I’m Buying Dividends Hand Over Fist for 2022

Description

In 2021, we’ve seen growth stocks soar to unprecedented highs, only to come crashing down to earth. The pandemic led to an explosion in the value of tech stocks, which were seen as having the potential to profit off the pandemic. Now, however, the hype is dying down.

If 2000 is any indication, then high-growth tech stocks could have further to slide. That year, we saw the NASDAQ begin a decline that took it down 80% by the bottom in 2002. Many top NASDAQ stocks back then were unprofitable, and the group was trading at 175 times earnings. Today, the index as a whole is more modestly valued, but there are pockets of the market that resemble the NASDAQ in 2000.

The solution to all this?

Pivot to dividends. In 2022, we’ve got bank stocks and other value stocks trading at rock-bottom multiples, despite being much more profitable than the hype stocks that are now in a correction. In such an environment, it pays to buy dividends hand over fist. The following are the three main reasons I’m doing so ahead of 2022.

Reason #1: Hype stocks are in a correction

This point was already covered briefly, but it’s worth exploring more.

Hype stocks like the ones owned by the **Ark Innovation ETF** are currently in a correction. You wouldn’t notice this by looking at any major market indexes, because you’ve got FAAMG stocks and value stocks keeping things propped up. But there’s a certain subset of “innovative” stocks that are down massively this year. Pretty much, the kinds of stocks owned by Ark’s Innovation ETF. That fund is down 23% for the year. Some of the most overhyped names within it are down far more. **Peloton,** for example, is down 74%. If this correction keeps going on — and I think it will — dividend stocks will look comparatively attractive.

Reason #2: Interest rates are rising

Another reason why I'm pivoting to dividend stocks this year is because interest rates are rising. Now, there are some dividend stocks, like utility stocks, that get crushed by higher interest rates. But bank stocks like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) actually profit from them. When interest rates rise banks enjoy higher profit margins on loans. They also enjoy a bigger spread between the interest they pay on brokerage funds and the rate at which they can loan out the funds. All of this is very bullish for TD Bank, which is still very cheap right now, with a P/E ratio of 10.

Reason #3: Some dividend stocks also offer superior growth

Another reason I'm moving into dividend stocks this year is because I've been able to find some that offer solid growth. If you look at **Micron Technology** (NASDAQ:MU), for example, it pays a small dividend, yet it also offers extreme growth. In its most recent quarter, its revenue was up 37%, and its earnings were up 175%. That's incredible growth. Many people think that dividend stocks are always tame slow-growth laggards, but that's not always the case. You can find value and growth in one package pretty frequently. Micron is a perfect case in point.

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