How to Get Wealthy: Invest Early and Often

Description

Do you have leftovers from your paycheque every month? If you do, congratulations! By spending less than you make, you can save for your future. Actually, that’s where your initial investment funds come from–your savings.

Think about it. Even if the wealthiest people on earth spend extravagantly, they’ll eventually run out of money.

So, in order to stay wealthy, you first need to save. Second, invest those savings.

Your investment start-up fund

For new investors, their investment start-up fund would come entirely from their savings.

Statistics Canada notes that the 2013 median income for individual Canadians was $32,020. Assuming a 3% growth rate, this year’s median income would be almost $35,000.

Peter is a new investor who just finished college and found an entry-level job to earn a median income of $35,000. A nice start would be if he could habitually save 10% of his gross income, totaling $3,500 a year.

Because he’s in a low-income tax bracket, he decides to begin saving and investing in a tax-free savings account.

For starters, he’d like to stick to dividend investing because dividends from quality dividend-growth companies are more reliable than volatile stock prices.

Building his portfolio

Peter has been preparing himself by spending at least an hour each week for the whole year reading about investing with a specific focus on dividend-growth investing, which made his retired aunt rich over time; she’s now maintaining her wealth because she’s only spending her dividends but not the principal.

Peter loves the idea of dividend investing because it will help increase his available funds for investing. On top of his savings of $3,500 per year, his dividend portfolio will generate additional income to add to the $3,500.

At the end of the first year, Peter decides to invest $1,750 in each **Fortis Inc.** (TSX:FTS) and **Canadian Western Bank** (TSX:CWB). The companies are two of the top Canadian dividend-growth stocks with over 20 years of consecutive dividend increases.

Today, Fortis yields 3.75% and Canadian Western Bank yields 3.6%. So, if Peter invested today, his portfolio will generate an annual income of roughly $128 for the first year without accounting for any dividend hikes. In the next year, he'll then have roughly $3,628 to invest.

Conclusion

Peter's two-stock portfolio lacks diversification. However, investing in a solid utility and a discounted bank is a good start. If he tried to invest in more companies with the original $3,500, the commission fees would be too costly.

Peter plans to continue building his income portfolio one stock at a time to diversify slowly.

He knows that he will only stick with quality companies that tend to be profitable, even when the economy is not doing well, which means he'll avoid companies that are affected by commodities directly.

In the early stage of investing, Peter knows that his savings rate is very important. He's going to add any bonuses and raises he get from his job to his investment fund for a higher income to speed up the growth of his portfolio.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)
2. TSX:FTS (Fortis Inc.)

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