How Savings of $66 a Week Can Transform into $46,377 in 10 Years

Description

Life is busy. There's always so much to do, like enjoying **Starbucks** coffee, eating out, watching movies, or whatever else you do for enjoyment.

Bigger expenses may include going on vacation, or having a nice ride that comes with refueling costs, auto insurance, and maintenance fees.

Now, there's nothing wrong with enjoying life as long as you have a habit of saving a portion of your paycheque. After all, your job only takes you so far. At some point, you're going to retire. So, thinking ahead now will make your transition to retirement much smoother.

Assuming you earn a median income of roughly $33,970 a year and you save 10% of it, that is $3,397 a year, $283 a month, or under $66 a week.

How $66 a week can turn into $46,377

If you invest that $3,397 in the market and get a 6% return, in 10 years' time, your investment of $3,397 can transform into $6,083. But wait! You're not only investing the initial amount of $3,397, but you're saving and investing $3,397 every single year. In that case, saving and investing under $66 a week ($65.33 to be exact) for a 6% return, in over 10 years you would end up with $46,377.

The situation

That result is based on these assumptions: you're saving $283 a month, and it's compounded at a 6% rate at the end of each year. In nominal dollars, you've saved and invested $33,970 over 10 years. So, you'd earn $12,407 from your investment on a 6% return per year.

If you'd only invested $33,970 in year 10 and got a 6% return that year, you'd only earn $2,038 on your investment. That totals to $36,008 in total savings. Of course, it's rare that an average Joe can get $33,970 out of nowhere. That's why I started with the more realistic scenario of saving $66 a week.

The magic of compounding

Besides, compounding only works over time. Compounding is the concept that money earns you more money. In the above scenario, we're saving $66 a week and keeping everything invested (the original savings, the new savings in subsequent years, and the returns of the yearly investments).

How to invest $3,397 for a 6% return

Generally speaking, the more you save and the higher returns you get, the more money you get in the future. Sticking to the current example of investing $3,397 a year, here's how you might approach investing to get a reasonable 6% return.

First, there are quality dividend stocks that tend to increase dividends over time. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is a great example. The bank has paid dividends for over 100 years. In the last three years, it increased dividends at an annualized rate of 10.9%.

Today, the bank yields 4.2%. I conservatively assume Royal Bank grows dividends at a lower rate of 7% going forward. Under that assumption, you'd still get 11.2% growth on your investment. The 11% is greater than the 6% growth we'd wanted.

Second, there are stocks that offer above-average yields. **Northern Property REIT** (TSX:NPR.UN) yields 8.5% today. The income it offers investors already exceeds that 6% growth. Northern Property REIT is becoming the third-largest publicly traded multi-family REIT in Canada after it closes its acquisitions on October 30.

Northern Property REIT's underlying assets is residential real estate that generates rental income. The stability of the REIT's operations is evident in the fact that from 2002 to 2014, over 12 years, the REIT never cut its distribution and even increased it eight times. With a payout ratio of roughly 70% before and after the acquisitions, Northern Property REIT's 8.5% yield remains stable.

In conclusion

Royal Bank of Canada and Northern Property REIT are two dividend stocks that should generate at least 6% growth on an investment today. By buying a basket of these stocks from the consistent savings you make from your job earnings, you will be able to create great wealth for your future. And the longer you invest, the more work you're allowing compounding to do on your behalf.

Investors should understand that stocks go up and down. So, it's essential to be comfortable with what you're buying. If the prices go down, don't panic sell, but reassess the situation. Avoiding emotional buying and selling and sticking to what you know is just as important as consistently saving and investing.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

Category

1. Dividend Stocks
2. Investing

Date
2025/08/27
Date Created
2015/10/26
Author
kayng