Millennials: Retire by 40 by Following These 4 Simple Rules

Description

There's a growing movement both in Canada and around the world, led by folks who have had enough with traditional careers. The Financial Independence/Retire Early (FIRE) revolution explains how average folks can retire earlier than they ever imagined.

Many early retirees have hung up their proverbial skates by the time they hit 40, throwing off the shackles of work for a lifetime of travel, visiting family/friends, or retirement passion projects. Sometimes these folks continue to work but do so under their terms.

It's easier than you think to join these people. Here are four steps you'll want to follow if you desire an early retirement.

Get paid

You don't need a high-paying job to retire super early, but it certainly helps.

There's a limit to how far you can cut expenses, but no similar limitation on how much you can earn.

Easy steps one can take to maximize their income is to relentlessly apply for new jobs or promotions, take courses to make yourself more employable, or even something as simple as picking up overtime at work.

Create new income sources

Landlords have used leverage to create passive income for generations now. Doing the same can really jumpstart your early retirement process.

I propose a different solution to the typical path. Instead of buying a typical rental property, load up on shares of one of Canada's top landlords. **Smart REIT** (TSX:SRU.UN) is a perfect example. The company owns some 150 different retail complexes, with the majority anchored by **Walmart** Canada stores. Some 25% of total rents come from the Arkansas-based retail giant, which then attracts enough foot traffic to entice other tenants. Smart's occupancy is above 98% because of this close relationship with Walmart.

Smart isn't just focusing on retail property. It's in the middle of an ambitious growth program, with 33 different projects currently under construction. These include some retail projects, but Smart is also expanding into other areas of real estate like office buildings, self-storage facilities, seniors housing, and apartments. Investors needn't worry about Smart's ability to pay for this, either. It has a 42% debt-to-assets ratio — one of the cheapest in the sector.

Smart also pays a 5.3% dividend — a payout that has been hiked annually since 2013.

Move somewhere cheaper

I'm a big bull on Canada's largest cities. I can think of few places in the world that offer a higher standard of living than Toronto, Vancouver, or Montreal.

But you might want to rethink your living situation if you hope to retire early. Smaller cities offer many good jobs that come with the perk of much lower costs of living. Take Lethbridge, Alberta, for example. The city boasts nearly 100,000 people with all the amenities you could ever need. Rather than paying $400,000 for a decent condo, you can buy a place for under $200,000.

Create a dividend-growth portfolio

I believe every retiree would benefit from having a dividend-growth-focused stock portfolio. They can spend their dividends while allowing the underlying shares to compound.

Intact Financial (TSX:IFC) is a fantastic option for dividend growth. Canada's largest property and casualty insurer has hiked its dividend each year since 2005, increasing the annual dividend from $0.65 per share to a projected dividend of $3.04 per share in 2019. That's a compound annual growth rate of more than 11% and a current yield of 2.5%.

The company has two growth paths available. The first is to continue to consolidate the Canadian home, auto, and business insurance market. It's the largest insurer in the space by far but still only has a 16% market share. And it has plenty of room to expand further into the U.S., which is the source of about 15% of its revenue today.

Shares trade at a reasonable valuation today, checking in at 18.5 times projected 2019's earnings. This might seem a little expensive, but Intact has grown its top line by more than 10% annually for the last decade. It's a reasonable price to pay for a nice growth opportunity.

The bottom line

It won't be easy to retire by 40. You'll have to save at least half your salary and invest those savings well. Focusing on increasing your income while keeping expenses low will help, too. And so will stuffing your portfolio full of great stocks like Smart REIT and Intact Financial.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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nelsonpsmith