How to Save and Invest to Retire by 50

Description

For many investors, all the hours of reading balance sheets and analyzing cash flow statements is for a very simple reason: they want to retire early.

Who doesn't want to get to a point where you own every minute of every day? That right there is the ultimate form of freedom. You could elect to finally clean up the yard for good, write a novel, or just spend the time with your golfing buddies at the links.

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I can help you get there. Here's how much you'll need to save today to retire early and what investments you can make to get there.

Saving

I won't sugarcoat it. Accumulating enough capital to retire early will take a great deal of sacrifice.

It's best to be a little conservative when coming up with a retire-by-50 plan, since we can't guarantee the stock market will return +10% annually over the next 25 years. Let's assume you earn 8% on your money, which is still a solid return.

To get to $1 million 25 years from now, you'd have to save $1,000 per month each and every month until 2044. That's a tough slog, especially to do consistently for 25 years.

And then you don't know what inflation will do during that stretch, either. Retiring on $1 million is certainly possible for most middle-class folks today. But it might not be in 2044. If inflation averages just 2% a year between now and then, you'd lose some 60% of your purchasing power. $1 million won't go nearly as far as it does today.

This means we should be aiming to have a $2 million nest egg, which would mean we'd need to save just over $24,000 annually at an 8% return. That's $2,000 you'd have to squirrel away each and every month, which is a hard task for most folks, especially for those who don't earn a particularly high income.

The good news is, there are a couple of steps you can take to minimize this journey. The first is cutting your spending come retirement time and living a more simple life on less capital. If you find a way to spend just $30,000 annually after retirement and earn 4% dividends on your portfolio, you could theoretically retire once you accumulate $750,000.

The other way to decrease the amount needing to be saved is to earn better returns on your money.

Earn +10%

One of my biggest pet peeves is when financial advisors advocate clients ramp up risk in their portfolios to earn better returns, as if there's a magical machine they can just turn on to pump out better results.

There's no guarantee stocks will return anything going forward. There are simply too many variables to consider. All we can do as investors is look at companies with outsized historical returns and huge competitive advantages, and hope they can continue posting excellent results.

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One example is **Telus** (TSX:T)(NYSE:TU), a prominent member of Canada's telecom oligarchy. Telus boasts a strong wireless business with the industry's best retention rates and a solid cable, internet, and home phone division that is seeing nice growth in the cable and internet parts of the business. Telus continues to have a virtual stranglehold on Western Canada and is that region's telecom of choice.

I also like Telus's lack of media division — an industry with worse operating margins than telecom — and a succulent dividend of 4.3%. And Telus shares have done pretty well over the last decade, returning 17.4% annually since 2009.

Another great stock to own over the long term is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which has quietly turned into a North American financial services powerhouse after successful acquisitions boosted the U.S. side of the business. In its most recent quarter, TD earned $7.3 billion from its Canadian operations and $4.6 billion from its U.S. operations.

Like its peers, TD is investing heavily into digital assets to help the next generation of the bank's growth. It offers services like online mortgage applications and it uses digital methods to upsell customers on credit cards and other products.

A $10,000 investment made in TD 20 years ago with dividends reinvested the whole time would have turned into more than $73,000 today, a total return of 10.46%. Those are the kind of results that can really accelerate an early retirement.

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Date
2025/08/24
Date Created
2019/04/26
Author
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