Could You Retire With $300,000?

Description

The subject of FIRE (financial independence, retire early) has been a sizzling topic of late, especially among the millennial cohort who are looking to check out of the workforce at an earlier age than their Baby Boomer parents.

Retiring decades earlier than the “norm” age of 65 is a realistic endeavour for those who are willing to make lifestyle sacrifices early on.

While retiring early does entail taking a rain check on the fancy wedding, the luxury car, the children (at least for now), and home ownership, it doesn’t mean aggressive penny-pinching, couponing, or taking a pass on those comforts and conveniences that enrich our daily lives.

As you’d imagine, by delaying “major” milestones of adulthood, one can save up a heck of a lot of cash that can be used to finance an early retirement. But the million-dollar question (or perhaps $300,000 question) is how much is enough to support a retirement indefinitely?

The last thing anybody wants to do is run out of money in the midst of a comfortable retirement and in an age of rising life expectancy, one needs to ensure their retirement account is capable of sustaining a retirement that could go on decades past the age of 80.

Since we don’t know when we’re checking out, it’s vital to look to passive income stocks as a gauge for how much income we can expect to rake in on a monthly basis.

You’ve probably heard of the 4% rule, whereby one takes their net worth and multiplies it by 4% to get the annual income one would stand to receive. With $300,000 in the bank, an amount that millennials can realistically expect to save up in their 30s, the 4% rule yields an annual income of $12,000, leaving one just $1,000 to spend each month.

And unless all $300,000 has been created within a TFSA, the income stream will be subject to taxation, leaving less than $1,000 per month to spend.

Yikes! So much for retiring with $300,000 in the bank, right?

Not so fast. The 4% rule is a rule of thumb to keep misinformed investors out of trouble, but it's not to be taken as gospel, especially for experienced investors who do their homework.

While the magnitude of yield is proportional to the amount of risk one will take on, there are ways of tilting the risk/reward trade-off in one's favour. For instance, there are 8% yielders out there that look less risky than securities with yields that are half its size.

Consider **Inovalis REIT** (TSX:INO.UN), an 8.2%-yielding European-focused REIT that probably has the safest +8% distribution on the TSX Index. The REIT hasn't crashed like most other securities with similarly-sized yields.

The high yield is by design, and with more flexibility as a smaller-cap business ($240 million market cap), the REIT is capable of growing its distribution over the long haul as it adds to its relatively small portfolio of properties.

What's the catch?

Unless you buy a short-lived dip, you're probably not going to get any meaningful capital gains over time. Shares of the REIT fluctuate, but over prolonged periods of time, little to no capital appreciation should be expected, but that's fine given the generous distribution.

Moreover, with a low 0.43 beta, the REIT is far less volatile than the broader markets, boding well for those who don't like checking in on the daily to see how their principal is holding up.

With Inovalis's reasonably reliable 8.2% yield, one can expect $24,600 in annual income, which works out to $2,050 in monthly income, more than enough to lead a modest lifestyle in Canadian cities than aren't Vancouver or Toronto!

While the amount of capital growth is meagre, in theory, one could support a retirement income stream with just $300,000, rather than the millions that financial advisors suggest.

Indeed, betting on a portfolio of securities that average a yield north of the 8% mark is more aggressive, but it's not reckless. Not by a long shot in the case of Inovalis and several other high yielders out there.

So, the answer is yes; you can theoretically retire with $300,000 in the bank. But should you? That's up to the individual, but preferably, it'd be advisable to inject more growth into one's portfolio, so one's purchasing power can outpace inflation over time.

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joefrenette