How to Reach Your First $50,000 in Savings

Description

As it seems very daunting to new investors to reach the $1,000,000 or the $5,000,000 mark, the truth is that everyone must start somewhere. For those at the starting line with nothing to invest, the first step is to reach the $50,000 mark and then to make another plan from there.

To make things easier, we can ignore all taxes by using a Tax-Free Savings Account (TFSA) and grow our money without interruption. For investors depositing $300 per month, or $3,600 per year, it will take a total of 13.9 years to achieve $50,000 in savings, assuming no return is earned. Investors depositing this money and investing it at a compounded annual growth rate of 10% will be able to achieve this amount in no more than nine years. For those who want to speed up the process, a 12% rate of return will shorten the timeline by close to half a year, while a 15% return will bring it closer to the eight-year mark. Obviously, the higher the return, the faster the timeline.

To choose the best security to accomplish this goal, investors must find a company with a long-term track record of delivering above-average results and the expectation that it will continue to do so throughout all phases of the economic cycle. Leading the pack is **Royal Bank of Canada** (TSX:RY)(NYSE:RY), which trades at a share price of $100 and carries a market capitalization of almost $150 billion. At this level, investors will receive a dividend yield of more than 3.5%.

In addition to offering investors one-third of the return they need from the dividend alone, the company has a significant amount of potential for capital appreciation. Given that earnings per share have increased at a rate of 7.2% over the past four full fiscal years, the dividend increases of only 9.2% have translated to a significant increase in retained earnings. As of the most recent quarterly financial reports, the company had a total of more than $72 billion in shareholders' equity, which is an increase from $52.7 billion from two-and-a-half years earlier. The upward catalyst could come in the form of a share buyback.

With a significant amount of potential, investors need not worried about the continued profitability of this name; instead, the concern should be about what to do with the dividends. Since the company will produce cash for shareholders (in addition to the regular contributions), it will be essential to find new areas to place this money.

Many investors have done well by holding shares of **Saputo Inc.** (TSX:SAP) over the past five years, returning 105%. In addition, investors have received a growing dividend, which is a current yield close to 1.5%. Although the business is not as exciting as many would enjoy, the returns have been consistent with a dividend-payout ratio which is considerably lower than investors would expect. With the potential for continued dividend growth, shares of Saputo Inc. are worth a good look.

CATEGORY

1. Investing
2. Stocks for Beginners

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1. Editor's Choice

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2. TSX:RY (Royal Bank of Canada)
3. TSX:SAP (Saputo Inc.)

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