The 1 Thing You Must Do to Retire Early by 10 Years

Description

I've always been an advocate of value and dividend investing. I still believe that safe dividend stocks can be an important source of income for retirees. However, over the years, I've become increasingly convinced that having growth stocks in one's portfolio is key to early retirement.

Finding growth stocks

Now that you know growth stocks can allow you to retire early, let's explore one way to find them. William O'Neil created a system, CANSLIM, to choose growth stocks using a mix of fundamental and technical analysis.

The "C" and "A" are fundamental analysis components. Specifically, the **c**urrent quarter earnings per share must be increasing rapidly from the quarter in the prior year. The **a**nnual earnings-per-share growth should also be high over the past five years. Ideally, you want an earnings-per-share growth rate of 20% or higher.

Growth stocks you want to buy and hold

There are certain growth stocks that you might want to buy and hold — ones that are riding on a secular growth trend and disrupting industries, if you will.

Amazon is a prime example. Interestingly, for years, it didn't have consistent earnings growth, and many analysts kept saying it was too expensive, but the stock kept climbing higher over time.

That said, Amazon had more consistent operating cash flow growth. So, cash flow growth is another metric that investors can look out for when seeking growth stock investments.

Kudos to David Gardner, co-founder of Motley Fool, for first recommending the growth stock in 1997. Since then, the stock has been a 593-bagger. Amazon has disrupted the retail industry. It has also diversified into cloud and streaming services that further solidifies its future growth.

How growth stocks allow you to retire early

Much of the growth in growth stocks happens early on. So, it makes a big difference whether you're buying them in year one or year 10.

For example, by buying Amazon stock in 2007 and holding it until now, it would be a 76-bagger. An investment in 2017 turned only into a four-bagger. If you bought $10,000 of Amazon shares in 2007, you'd be sitting on $760,000 versus $40,000 for an investment in 2017.

The risks of growth stock investing

The growth stock discussion would be incomplete if I didn't talk about the risks that may be involved.

Unlike dividend stocks that can deliver a big portion of returns from the dividends, growth stock investors rely entirely on price appreciation.

Since 2011, **TC Energy** stock has doubled one's investment with annualized total returns of about 8.4%, of which more than 50% came from dividend returns. While investors can buy and hold dividend stocks like TC Energy, they might need to take on a more active approach in managing their growth stock holdings.

Often, investors are paying very high multiples for the future growth of growth stocks. Any slowdown of growth in the company could trigger a big selloff. At such times, investors will need to determine if they're temporary setbacks.

For example, Amazon stock fell 30% in late 2019. With any big selloffs in stocks, but particularly in growth stocks, investors will need to quickly determine if they're buying opportunities or times to get out.

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