



## Millennials: Can You FIRE on Just \$500,000?

### Description

Financial independence/retire early — commonly known as FIRE — is sweeping North America as thousands of prospective early retirees are realizing that extreme saving is easier than they believed.

They imagine an extended retirement filled with humanitarian efforts, passion projects, and extended travel, among other things.

The movement has seized upon the 4% rule as a mantra, an academic study that says a retiree can withdraw up to 4% of their savings each year and still have enough that they won't run out of money.

Anyone with even a basic understanding of finance knows you can't get a 4% return from ultra-safe sources like GICs or government bonds, so a retiree's portfolio must be at least partially invested in the stock market.

Generally, this rule of thumb has meant that folks who are looking to retire 20 or 30 years earlier than normal need to accumulate a nest egg of at least \$1 million, which would guarantee a \$40,000 annual income for life. While that might not seem like a lot, it's typically plenty for someone who is used to saving 50-90% of their income.

But what if you're one of those impatient millennials who wants to retire with a mere \$500,000 in the bank? Can you pull it off? Let's take a closer look.

### The skinny

The 4% withdrawal rule is pretty clear on this. Unless you have a unique living situation that allows you to pay all of your bills on \$20,000 per year, retiring early on just \$500,000 in savings probably won't be sustainable.

However, there are many things a prospective early retiree can do to rectify this situation.

The first would be to get a part-time job: 1,000 hours at \$20 per hour would be enough to make

\$20,000 before taxes and other deductions. But as you wouldn't have much total income, taxes wouldn't be a huge burden.

Many early retirees want to get away from the rat race to do passion projects. A new side hustle could easily turn into serious source of income. In other words, you'd throw off the shackles of corporate work for something more flexible, improve your quality of life, and make a little cash in the process.

## Passive means

To turn a \$500,000 nest egg into \$40,000 per year in passive income, you'd need to earn an 8% yield on your cash. That's a tall order in today's world of low interest rates.

Many stocks with an 8% yield or higher today offer a payout that's a little iffy. And many come with the risk of capital loss once the [dividend is cut](#). That's the kind of double whammy you want to avoid.

Instead, investors should check out stocks with 5-7% yields that also have a history of growing the payout and delivering steady capital gains, which means that investors can withdraw their dividends while the underlying portfolio slowly gains in value.

For the sake of simplicity, let's assume an early retiree had all \$500,000 invested in one of Canada's best stocks, **Brookfield Property Partners** ([TSX:BPY.UN](#))(NASDAQ:BPY).

Brookfield owns a collection of the world's best real estate, including office towers throughout North America and Europe, some of the United States' best shopping malls, and a portfolio of distressed assets.

Despite having an excellent portfolio and the backing of some of the world's smartest investors, Property Partners trades at a [steep discount](#) to management's opinion of fair value, which is US\$30 per share.

The current price of the U.S.-listed shares is \$18.77, a significant discount to fair value that should translate into nice capital gains as the discount narrows.

The current dividend is an excellent 7%, and investors should be able to expect annual raises in the 5-8% range as the underlying properties increase their rents.

The company is also continually raising cash by selling formerly distressed assets, as well as sitting on a cash position of more than US\$2.1 billion. You don't have to worry about the security of this payout.

## The bottom line

While I wouldn't dare attempt to retire early on just \$500,000 in the bank, you can drastically increase your chances of success doing so by continuing a frugal lifestyle, making extra cash working part time, and investing in high-yield stocks with good payouts like Brookfield Property Partners.

### CATEGORY

1. Dividend Stocks

2. Investing

## TICKERS GLOBAL

1. TSX:BPY.UN (Brookfield Property Partners)

## PARTNER-FEEDS

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