Is Being a Passive Income Investor Becoming More Difficult?

Description

With interest rates at low levels, the stock market having experienced a rally in recent months, and the economic outlook being uncertain, making a passive income may seem to be an uphill struggle.

However, a number of income shares continue to offer attractive yields. They may also deliver rising dividend payouts over the coming years.

As such, now could be the right time to buy a diverse range of dividend stocks. Over the long run, they could produce a generous income return on a relative basis.

Challenges when obtaining a passive income

Many investors may be tempted to turn to dividend shares at the present time to make a passive income. After all, low interest rates available on other assets may push them towards equity markets.

The problem, though, is that the recent stock market rally has caused many shares to have lower yields than a handful of months ago. When coupled with an uncertain economic outlook that could have a negative impact on shareholder payout growth rates, the outlook for dividend investors may seem to be somewhat downbeat.

Focusing on overlooked dividend shares

Despite these factors, a number of companies continue to offer relatively high yields at the present time. Certainly, there has been a stock market rally. But not all sectors or companies have risen in line with the wider market. Some industries and businesses continue to be overlooked by investors, perhaps due to more modest earnings growth rates in a bull market, which could mean they offer good value for money.

Buying such businesses may be a sound move for passive income investors. They may be able to buy solid dividend-paying stocks that are able to grow their shareholder payouts in the coming years. Such companies may be unpopular because they have a less exciting business model than other shares that has failed to engage investors to the same extent.

Diversifying to build an income portfolio

As mentioned, an uncertain economic outlook is likely to remain a risk facing passive income investors in the coming months and years. Even the most appealing dividend shares could experience financial difficulties.

Therefore, it is important to build a diverse portfolio that can offer a higher degree of resilience and a more robust income stream than a concentrated group of stocks. Doing so is a cheaper and simpler process than it has been in the past. For example, regular investing services can reduce the cost of single share purchases so that commission represents a smaller proportion of a portfolio's size. This may make diversifying even easier for smaller investors.

Moreover, many companies have become increasingly diversified in terms of their geographical exposure. This may allow investors to buy domestically listed businesses to generate a passive income that is dependent on the performance on the world economy. This may result in a more robust income return that can benefit from strong growth rates in some regions over the coming years.

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