Should You Live as if You’re Retired?

Description

I was shocked to find out that some young people have lots of debt on their backs. Having a mortgage is understandable, but some even have an auto loan, a line of credit, and credit card bills that aren’t paid off.

I think credit card bills should be paid in full every month because their interest rates are very high. My credit cards charge sky-high interest rates of about 20%.

It’s not easy to get consistent 20% returns on the market. So, it makes sense to pay off credit card bills every month before using any remainder of the paycheque for other lower-interest loans or for investment.

I think it’s a pretty good idea to live as if you are retired. I mean that in the financial sense, in which you spend below your means. You’ll probably feel good to save some money at the end of every month.

Saving 10% of your paycheque every month can do wonders

The median income for an individual in Canada was $32,790 in 2014. Assuming a 4% rate of growth, that implies a median income of $36,884 this year.

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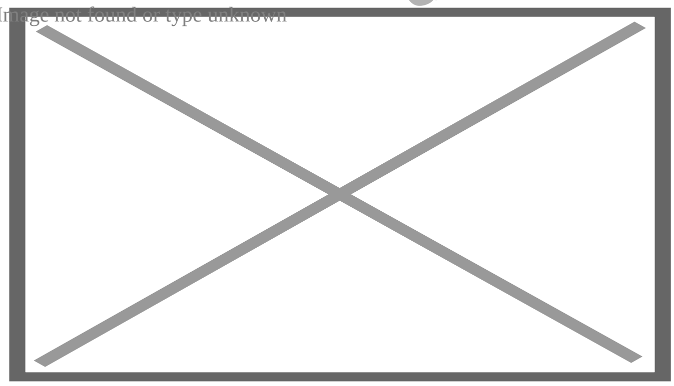

If you’re able to save some of that and invest it for a good return, you can build some serious wealth for your retirement.

For example, if you save 10% of that income ($3,688) for a 10% rate of return for 33 years, your portfolio would snowball to more than $1 million (and $2.1 million if you invest eight years longer)!

What should you invest in for a 10% rate of return?

You can get a 10% rate of return from dividend-growth stocks such as **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), which trades at a fair value today. The quality bank offers a yield of 4% and has the potential to grow its dividend by about 6% per year in the near future, which would approximate a rate of return of 10%.

Dividend stocks aren't just for retirees. They're also for anyone who wants to improve the stability of their portfolio's returns. That said, dividend stocks tend to be mature companies.

Risk-averse investors can consider well-managed growth companies that can boost the returns. In fact, it's not unheard of to get rates of returns that greatly exceed the 10% target.

In the last 12 months, **Spin Master Corp.** (TSX:TOY), **Sierra Wireless, Inc.** (TSX:SW)(NASDAQ:SWIR), and **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) have appreciated 51%, 62%, and 276%, respectively, which is amazing. They're good considerations for long-term growth on any meaningful dips, especially from a market-wide decline.

Investor takeaway

If you live like you're in retirement before you retire and spend below your means every month, you will have a comfortable retirement. In the meantime, you can invest your savings for meaningful returns via quality dividend-growth stocks, such as Bank of Nova Scotia, and perhaps sprinkle some high-growth stocks in your portfolio to boost long-term returns.

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