How to Become a Millionaire in a Decade

Description

The stock markets continued to soar higher, despite the pandemic-driven uncertainties in the last few months. While market pundits kept blaring about the economy getting weaker, some sectors have managed to thrive like never before.

So, is it sensible to throw in fresh money in stocks right now? Where should long-term investors place their bets amid this mix-up? Is it really a good time to start building wealth for your sunset years?

Millionaire by 2030

It is not impossible to create a million-dollar reserve in a decade. But one needs to assume comparatively higher risk to achieve higher growth. Tech stocks, which were pillars of the recent rally, generally deliver strong growth. Tech giant **Shopify** (TSX:SHOP)(NYSE:SHOP) has stood substantially strong amid the pandemic. The stock is sitting at a solid gain of almost 160% year to date.

Shopify's above-average revenue growth accelerated further in 2020, as small- and medium-sized businesses rushed to establish their digital presence. The online store enabler will likely continue to grow at a rapid pace, given its large addressable market and lower competition.

Shopify stock has grown by more than 100% compounded annually in the last five years. If one invests $10,000 in SHOP today, and it grows at the same pace for the next decade, they would generate a reserve of around $10.2 million.

Shopify for the next decade?

However, it is not wise to expect similar growth from a company throughout its life cycle. As Shopify becomes mature, and competitors join the race for market share, its growth rate could eventually fall.

Interestingly, Shopify still remains an attractive bet for growth seekers. Its unique business model and increasing online shopping trends will likely allow stronger revenue growth for the next few years.

Tech stocks are generally high-growth companies because of their higher profit margins and expanding markets. Apart from tech, some other sectors also sported superior growth in the last few years.

Air cargo operator **Cargojet** returned almost 50% compounded annually since 2012. Although that's notably lower than Shopify, the growth was way superior compared to broader markets and enough to fund a million-dollar portfolio.

Top gold miner **Kirkland Gold** also grew by 37% compounded annually in the last decade. Just to put that in perspective, the Canadian stock markets have risen by 6%, while the **S&P 500** has soared by 12% compounded annually in the last 10 years.

Aggressive versus defensive stocks

Investors should note that high-growth stocks like Shopify would take a much less time to build a strong retirement fund and, thus, are worth the risk. In comparison, low-risk, dividend stocks like utilities or consumer discretionary companies would take longer to create a similar amount of wealth.

For example, based on historical trends, a $10,000 investment in **Fortis** stock would generate a mere $27,000 in 10 years, including dividends!

Interestingly, that does not make stocks like Fortis unattractive. Low-risk stocks have their own set of advantages, and they generally outperform in bear markets. The dividends provide unmatched portfolio stability in the long term.

However, if one wants to create wealth in a relatively shorter time span, more exposure to aggressive stocks would be prudent.

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Date
2025/08/24
Date Created
2020/10/07
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