



## How to Build a \$1.2 Million RRSP in 25 years

### Description

A million dollars isn't worth as much as it used to be. With interest rates at historic lows, the passive income you can generate on million dollars is barely enough to cover living expenses. The value of a million will probably degrade further, so accumulating wealth early is imperative.

With that in mind, here's how you can use the Registered Retirement Savings Plan (RRSP) to breach seven figures in 25 years or less.

### Consistent savings

Maximizing your RRSP is probably the most obvious first step on your path to a million. RRSP contributions offset your taxable income and provide a shield for capital accumulation over time. In other words, you can invest tax-free.

Unfortunately, only one in five Canadians actually use this tax-free instrument. According to Statistics Canada, only six million people (22% of the workforce) contributed to their RRSPs in 2018.

Being part of this cohort and contributing to the RRSP consistently is a surefire way to boost your wealth over time. Assuming you start off with \$25,000 and contribute \$10,000 every year, your account could balloon over time. A simple index fund could deliver an average of 6% compounded over 25 years to help you accumulate \$656,000 in your RRSP.

However, to meet your million-dollar goal, you might have to adopt a more aggressive investment strategy.

### Aggressive investments

Growth stocks can deliver far greater returns than the mainstream index funds. Rather than aiming for a 6% annual return, investors can aim for a double-digit annual growth rate in certain sectors. Technology and consumer brands, for instance, have sharper growth trajectories than mundane energy or utility stocks.

[Emerging technology stocks](#) such as **Lightspeed POS** or high-margin retailers with room to grow, such as **Canada Goose**, could deliver stunning performance over time. A portfolio of high-growth stocks could allow your RRSP to expand 10% or higher every year.

Assuming you start off with \$25,000 in your RRSP, contribute \$15,000 every year and pick investments that deliver 10% or more in growth, your portfolio could reach \$1.2 million within 25 years.

## Diversification

Creating wealth in the stock market is never a smooth process. An aggressive growth strategy could be derailed by major losses along the way. To mitigate the risk of losing money, you might want to diversify your RRSP holdings.

Splitting your capital between different stocks and different industries reduces the risk of losing too much money on any specific bet. Diversification is probably the most underrated tool in the investor's toolkit.

## Foolish takeaway

The RRSP is an incredible tool for Canadians to secure their retirement. A tax write-off upfront and a tax-shield for capital gains over time are generous incentives for investors. Unfortunately, only 23% of Canadians are contributing to RRSPs regularly.

Clearly, maximizing the contribution room every year is a great first step for any investor. However, if you're an ambitious investor with an appetite for risk, you could secure a million-dollar retirement.

Aggressively betting on growth stocks could push your RRSP past seven figures in 25 years or less. For most investors, it's worth a shot.

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