Forget Lotto Max: Here's How to Retire a Millionaire

Description

The Lotto Max jackpot prize is now at a record $70 million, and another 25 prizes of $1 million are up for grabs in the January 7th draw.

This might entice investors to buy a $5 ticket on the hopes of hitting the jackpot. Some people will spend hundreds or even thousands of dollars on the draw or on lottery tickets in general throughout the year.

Unfortunately, the odds of winning the Lotto Max jackpot are one in 33 million. To put that into perspective, imagine 33 million keys lined up in a row and you get three chances to find the one key that opens the door to the vault that holds the $70 million prize.

Some people say they would be happy with $200,000, $500,000, or $1 million in winnings. The Lotto Max odds for matching six of seven numbers plus the bonus number are about one in 4.8 million, and that prize has an average payout of roughly $194,000. Any other prizes below that level wouldn't make a meaningful difference to most people's retirement plan.

Now, lotto fans say you can't win if you don't play, and it seems everyone knows somebody who knows another person who has beaten the odds and won big on the lottery. That's true, but there are more reliable ways to retire rich.

One popular strategy that has a proven track record of building retirement wealth is to own quality dividend stocks and use the distributions to buy additional shares. Savvy Canadian savers have done this using RRSP accounts for decades, and the TFSA is becoming a reasonable option as well.

When dividends are invested in new stock, a powerful compounding process kick into gear. The snowball effect can build a substantial retirement fund over time, especially when the share growth is combined with an increased stock price.

Which stocks should you buy?

The best companies tend to be industry leaders with strong histories of revenue and profit growth that support rising dividends and higher share prices.

Let’s take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see why it might be an interesting pick to launch a TFSA or RRSP wealth fund.

Royal Bank is Canada’s largest bank with a market capitalization of about $150 billion. In fact, it is the largest company on the TSX Index and ranks among the top 15 banks globally based on that metric.

The company gets its revenue from a balanced mix of personal banking, commercial banking, capital markets, wealth management, insurance, and investor and treasury services. The largest part of the earnings comes from Canada, but the U.S. is also a major contributor, and operations in more than 30 other countries round out the revenue stream.

Royal Bank earned $12.9 billion in adjusted profits in fiscal 2019. The bank has a strong track record of dividend growth and is well capitalized to ride out the next economic downturn.

Management is investing heavily in digital solutions to ensure Royal Bank remains competitive, as the industry and its customer base changes.

The current dividend provides an attractive 4% yield.

Long-term investors have reaped the rewards of owning the stock. A $10,000 investment in Royal Bank just 25 years ago would be worth $330,000 today with the dividends reinvested.

The bottom line

Buying lottery tickets pays off for some people, but owning reliable dividend stocks has proven to be a better plan for securing a comfortable retirement.

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Date
2025/07/30
Date Created
2020/01/07
Author
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