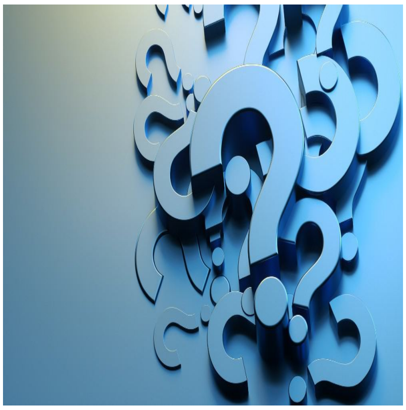

2 Ways to Be a Millionaire: Which One Would You Choose?

Description

While fearmongers continued to issue bleaker outlook for the markets, **TSX** stocks comfortably soared 45% in the last three months. Given the magnitude of the epic fall in March, the recovery has been quite remarkable.

Some might feel that they have missed the bus as stock valuations have again risen close to their pre-pandemic levels. However, I think a consistent, disciplined approach over the long term would ensure investments close to fair values.

Millionaire-maker stocks

Canada's tech sector has been a solid wealth creator for shareholders over the last several years. Top TSX stock **Constellation Software** (TSX:CSU) has returned approximately 46% compounded annually in the last 10 years. An investment of $25,000 in CSU 10 years ago would have accumulated more than $1.1 million today.

Constellation Software acquires smaller software companies that hold a leadership position in niche markets. It has completed more than 260 acquisitions in the last 25 years. It provides mission-critical software solutions to commercial as well as governments and related clients.

Constellation Software's above-average earnings growth drove its stock in all these years. It might continue to grow at a superior rate for the future, given the unique business model.

However, e-commerce titan **Shopify** could be a more pertinent example. The stock has grown by 98% compounded annually in the last five years. A shift in shopping trends from brick-and-mortar stores to online platforms played out very well for Shopify. If one had invested $25,000 five years ago in Shopify, they would be sitting at around $800,000 today.

This is the ultimate advantage of being invested in a high-growth company. Though they have higher risks, relatively faster growth generates a significant wealth in a shorter period.

Aggressive versus defensive stocks

Let’s take a look at how things change with slow-growing stocks. Utility stocks like **Fortis** (TSX:FTS)(NYSE:FTS) are classic examples. FTS has returned 9% in the last decade, which is largely in-line with the broader markets.

Utility stocks like Fortis are perceived as defensives due to their stable dividends and less volatile market movements. Also, their earnings are relatively secured even in economic downturns. So, they could be effective hedges during market crashes.

Plus, their dividend payments create a passive income stream for years, which would be highly valuable during uncertain times.

When it comes to wealth creation, however, utility stocks are less useful. Considering the historical returns of Fortis, it might take more than 40 years to turn a $25,000 into a million.

Thus, investors should note that high-growth stocks could take a much shorter time to build a solid retirement reserve compared to slow-growth options. This is where taking a high risk can pay off.

However, among these two alternatives for creating wealth, investors should take the third path, which lies in between. A combination of such high-growth and slow-growth stocks would generate a robust reserve over the long term.

A diversified portfolio of aggressive as well as defensive stocks would stand relatively better in any kind of market. Remember, eliminating risk is not the right approach to investment, but rightly managing that risk is.

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2. TSX:CSU (Constellation Software Inc.)
3. TSX:FTS (Fortis Inc.)

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