How to Amass a $100,000 Portfolio

Description

No matter what your financial goals are, you have to start with saving your first dollar.

Let's say that your first goal is to amass $100,000, and let's assume you earn a median income.

According to Statistics Canada, the median income for Canadians was $32,020 in 2013. When we apply a conservative 4% inflation rate, we arrive at a median income of $36,018 this year.

Savings rate

If you save 10% of your income, you'll save $3,602 per year (or about $300 a month). If you can double that savings rate by saving 20% instead, you'll save $7,203 per year (or about $600 a month).

Without accounting for raise increases, it'll take fewer than 28 years to save your first $100,000 in the first scenario and fewer than 14 years to save your first $100,000 in the second scenario.

Surely there's got to be a faster way to amass your first $100,000, and there is–by compounding.

Compounding

Compounding is when you generate earnings with earnings or interests with interests. Let's say you save $10,000 in your high-interest savings account and your bank gives you a 1% interest. At the end of the first year, the $10,000 becomes $10,100 (+$100). If you leave that money in the account, in the second year your savings would become $10,201 (+$101).

Historically, stock market returns have been higher than returns from fixed-income investments. The average stock market returns have typically been 7-10%.

If you invest $3,602 per year in stocks for a 7% rate of return, you'll amass $107,484 in the 16th year. This is 12 years less than if you just stuffed that amount of savings in your closet.

If you invest $7,203 per year in stocks for a 7% rate of return, you'll amass $106,486 in the 10th year. This is four years less than if you just stuffed that savings amount in your closet.

Where can you get 7% long-term returns?

Investors who don't want to manage their portfolio can average in to a broad market index fund such as **SPDR S&P 500 ETF Trust** (NYSEARCA:SPY).

If you want to get a higher income than S&P 500's 2.6% yield, you can consider a dividend index fund such as **VANGUARD FTSE CDN HIGH DIV YLD INDEX ETF** (TSX:VDY), which yields 4%, or you can build your portfolio one stock at a time.

Investing in dividend index funds or in individual stocks will be much less diversified than investing in a broad market index fund.

On the positive side, by investing in individual stocks, you can pick quality brands that you trust and buy them at reasonable valuations to guarantee a satisfactory portfolio return of at least 7%.

For example, at under $64 per share, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is priced at a reasonable multiple and yields 4.5% with a sustainable payout ratio of 50%. It only requires 2.5% of growth to achieve the goal of a 7% rate of return. Moreover, if you invest $10,000 today, you'll earn an above-average annual income of $450.

Conclusion

To amass a $100,000 portfolio (no matter if it consists of stocks or not), your savings rate matters. The more you save, the faster you can reach your goal.

If you invest in the stock market, your portfolio value will go up and down in the short term but should appreciate over the long term if you average in broad market indices or quality businesses with strong brands and operational excellence.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

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kayng