Millennial Investors: Yes, You Can Retire by 40. Here's How

Description

The FIRE movement is here, and for thousands of Canadians it's their ticket to freedom.

FIRE — which stands for "financial independence, retire early" — is achieved when someone accumulates enough capital to never have to work again. These folks can live off passive income generated by their portfolio or by withdrawing 4% of their portfolio each year. This 4% rule isn't perfect, but back-tests reveal it's a safe withdrawal rate most of the time — even for retirements that could last 50 years.

Some of the folks who have achieved FIRE go on permanent vacation, content to travel the world. Others use their financial freedom to switch jobs to something that pays far less, or they use the time freed up by not working to fully embrace a passion project or volunteering. When you're wealthy enough to no longer have to worry about money, the world is your oyster.

So, how exactly do you get there? The concepts aren't that hard. It's the execution that's the tough part. Let's take a closer look at how someone who is 25 today can retire by 40.

First, save a ton

An integral part of any early retirement plan is creating a massive savings rate. You'll need to save at least half your income to make retirement in 15 years possible.

There are two parts of saving money — spending and earning. Let's start with the latter.

You'll want to maximize your income to really get ahead. Some people reading this might already be lucky enough to make a six-figure salary. For those of you who don't quite make that much, you'll need to take steps to increase your top line. That might mean going back to school, switching jobs, or taking on a side hustle that you do on evenings and weekends.

The FIRE movement is full of people who increased their salaries by 50-100% by taking some of those easy steps.

Next, it's time to reconsider your expenses. If you live in an expensive city, get a roommate. Restaurant meals are always going to be more expensive than eating at home. You might want to ditch your car for public transit, too.

Joining the FIRE crowd can be much easier if you have a spouse that's on board. You'll get the benefits of two incomes but your living expenses can be easily shrunk down to something that resembles a single person's expenditures.

Now, let's invest

I still think dividend-growth investing is the best way for a potential early retiree to put their money to work.

The method will ensure a steady stream of consistently increasing income, backed by some of Canada's best companies. It's not hard to build a portfolio that yields 4% with 5-8% expected annual dividend increases. That's exactly what an early retiree should be looking for.

All of Canada's five major banks would make a good addition to a dividend-growth portfolio, but there's one in particular I really like today. **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) trades at an attractive valuation, it has a interesting growth plan in Latin America, and its Canadian operations continue to chug along nicely.

Scotiabank shares trade at just 9.6 times projected 2019 earnings and at just 1.3 times book value. Each of these metrics are cheaper than the average of its peers. The stock also features a succulent 5.1% dividend — a payout that has been raised each year since 2010. Dividend growth has averaged approximately 6% over the last decade.

All these combine to make a very attractive entry point today.

The payout is secure. Remember, Scotiabank is one of the few members of a very select club: Canadian companies that have paid an uninterrupted dividend for at least a century.

The bottom line

I won't sugarcoat it. Amassing enough money — at least $1 million, and quite possibly more — to retire in just a decade or two isn't easy. It'll be a constant sacrifice.

But if you speak to early retirees, they'll all say the same thing: the effort is worth it. There's nothing that beats the feeling of knowing you'll never have to work again.

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