A Wealth-Building Strategy for Small Investors

Description

One thing we can do for ourselves is to save early and save often. All wealth is accumulated with the first dollar saved.

You must make it a habit to save. By buying quality businesses that pay you growing dividends, you can build wealth over time.

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I understand that life happens. There may be little to save, but even if you manage to save under $30 a week or exactly $125 a month, you will end up with $1,500 in savings per year.

I chose $1,500 because I believe saving $28.85 a week is not far-fetched. Additionally, it costs about $10 for a trade at a reputable bank. That $10 equates to a 0.67% transaction fee. If you're fine with a 1% fee, you're welcome to buy stocks when your savings reach $1,000.

Turn $1,500 into an income machine

Let's say we bought a quality dividend-growth stock such as **Fortis Inc.** (TSX:FTS). The regulated utility has increased the dividend for 41 consecutive years, so there's reason to believe it will continue to increase the dividend.

In fact, Fortis targets a dividend growth of 6% per year through to 2020. That implies its 4% yield will more than just maintain your purchasing power by growing at a rate that is double the rate of inflation. That approximates to total returns of 10%.

So, imagine $1,500 invested growing at 10% a year. It becomes $3,890 in 10 years. Now visualize buying a different quality dividend-growth stock each year to diversify your portfolio.

You might buy **Royal Bank of Canada** (TSX:RY)(NYSE:RY) next year and **Telus Corporation** (TSX:T)(NYSE:TU) the year after that.

In time you would have built a quality income machine (your dividend-growth portfolio).

Using a more conservative 8% return, your $1,500 per year in savings would grow to $22,868 if you only put in $15,000 of your own money.

What if you can invest more every year?

Imagine that you can invest $4,500 instead of $1,500 every year, and you decide to use it to buy equal amounts in three stocks to diversify.

For the past few years, Royal Bank has been increasing dividends at an average rate of 7.3% per year. With a 4.2% yield, that implies total returns of 11.5%. Let's bring the expected returns to 10% to be conservative.

For the past few years, Telus has been increasing dividends at an average rate of 9.9% per year. With a 4.2% yield, that implies total returns of 14.1%. Let's bring the expected returns to 11% to be conservative.

Assuming you buy equal amounts in Fortis, Royal Bank, and Telus today, that's an average expected return of 9.6%.

That $4,500 you'd invested into each stock every year would become $75,338 in 10 years if you'd only put in $45,000 of your own money. That's an increase of 67% from your own savings!

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In conclusion

Investors should be aware that even small amounts saved can become big over time. Investors shouldn't be deterred from investing only because they have very little to save.

When we let the dividends in our portfolio to grow, we are letting compounding to do its magic. If you're able to reinvest those dividends along with your $1,500 or $4,500 per year, you'll supercharge your portfolio growth.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TU (TELUS)
3. TSX:FTS (Fortis Inc.)
4. TSX:RY (Royal Bank of Canada)
5. TSX:T (TELUS)

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