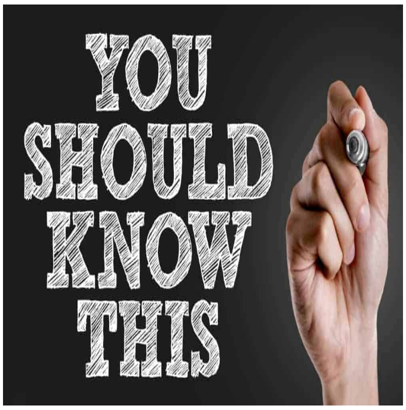

How I’d Obtain Financial Freedom with a Passive Income From Dividend Shares

Description

When buying dividend shares, it is tempting to purchase the highest-yielding stocks to generate the largest passive income possible.

However, this strategy can cause a couple of issues. First, high-yielding stocks could struggle to afford their current payouts because of financial challenges. Second, high-yielding stocks may not offer strong dividend growth. This could make them less attractive over the long run.

As such, focusing on the reliability of dividends, as well as their growth prospects, could be a means of securing financial freedom via income stocks.

Buying dividend shares with a robust passive income

A reliable passive income is likely to be a key part of achieving financial freedom for most people. For example, a consistent income provides security, whereas a volatile income can mean budgeting challenges that impact negatively on quality of life.

As such, it is important to check whether a company can afford its dividends in a variety of market conditions. One means of doing this is making sure that they are covered by profit, so that if sales fall due to weak operating conditions they are less likely to affect the dividend. Furthermore, considering whether a company’s business model is highly correlated to the performance of the economy could be a shrewd move. Defensive stocks that provide greater resilience in times of economic uncertainty could be more attractive than cyclical businesses.

Purchasing dividend stocks with growth potential

In order to achieve financial freedom, it is important to have a passive income that grows by at least as much as inflation each year. If it does not, an investor may find that their spending power is gradually reduced. Over time, this can mean that an individual’s lifestyle is severely impacted – especially sincea higher rate of global inflation may be ahead because of the loose monetary policies being pursued.

Clearly, assessing the dividend growth potential for any company is subjective. However, by analysing factors such as its long-term industry outlook, market position and strategy, it is possible to build a picture as to whether it is likely to provide a growing passive income to its investors in the coming years.

Holding cash for emergencies

Inevitably, there will be times when an investor requires access to cash that is above and beyond their regular passive income. For example, this may be due to one-off repairs to a house or car that were unexpected. As such, it is important to have some emergency cash available for these kinds of situations.

This does not mean relying on cash for a return. However, it does mean having some savings in place that can supplement an income from dividend shares when needed. This can help an investor to enjoy greater financial freedom, with less worry, in the long run.

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