Millennials: Can You Retire on $300,000?

Description

The FIRE (financial independence, retire early) movement is the hot topic when it comes to millennials, a generation that values experiences and financial freedom over materialistic consumption and the traditional (and expensive) adulthood script that their boomer parents followed.

Many older generations view millennials as lazy, entitled or just plain bad with personal finances. In reality, however, given the hand that millennials were dealt (sky-high housing prices, crippling student debt, lower wage growth, and a far more promiscuous labour market), millennials are just playing their hand to the best of their ability.

While millennials may seem reckless with their spending with their daily lattés, pieces of avocado toast (no millennial-focused article is complete without mentioning avocado toast!), $1,700 cellphones, frequent orders from **Amazon.com**, and all the sort, many people are underestimating millennials' ability to save money.

In some instances, millennials are already hanging up the skates while many boomers continue to work into their later years.

While many millennials are spending considerable amounts of money on comforts and conveniences, many of these said millennials are not opening up their wallets to finance many of the expensive milestones of adulthood: no fancy marriage ceremony, no kids, no home ownership, and no car.

That leaves a heck of a lot of cash left to be saved on an income stream. Those millennials who have been investing with their Tax-Free Savings Accounts (TFSAs) may be on the verge of retiring with just $300,000 in the bank.

The millennial cohort has broken most of the rules followed by prior generations, mostly because they don't work anymore. While it may seem that there's something wrong with millennials (laziness, or being entitled), one could argue that millennials are smart to resist tradition given the unique environment that they were born into.

The old script of getting married with kids, an SUV and the mortgage is out. Early retirement is in.

While many prospective retirees look to the 4% rule as a gauge for retirement readiness, you can bet that certain millennial rule-breakers are willing to challenge the rule with far less than is recommended by most financial advisers.

So, is just $300,000 enough to reach financial independence and early retirement?

As you may know, higher investment income comes at the expense of growth. But for those serious about hanging up the skates with just $300k in the bank, one must go to the extreme side of income, surrendering a tonne of growth potential.

When it comes to extremely high-yielding securities, there's a safe play such as **Inovalis REIT** (TSX:INO.UN) with its 7.5% yield that's covered by adjusted funds from operations (AFFOs) with enough wiggle room to finance long-term distribution growth.

There's also the risky income play that comes with far greater potential rewards, as with **American Hotel Properties REIT** (TSX:HOT.UN) with its whopping 12.6% dividend yield.

As you'd imagine, HOT's sizzling distribution is on far less stable financial footing than that of Inovalis. Inovalis is flirting with all-time highs, while HOT shares are down over 42% from its all-time high reached around five years ago.

With Inovalis, you're trading future growth for safe income. And with HOT, you're taking a risk for a chance to lock-in the massive distribution yield and the potential for outsized capital gains over time.

Inovalis is doing quite well and HOT has its fair share of baggage and a turnaround plan, which may or may not allow the distribution to remain as high as it is.

With Inovalis's 7.5% yield, one stands to land $22,500 in income before taxes (taxes negligible if you've amassed a $300k TFSA) and with HOT's 12.6% yield, one could have a $38,000 income stream.

Neither is enough to finance a lavish lifestyle. Still, HOT's distribution can allow one to live very comfortably, assuming the REIT doesn't run into further trouble to cause a reduction to its distribution.

Foolish takeaway

Given that millennials live a modest lifestyle with fewer massive expenses (like a mortgage, car payments, and all the sort), HOT's $3,150/month pre-tax income is enough to retire with should HOT find a way back on the right track and keep its distribution intact.

Inovalis's $1,875/month pre-tax income is enough to live a frugal and minimalistic life, which may or may not be comfortable depending on the individual.

CATEGORY

1. Dividend Stocks

2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:HOT.UN (American Hotel Income Properties REIT LP)
3. TSX:INO.UN (Inovalis Real Estate Investment Trust)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date
2025/08/25
Date Created
2019/12/06
Author
joefrenette