

Proactive Insights

10:15 18 Jul 2018

Dividend and conquer! Why income investing can be a lucrative strategy

While it can sometimes be nice to take a chance on a growth stock in the hope that its value rises as the company develops, firms which pay a regular, decent dividend have a place in any portfolio.

It can also prove to be an extremely lucrative investment strategy, especially if you had invested one of the 26 current FTSE 100 companies to have increased their dividend in each of the last ten years.

By way of example, if you'd have bought some shares in construction equipment rental giant Ashtead Group PLC (LON:AHT) a decade ago, your total returns - capital growth plus dividends - would stand at 4,258%.

Put simply, if you'd have invested £1,000 in Ashtead in 2008 and kept it there, your investment would be worth over £42,000 today.

Even more exciting is that because you paid a relatively small price for the stock when compared to today's market price, the dividend yield on those shares is 48% based on this year's expected pay-out.

That means you get almost all of your initial investment back every two years.

Other companies offering a hefty dividend yield had you bought into them ten years ago include tech giant Micro Focus International PLC (LON:MCRO) (28.4%), Hargreaves Lansdown PLC (LON:HL.) (22.0%) and wealth manager St James's Place (LON:STJ) (19.3%).

"We often take dividend yields as a snapshot, looking at investors buying the stock at today's price. However, investing is a long-term game, and many investors have had their money in these companies for a number of years," explains AJ Bell investment director Russ Mould.

"Comparing the 2008 share price with the forecast 2018 dividend across the 26 companies gives an average yield of almost 12% - which any investor would probably bite your hand off for."

He adds: "These 26 firms are 'dividend heroes', so called because they have increased their dividend in each and every of the past 10 years. Taking a look at the total return of this group - so growth and income reinvested - shows the importance of dividends in boosting the share price."

Only half of the 'heroes' were listed on the FTSE 100 back in 2008, so Mould recommends digging through the FTSE 250 to find the next generation of blue-chip dividend growth champions.

Share Information

Code: PROIN

Listing: PRIVATE-UK

Sector: Media

Website: www.proactiveinvestors.co.uk

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