Want to Retire Early? Buy Stocks in 2020

Description

If you want to retire early, you've got your work cut out for you. According to a **CIBC** study, the average Canadian believes they need $756,000 to retire comfortably — and that number will rise with inflation. So if you hope to retire in 10 years, the amount you need may have grown significantly by the time those years have passed.

Trying to get to $756,000 by saving isn't realistic. If you save $20,000 a year, you could get pretty close to the finishing line in 35 years. That might work for somebody just embarking on their career at age 25 and aiming to retire in their 60s. But if you want to retire early, you'll need to do more than just save.

Investing: the key to retirement

The key to retiring early is to invest your savings. By putting your money in stocks, bonds and real estate, you can grow it dramatically over time. Even a modest return of 5% a year can double your money given enough time. By putting your money to work for you, you stand a fighting chance of retiring in good shape.

But that still leaves open the question of *what* you should invest in. On the one hand, you've got things like GICs, whose returns are guaranteed but pay next to nothing. On the other, you've got stocks, which can pay off handsomely–but with big risk. Deciding which to invest in is a major challenge.

If you're planning on working the standard 30-40 years, the safe stuff like bond funds and GICs should be fine. If you're going for early retirement, however, you really need to get into stocks. That means accepting the risk inherent in them as just the cost of doing business. If you want an exceptional outcome, you need skin in the game. In investing, that means taking on more risk.

Stocks have a long-term track record of performing

While stocks are risky, the potential returns are quite good. Even with relatively low risk investments like the **Vanguard S&P 500 Index Fund** (TSX:VFV)(NYSE:VOO), you could get about 10% a year. That's based on historical data going back to the 1970s. There's no guarantee that such returns will continue over the long term. But as long as there is economic growth, stocks should rise.

And, on top of the capital gains you realize, you'll also get a bit of dividend income. With gains and dividends combined, you can get a significant return, especially if you re-invest the dividends.

If you buy a fund like VOO and realize a 10% annualized return over 30 years, you'll end up with $170,000. That's a nice part of the way the $756,000. And if you earn a typical Canadian salary, you can save the required investment in a year or less.

2020: a good year to buy in

A big part of getting good stock market returns is investing at the right time. In general, you want to buy stocks when they're historically cheap, so you can profit as they return to normal valuations. This is called "buying the dip." And in 2020, you've got the opportunity to do it. With COVID-19 concerns sending stocks lower not once, but twice, there have been plenty of opportunities to buy low. So if you're looking to get into stocks, 2020 would be a good year to do it.

Canadian stocks vs. U.S. stocks

A final point worth touching on is the difference between Canadian stocks and U.S. stocks. In general, U.S. stocks deliver better capital gains, while Canadian stocks have higher dividend yields. So if you buy a Canadian fund like the **iShares S&P/TSX Capped Composite Index Fund**, your total return probably won't be as high as a U.S. fund, but you'll get larger cash payouts.

That can make a difference in retirement. Retirees generally need regular income, and timing stock purchases and sales is best left to professionals. So a mix of Canadian and U.S. funds is the way to go.

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Author
andrewbutton