



Compound RSP Money to \$1 Million Dollars or More

Description

We're now more than halfway through February, and Canadians only have a few weeks to make their annual RSP contributions and receive the tax benefit for 2016. The RSP deadline is Wednesday, March 1.

Although many Canadians make this annual financial commitment, a number of them either have no idea why, nor do they have an end goal in mind. Although every individual will have a different finish line, the important thing to remember is, there are many ways to get there. For investors who have decided \$1 million is a good goal, the amount is surprisingly attainable over a person's working life.

For a working person, an annual contribution of \$7,500 compounding at a rate of just 5% can easily do the trick. Let's discuss a 30-year-old with no savings to speak of but has a good salary. Assuming the annual contributions are made every single year, the \$1 million mark will be attained in just under 42 years — a little longer than most would want. If that investor were willing to take on a little more risk, however, the opportunity to reach one's goal and potentially retire before the age of 72 is possible.

Assuming a 7.5% rate of return, the \$1 million mark would be attained in a little over 33 years. The beauty of higher returns is that the total number of \$7,500 contributions is only 33, instead of 42 annual contributions.

Higher returns can work wonders. Let's say we have a more aggressive investor; a 10% rate of return would translate to less than 28 years of contributions and compounding to reach the mark. Even better, if an investor seeking 10% returns were to work for the 33 years instead of 28, then the total amount would grow to almost \$1.67 million.

Finding securities that can deliver a reasonable 10% return to investors is not as hard as you think. A defensive company called **North West Company Inc.** ([TSX:NWC](#)) operates general stores predominately in northern Canada and Alaska. The company is currently offering a dividend yield of almost 4.25% and has compounded very nicely over the past five years.

The total price return over the past five years has been a little more than 50% in total, translating to a compounded annual growth rate in excess of 10.5%. Adding the dividend into the price appreciation,

investors have enjoyed an annual return of approximately 15%. That's not bad for a defensive business which sells groceries in remote communities.

Investors should adopt the expression "good things come in boring packages." As one of the most unsexy businesses out there, the grocery retail business has the potential to offer investors returns that, over time, exceed the averages, making investors very wealthy in the process.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:NWC (The North West Company Inc.)

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Date

2025/08/24

Date Created

2017/02/21

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