How the Path to Wealth Runs Through the $100,000 Mark

Description

With the annual TFSA (Tax-Free Savings Account) and RSP (Retirement Savings Plan) busy seasons behind us, certain investors are feeling very encouraged, whereas others are feeling despair. The goal of reaching the $1 million mark seems too aggressive a mark for many to achieve.

As planning out the next 40 years is a little too daunting for many, we have the opportunity to break up the 40-year plan and start with smaller goals. If you understand the miracles of compounding, you know the road is not equally weighted throughout each period.

If we break up the long-term goal and set the first checkpoint at $100,000, investors have a lot to feel encouraged about. For investors saving money in a tax-deferred account, either a TFSA or an RSP account, the returns will be able to compound tax free over time. Setting aside $500 per month will help an investor save $6,000 per year. Without any returns at all, an investor is able to save $100,000 in fewer than 17 years.

Investing, of course, leads to positive returns and a diminished timeline. For a conservative investor saving $500 per month and achieving a return of 5%, the time it will take to hit the $100,000 mark is diminished to approximately 12 years.

Investors willing to take a little more risk and obtain a 7.5% return have the opportunity to hit the mark in under 11 years. The most aggressive investor averaging a 10% return will achieve the first milestone in just under 10 years, having put aside only $60,000 of their own money. Compounding is pretty cool.

While not looking to take on additional risk than necessary, the tortoise-like consistent returns will often do the job. Let's look at shares of **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), which now offer investors a yield close to 2.5%. For the medium-risk investor, we are already a third of the way to the 7.5% average return needed.

For investors investing with the checkpoint in mind, the important thing to realize is that no security is required to be held for any minimum period of time. Given what is at least a 10-year period, the standard will be to hold at least three securities throughout that period or, in most cases, even more.

For investors not wanting to wait out the 10-year period of consistent returns, there are other options. As market observers are aware, shares of marijuana company **Canopy Growth Corp.** (TSX:WEED) have risen approximately 235% over the past year. Although this was a very exciting opportunity, it is highly probable that that growth won't be repeated in the next year.

Another point to consider is that volatility is offered on both sides: a share price which can increase significantly can also decrease significantly. Investors of "hot" securities have the opportunity to experience large losses, but they also run the risk of taking large losses.

When the dividend train rolls through town, it may be a good idea to get on board.

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Date
2025/08/27
Date Created
2017/03/16
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