



How Easy it Is to Become an RSP Millionaire

Description

For young investors with a 30-year time horizon, the potential for becoming a millionaire by using a Retirement Savings Plan (RSP) alone is actually easier than one might think. Although gains are tax sheltered inside a Tax-Free Savings Account (TFSA), allowing for the compounding power to be maximized, the truth is that an RSP may actually get investors there much more quickly.

Investors using an RSP may have the benefit of receiving money refunded from the government due to their contribution. For a 35-year-old investor with a marginal rate of tax contributing \$5,500 annually, the tax savings could be close to \$1,800 annually. Effectively, an out-of-pocket RSP contribution of \$5,500 can lead to a total of \$7,300 of tax-sheltered savings. For a young investor repeating this process over a 30-year period, the rate of return required to achieve the \$1 million mark is no more than 9%, assuming they start with no money at all.

Although a 9% return may seem daunting to certain investors, there are a large number of companies that have returned this over the past five to 10 years. For investors looking beyond the banking sector, shares of insurance company **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) have compounded at a rate of more than 20% over the past five years in addition to the dividends paid to investors. With a current yield of 3.3%, investors will need only a 5.7% return to achieve the 9% number.

For those wanting to be more aggressive and potentially achieve the mark in fewer than 30 years, shares of **BlackBerry Ltd.** ([TSX:BB](#))([NASDAQ:BBRY](#)), which, in spite of a more recent challenging environment, have still managed to grow at a rate of almost 16% over the past five years. Although there are no dividends paid to investors, it is worth noting that the business has returned to a comfortable normal after the advent of the smartphone and the expansion into the consumer market. Now that it's exited this segment, investors need to be concerned with the return on equity offered by the company instead of hitting another grand-slam home run.

For those wishing to take a gamble, shares of **Bombardier, Inc.** ([TSX:BBD.B](#)), at less than \$2.30 per share and with the backing of the Quebec government, may be offering a significant amount of upside. The company, which has been in the news due to a number of shortcomings, actually has a rail division that is regarded as a grade A type of operation across the globe. The company's failures have

mainly come from the airline segment.

In order for investors to achieve a compounded rate of return of 9%, there are a few different options which include both the “tortoise” option and the “hare” option. A slow and steady 9% annually may be difficult to accept during challenging economic times, whereas investments like Bombardier, Inc. comes with a lot more bumps in the road, but hopefully a better payoff.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:BB (BlackBerry)
4. TSX:BBD.B (Bombardier)
5. TSX:MFC (Manulife Financial Corporation)

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