



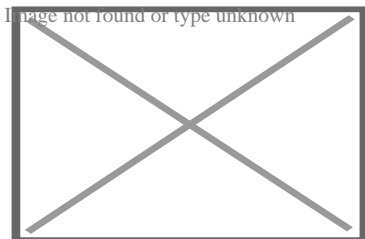
Do You Want to Get Rich Quickly?

Description

If you account for inflation, the market's long-term rate of return is ~10% in the U.S. and lower in Canada. So, it follows that to get rich quicker, you should aim for a rate of return of greater than ~10%.

However, is that what you really want? What are the trade-offs when you reach for higher returns?

There isn't an investment strategy that will allow you to beat the market every year. However, there's one strategy that should give you a higher chance of beating the market over the long run — value investing.



Even when you employ hardcore value investing, you still need the market (or rather the stocks in question) to cooperate. When you invest in a value stock, you're buying it because you believe it is discounted.

However, the stock is discounted for a reason, and investors need to determine if the cheap stock is discounted by a temporary issue, or if the company's value is permanently destroyed. Even if there's a temporary issue, it could be one that lasts for not just days or months, but a span of multiple years.

An example of getting rich with value investing

If you'd bought **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) near the low in February 2009 during the Financial Crisis and sold the holding when it traded at a pretty full value in May 2010, you would have booked total returns of ~132%, or an annualized rate of return of nearly 96%. In other words, a \$10,000 investment would have more than doubled to +\$23,200.

Using the gains from the BMO sale, you'd have to find undervalued stocks to invest in. There's no guarantee that the new stocks you pick will be better replacements (i.e., deliver higher returns than BMO going forward with similar amounts of risk).

Are you curious about what's happened to BMO stock since May 2010? Since then, the stock has delivered an annualized rate of return of 9.6%, which is roughly market matching. So, a \$10,000 investment held since February 2009 would have transformed to +\$45,200 for total returns of +350%, or an annualized rate of return of ~18.6%.

What does it mean to get rich quickly with value investing?

In order to get rich quickly using a value investing, investors essentially need to buy [undervalued stocks](#) and sell them when the stocks are near their fair valuations. If not, it'll be difficult to outperform the market, unless the companies are growing at rates of at least 10%.

If you sell stocks near their fair valuations and use the proceeds to buy undervalued stocks, it follows that the portfolio wouldn't be diversified. In fact, I wouldn't even call that investor building a portfolio. Then again, this investor's goal is to get rich quickly.

Investor takeaway

Before you consider any get-rich-quick investment strategies, think about what the [trade-offs and risks](#) are.

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