Why I’d Invest £20k in Dividend Shares Now to Make a Passive Income

Description

Making a passive income has been made more difficult over recent months. An uncertain global economic outlook and low interest rates mean that there are potentially fewer options available to income-seeking investors. After all, some companies have cut their dividends, while other assets such as bonds and cash now have extremely low returns.

Despite this, it is possible to obtain a generous level of income from an investment in dividend shares. As such, now could be the right time to invest £20k, or any other amount, to obtain a growing income that is likely to be significantly higher than that available elsewhere.

A generous passive income

While the stock market has experienced a rally over recent months, a number of dividend shares continue to offer high yields. As such, it is possible to build a diverse portfolio of stocks that offers a high combined passive income for 2021.

On a relative basis, the income produced by shares this year is likely to be much higher than that available elsewhere. For example, other mainstream assets such as property have risen in price over the last decade. This may mean that yields across the sector have been squeezed at the same time as some stocks trade at low prices with high dividend yields.

Similarly, low interest rates mean that the income return on bonds and cash may be less than inflation in 2021 and in the coming years. This could further increase the appeal of dividend shares as a means to obtain a worthwhile passive income.

Dividend growth potential

As well as a generous income return in 2021, an investment in dividend shares could provide a growing passive income over the coming years. Certainly, a number of income stocks will fail to raise their dividends this year because of disruption caused by coronavirus and a weaker global economic performance. They may decide to hold cash in case there are further economic challenges or disruption caused by coronavirus ahead. However, history shows that this situation is unlikely to persist in the long run, and that an economic recovery is likely to take place.

This could allow dividend shares to raise their payouts at a fast pace that may be above inflation in many instances. This could further raise the profile of dividend stocks so they become popular among a broader range of investors. For example, a rapidly-rising dividend may suggest to growth investors that a company's management team is optimistic about its prospects. This could increase demand for that company's shares, and lead its stock price higher.

Therefore, dividend shares could offer capital growth alongside a worthwhile passive income today. This means that they could be worth buying instead of other assets to provide an income return on a £20k investment, or any other amount, over the coming years.

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