that they outperform the wider stock market in the coming years. They could even ultimately provide an annual income of $40,000 from a modest monthly investment that grows at a relatively fast pace in the coming years.

Passive income opportunities among dividend shares

Clearly, an investor who has a $1m portfolio today could generate a passive income of $40,000 from buying a selection of dividend shares. However, those same stocks could be used to gradually build a portfolio of a similar size from regular investment over the long run.

Dividend shares could become increasingly popular in the coming years because of a lack of opportunities available elsewhere. Low interest rates mean that cash and bonds have very disappointing return prospects that may even lag inflation. Meanwhile, low yields in the property sector due to high house prices may push an increasing number of income investors towards dividend stocks.

Building a retirement nest egg

The impact of higher demand for dividend shares may be rising stock prices that outperform the stock market. Even if they match the performance of equity markets, which have risen by around 8% per year on a total return basis in the past, a modest monthly investment could produce a $1m portfolio that provides a $40,000 annual passive income.

For example, investing $750 per month over a 30-year time period would lead to a portfolio being valued at over $1.1m. From this, a 4% dividend return would provide an annual income in excess of

$40,000.

Managing a portfolio of dividend shares

Of course, simply buying the highest-yielding dividend stocks may not necessarily lead to the largest portfolio or passive income in the long run. They could have high yields for a variety of reasons, including weak financial prospects that have caused investor sentiment to decline.

As such, it is logical to buy dividend shares that can afford their payouts, and can grow them in the coming years. They may prove to be the most appealing income shares to a wide range of investors. The result could be rising stock prices that catalyse an investor's retirement portfolio.

Furthermore, diversifying among dividend shares could be a logical move. It will reduce company-specific risk, which is the threat from a small number of companies underperforming and their impact on a wider portfolio. Diversification also allows an investor to capitalise on multiple growth opportunities. This may increase their potential rewards and lead to a larger portfolio, and passive income, in the long run.

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
2025/08/26
Date Created
2021/02/04
Author
peterstephens