How 1 Stock Can Make a Millionaire

Description

As most investors begin investing in securities long before retirement, it is important to set proper expectations at the start and allow them to evolve over time. When Canadians begin investing, they most often have a full-time job and make regular income, usually with a long time frame before retiring. Given these factors, it is perfectly understandable to take an above-average amount of risk in the hopes of making higher returns. In retirement, however, the amount of risk is generally reduced to ensure that no major losses occur.

For investors wanting to reach the $1,000,000 number, the good news is that it can be done by owning one defensive security for a long period of time.

Over the past 10 years, the price appreciation for shares of **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) has compounded at a rate of more than 12% in addition to paying quarterly dividends, which currently yield close to 4.75%. For those who have been lucky enough to ride the wave, this name could have brought any long-term investor one-third of the way closer to the ultimate goal by simply buying and holding patiently.

If we assume that an investor begins with $10,000 and increases the capital base by $1,200 per year ($100 per month), then the annual compounded rate of return needed to achieve $1 million over a 30-year period is no more than 14.27%. To make things easier, every Canadian investor is able to better utilize the benefits of a Tax-Free Savings Account (TFSA), receiving the dividends and capital appreciation free of tax.

In the case of Enbridge, investors will only need to achieve price appreciation of 9.5%, assuming the dividend is not reduced. Although this may be viewed as aggressive to some, it is significantly less than the average rate of return of shares over the past 10 years.

For investors who believe that the days in the sun for Enbridge are limited, projecting the future returns may be a good exercise, as the company's return on equity (ROE) was no more than 10% over the past year. With the potential to increase that number either through more aggressive pricing or higher leverage, investors still have a significant amount of runway to enjoy healthy returns with this name.

For those seeking industries with higher ROEs, the financial sector may seem more attractive.

Currently offering a dividend yield of 4.75%, investors in **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) have had some fantastic bull runs in the past. With a compounded annual return of 9% over the past five years, shares of this financial juggernaut almost meet the 14.27% required rate of return when adding the dividend. The company's ROE over the past two years has averaged approximately 18.5%, as the company did not hesitate to reduce the total number of shares outstanding through buybacks in addition to an increasing dividend.

With several long-term options, young investors with a long enough time frame will inevitably become very wealthy over time. The only question is just how diligent they will remain, as holding shares over the long term has proved to be very profitable.

CATEGORY

1. Dividend Stocks
2. Investing

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Date
2025/08/21
Date Created
2017/09/29
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