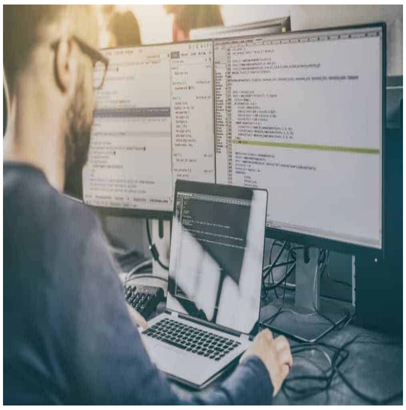

How I'd Determine the Best Types of Dividend Stocks to Buy in 2021

Description

Buying dividend stocks to make a passive income could become increasingly popular in 2021. After all, the income returns of other assets such as cash and bonds are likely to remain disappointing due to low interest rates. Meanwhile, high property prices may restrict their capacity to provide a generous passive income.

Of course, determining what are the best types of dividend shares to buy could be a challenge due to uncertain economic conditions. However, by focusing on competitive advantages, dividend affordability and defensive characteristics, it may be possible to unearth the most attractive income shares for the long run.

Dividend stocks with competitive advantages

Given the uncertain economic outlook, buying dividend stocks that have significant competitive advantages could be a shrewd move. They may be more likely to deliver relatively strong sales and profit during a challenging period for their sector. For example, they may have strong customer loyalty or unique products that allow them to maintain higher margins than are possible among their competitors.

Businesses with significant competitive advantages may also be able to grab market share from weaker sector peers. This may lead to an improving financial performance in the long run that produces a more resilient, and growing, dividend over the coming years.

Defensive characteristics

Dividend stocks with defensive characteristics may provide a more robust income return in 2021. At the present time, it remains unclear how factors such as the coronavirus vaccine will play out. This could mean there is a further period of lockdown measures that lead to poor financial performance from companies that are closely correlated to the prospects for the economy.

As such, buying defensive shares may provide greater security during what could prove to be a challenging year for many industries. In some cases, it is also possible to achieve a high yield from defensive shares. They have not always been popular among investors in recent months because of an increasing focus on growth stocks that are often cyclical in nature. This may provide scope for a higher income return in the coming months.

A low payout ratio

Due to the potential for reduced sales and profitability in the current year, buying dividend stocks that have low payout ratios could be a sound move. A company's dividend payout ratio can be calculated by dividing its dividend by net profit to give a percentage figure. A payout ratio of less than 100% shows it had headroom when making its most recent dividend payment.

At the present time, it may be prudent to seek companies with a payout ratio of significantly less than 100%. Otherwise, there may be a risk of a dividend cut should their financial performance deteriorate in the short run. Conversely, low payout ratios could mean impressive dividend growth in the coming years that boosts an investor's passive income.

CATEGORY

1. Dividend Stocks
2. Investing

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Date
2025/08/20
Date Created
2021/02/23
Author
peterstephens