



## Why I'd Buy Dividend Shares in 2021 for Growth and Passive Income

### Description

Buying dividend shares has been a popular means of generating a passive income for many years. They provide a relatively high yield, as well as dividend growth potential.

However, their appeal could increase significantly over the next few years. A lack of income opportunities elsewhere may mean that demand for dividend stocks rises rapidly. This may push their prices higher, and provide investors with capital growth.

As such, now could be the right time to build a diverse portfolio of income shares. Their total return prospects over the long run seem to be very attractive.

### The passive income appeal of dividend shares

From a passive income perspective, dividend shares could be more attractive than ever. Despite the recent stock market rally, it is possible to buy a wide range of dividend stocks that can provide a high, and growing, passive income over the long run.

While this situation may be no different than in the past, what has changed over recent years is the difficulty in generating an income from other mainstream assets. Low interest rates mean that cash savings accounts offer sub-inflation returns in some cases. Meanwhile, rising bond prices prompted by lower interest rates mean that yields on many investment grade bonds have been squeezed.

As such, from an income perspective, dividend shares offer a significantly higher return than other income-producing assets. This may mean that many investors have little option but to use dividend stocks to provide them with a worthwhile passive income in 2021, and potentially in the coming years.

### Capital growth opportunities from dividend stocks

A rise in demand for dividend stocks could push their prices higher. As ever, the performance of any stock is based on supply and demand among investors. Should there be a consistent period of buying

among today's high-yielding shares, they could deliver attractive capital returns.

The result of this may be a potent mix of a high passive income and market-beating capital appreciation. As such, dividend shares could have a broader appeal than they have done in the past, with investors focused on capital returns potentially purchasing them. Their appeal is further enhanced because of the high valuations present among many growth stocks after the recent market rally. In comparison, dividend stocks may offer wide margins of safety that translate into high returns.

## Managing risk within an income portfolio

Despite their return potential, dividend shares are not without their risks. As with any company, they could experience further disruption from coronavirus. Meanwhile, an uncertain economic environment may create tough operating conditions for many businesses that ultimately lead to lower levels of sales growth and profitability.

Therefore, it remains important to diversify among income shares in 2021. Doing so could reduce overall risks, and allow for a broader range of opportunities to deliver impressive total returns in the long run.

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