Smart Investor: How Much — and Where — to Invest for a $1 Million Retirement?

Description

A million dollars is no longer a dream amount that only a few can own. A few easy steps and disciplined investing can get you there in 20 years or even less. It's never too early to start investing. Now, you must be wondering how much you need to invest to get a million-dollar retirement. You can't invest $1,000 and expect it to become $1 million in two years.

Making money from money is like making wine from grapes. Once you have processed the grapes, you have to allow the wine to mature in the barrel. The longer it stays in the barrel, the higher is its value. Similarly, once you have invested in good quality stocks, your money will grow the longer you stay invested.

How much should you invest?

The hallmark of a smart investor is he/she starts small and ends up big. If you have at least 20-25 years until retirement, you can start by investing $5,000 every year in high-growth stocks through your Tax-Free Savings Account (TFSA). A high-growth stock generally gives average returns of 15%-20% in 10 years. If you invest $5,000 every year in such a stock, you will have $150,000 in your TFSA after 10 years.

if you stop investing $5,000 annually and let your investment mature on its own, your $150,000 would become $1.1 million in 11 years. This is possible if the stock continues to generate a 20% average annual return. This strategy is ideal for millenials and Generation X who don't have a large amount to invest but have plenty of time to retire.

Where should you invest?

A trick to identify high-quality stocks is to look at their history and fundamentals. A stock's returnswould slow over time as the company grows. But what you need to see is if there is stable growth forthe last five to 10 years. You should also see if the factors that led to growth in the past would drivegrowth even in the future.

One such stock is **Enghouse** (TSX:ENGH). The company runs on the private equity model wherein it acquires smaller software companies that have stable cash flows. It benefits from recurring revenue from maintenance contracts and subscriptions. It also grows organically through cost synergies and cross-selling opportunities.

Enghouse stock has been trading on the stock exchange since the late 90s, and hardly reported any growth for the first 10 years. Its growth picked up after 2009 as software became more relevant and businesses invested more in software. In the last 10 years, its revenue surged at a CAGR of 15%, starting with a 20% annual growth in 2010 to 13% in 2019. Its stock also rose at a CAGR of 32% in the last 10 years.

Enghouse achieved this growth by focusing on four verticals, contact centers, telecom, transportation, and geographic information systems. Its growth has slowed, with the stock surging at a compound annual growth rate (CAGR) of 20% in the last five years. Hence, it is broadening its customer base to include new industries.

The pandemic has revived software demand. The growth of e-commerce and remote working would drive growth in the transportation and telecom segments. Enghouse has the potential to maintain a 20% growth in the coming five to 10 years.

Instead of putting all your money in Enghouse, diversify by investing in stocks like **Descartes** and **Cargojet** with a strong history of generating incremental returns.

Life of a smart investor

Jane is a 23-year old college student and is earning $12,000 annually from a part-time job. Her college and other expense are paid for by the Registered Education Savings Plan (RESP) her parents created. Jane invests $5,000 every year in **Enghouse** stock through her TFSA. By the time she turns 33, she would have $150,000 of tax-free money in her account.

At the age of 33, she gets married and has kids. Her expenses increase, leaving her with little flexibility to invest $5,000 every month. She stops investing and lets the money grow in her TFSA. By the time she turns 43, she will be a millionaire by investing as little as $100 a week in her early life.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. TSX:ENGH (Enghouse Systems Ltd.)

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1. Business Insider
2. Koyfin
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