Dividend Stock vs Growth Stock

By www.ProfitableInvestingTips.com

Dividend stocks are stocks that pay you a share of company profits, usually every quarter. They are generally mature companies but not ones with a lot of growth potential. Growth stocks are newer and have a better chance of expanding rapidly and paying you for the risk of investing in a new company. However, dividend stocks can grow as well and growth stocks tend to offer dividends as the companies mature. Investors who do not want to pay taxes on their investments often choose growth stocks while retirees who need income commonly choose dividend stocks.

Tradeoff Between Dividends and Growth

Investors who focus on growth stocks are looking for companies that will grow rapidly. Investors who focus on dividend stocks are looking for security and cash flow. Growth stock investors accept risk in return for growth potential and dividend investors accept a slow rate of growth in return for income and safe investments. Young investors generally focus on growth and pivot to security and dividends as they approach retirement. While you are in your earning years, you generally do not want to be paying taxes on dividends but when you are retired and in a low tax bracket, the taxes are not so painful.

Best US Dividend Growth Stocks

You do not need to necessarily choose between dividends and growth. A good example is Apple, which resumed paying dividends in 2012 and has increased its dividends yearly ever since. At its peak in 2012, Apple traded for $25 a share. Today it trades for $117 a share. The stock split 7 for 1 in 2014 and 4 for 1 in August of 2020. Another choice is Home Depot which has paid dividends for thirty years, has a 2.3 dividend yield, and has grown from a $27 stock in 2010 to a $283 stock today.

Buying Protection With a Dividend Growth Strategy

When looking for dividend stocks, look for companies that have increased their dividends over the years. This tells you that the company is growing and is rewarding investors who stay the course. Dividend companies that increase their dividends over the years are making money, covering expenses, growing, and have healthy cash flow. This is a somewhat backward look at intrinsic stock value. These companies have strong product and service lines, manage their businesses well, and are likely to continue to grow and increase dividends for years to come.

Countering Slow Dividend Growth

When dividend growth is slow in your portfolio it is often slow across most dividend-paying stocks. If, like many investors, you are invested in a fund that tracks the S&P you might consider switching to a dividend-focused ETF such as iShares Select Dividend, SPDR S&P Dividend, or Wisdom Tree Total Dividend. If you are

comfortable with choosing individual investments, consider the likes of Home Depot or Apple for their growth plus dividends. Alternatively, young investors who don't rely that much on dividend income may simply choose to focus on pure growth stocks and forget the dividends.

Deep Value Dividend Growth Portfolio

Dividend growth stocks not only provide a quarterly dividend but tend to increase that dividend year by year. And, more importantly, they tend to outperform the market as a whole. Add to this the fact that such companies tend to be very secure investments. *Seeking Alpha* suggests a deep value dividend growth portfolio and provides specific investing options. Recent additions are UNH, MSM, and UPS. Their collection of stocks in this portfolio has been outperforming the S&P 500 by about 6% in the short term and is likely to continue this over the longer term.

Difference Between Direct Growth and Direct Dividend

Mutual funds offer various options in regard to dividends and growth. A direct growth plan focuses on growth stocks and cuts out the middle man so that your expenses are less. However, you will need to do all of the documentation that would otherwise be done by the mutual fund. In the case of a direct dividend plan you also cut out expenses compared to a regular plan but also need to complete all of the documentation required. In both cases you will decide whether or not to invest dividends and how to deal with things like mergers and takeovers.

Mutual Fund Growth vs Dividend Plan

In a mutual fund, you invest your money and choose an option. Then the fund follows your instructions in regard to the investments. When you choose a growth plan, they pick stocks with growth potential and if these include dividend stocks, the dividends are reinvested. But, if you choose a dividend plan, they will pick all dividend stocks and pay you dividends on a quarterly basis. If dividends are reinvested or if they are paid out, you will owe taxes on the dividends. In general, younger investors will go with growth plans and those nearing or in retirement will choose a dividend plan.

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