



How to Turn \$50,000 Into \$1,000,000 by Retirement

Description

Everyone wants to have a good nest egg for retirement and there are several strategies for getting there. Below, I'll discuss how you could get to the \$1,000,000 mark by the age of 65 if you have \$50,000 today and have 25 years to go. While this is for illustrative purposes and by no means a guarantee, it'll give you an idea as to how it could be attainable without having to take on significant risk.

Why dividend stocks are a great choice for long-term savings

The safest approach to building up your wealth over the long term is by focusing on blue chip dividend stocks. While investing in tech or high-growth stocks might be appealing, there's a lot of risk there. Just think of what the popular tech stocks are today versus 10 years ago and you'll definitely notice a lot of turnover. In the worst case scenario, a company like **BlackBerry** completely nosedived after failing to be competitive in the cell phone industry. High-growth stocks that look good today might not be a decade from now.

The analysis

To keep this simple, I'll focus on just one stock to put the hypothetical investment in, and that's **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)).

TD is a great long-term stock that you won't have to worry about checking up on. It'll grow and accumulate lots of dividend income for you as well. While there might be dips in the economy, over the long haul the stock will continue to rise.

With TD, you'll benefit not only from a [growing dividend](#), but capital appreciation as well. As the bank continues to grow its profits, the stock will continue to rise in value as it typically trades at a multiple of 13 times earnings, [although it's a little below that right now](#).

Over the past 10 years, the stock has climbed by more than 270%, thereby averaging a compounded

annual growth rate (CAGR) of over 14%. That’s a bit of a high growth rate and I’ll take a more conservative rate and assume TD will grow by 12%, on average. In five years, its dividend has also grown from quarterly payments of 47 cents to 75 cents, which equates to a CAGR of 9.5%. I’ll also be a bit more conservative here and assume the dividend growth rate will be at 9% as well.

In terms of dividend income, TD’s yield is around 3.9% today, meaning that you’ll earn \$1,950 in the first year. But with the dividend growing over the years, by year 25 you’ll be making over \$15,000 on your initial investment. Over 25 years, the estimated dividend income under this model would come in at just over \$165,000. The real source of your wealth, however, will come via capital appreciation.

If TD’s stock continues its impressive rate of growth for the next quarter century, your \$50,000 would become \$850,000. Combine that with the dividend and you’ll have reached over \$1,000,000.

Here’s a breakdown by year:

Year	Dividend Income		Share Value
1	\$	1,950.00	\$ 56,000.00
2	\$	2,125.50	\$ 62,720.00
3	\$	2,316.80	\$ 70,246.40
4	\$	2,525.31	\$ 78,675.97
5	\$	2,752.58	\$ 88,117.08
6	\$	3,000.32	\$ 98,691.13
7	\$	3,270.35	\$ 110,534.07
8	\$	3,564.68	\$ 123,798.16
9	\$	3,885.50	\$ 138,653.94
10	\$	4,235.19	\$ 155,292.41
11	\$	4,616.36	\$ 173,927.50

12	\$	5,031.83	\$ 194,798.80
13	\$	5,484.70	\$ 218,174.66
14	\$	5,978.32	\$ 244,355.61
15	\$	6,516.37	\$ 273,678.29
16	\$	7,102.84	\$ 306,519.68
17	\$	7,742.10	\$ 343,302.04
18	\$	8,438.89	\$ 384,498.29
19	\$	9,198.38	\$ 430,638.08
20	\$	10,026.24	\$ 482,314.65
21	\$	10,928.60	\$ 540,192.41
22	\$	11,912.18	\$ 605,015.50
23	\$	12,984.27	\$ 677,617.36
24	\$	14,152.86	\$ 758,931.45

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25	\$	15,426.61	\$ 850,003.22
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Bottom line

The big caveat in this analysis is that these growth rates are just assumptions; how the stock has done in the past is no guarantee of how it will do in the future. The best strategy for success is to build up your savings, as a higher starting point will mean you'll need lower growth rates to reach your desired goals.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

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