



3 Simple Steps to Becoming a Stock Market Millionaire

Description

While the idea of becoming a stock market millionaire may sound unlikely to some people, it is a realistic aim over the long run. The stock market has a long track record of delivering capital growth and rising dividends. When combined, this could turn even modest sums of money into significant amounts during the life of any investor.

Indeed, through taking risks where the potential rewards are high and allowing compounding to have an impact on a diverse portfolio of stocks, becoming a stock market millionaire may be within your grasp.

Taking risk

While many people shy away from taking risks with their hard-earned cash, doing so can be a worthwhile move in the long run. Of course, nobody ever wants to lose money. But in order to achieve a higher rate of return than cash it is a requirement to risk short-term losses for long-term gains.

Of course, investors who have a short-term time horizon may be unable to take significant risks with their capital. If there is a market downturn, for example, there may not be time for a recovery to take hold. However, for individuals who have a time horizon of 10 years or more, for example, taking risk through buying fast-growing stocks could be a wise move. There is likely to be time to not only recover from a future bear market, but to also benefit from the growth potential of the stock market during that time.

Diversification

While taking risks is a worthwhile step for long-term investors, so too is diversifying across a variety of sectors and countries. At the present time, there are a number of appealing growth opportunities on offer across the world economy. For example, emerging markets offer growth potential, while sectors such as healthcare and consumer goods could benefit from a growing world population.

Therefore, in order to access the full range of [growth opportunities](#) that exist at the present time, it may be necessary to spread your capital across a number of different areas. Not only could this allow you to capitalise on multiple catalysts on global economic growth, it may also limit your overall risk. In doing so, your portfolio may have a more favourable risk/reward ratio.

Compounding

While compounding is something that most investors know and understand, its importance is sometime underestimated. Although it can take years for compounding to have a significant impact on a portfolio's performance and valuation, during an investor's lifetime it is likely to be one of their most powerful tools in achieving millionaire status.

Even modest levels of investment undertaken on a regular basis that generate the same return as a stock market index can lead to a surprisingly large nest egg over a multi-decade period. Therefore, reinvesting dividends, not withdrawing profits from a portfolio and sticking with the stock market over the long term could improve your chances of making a million.

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