3 Simple Steps for Canadian Investors to Get Rich

Description

If you already got some savings down your belt, that’s wonderful. If you’re starting to build wealth from scratch, that’s fine, too. The following steps will help propel you on your path to getting rich.

Spend less than you earn

Wealth comes from somewhere. Aim to spend less than you earn every month. The general rule of thumb is to save about 20% of your income. If that’s too much, start small, even if it’s just $10 a week. The important thing is to get started and get into the habit of saving something regularly and consistently.

If you have to, set up automatic transfers of $X from your paycheque (or chequing account) to your savings account. You can set it up to transfer bi-weekly or monthly. This way, you will pay yourself first before spending any money.

For instance, if you earn $3,000 a month, you could automatically transfer $600 monthly from your chequing account to your savings account to save 20%.

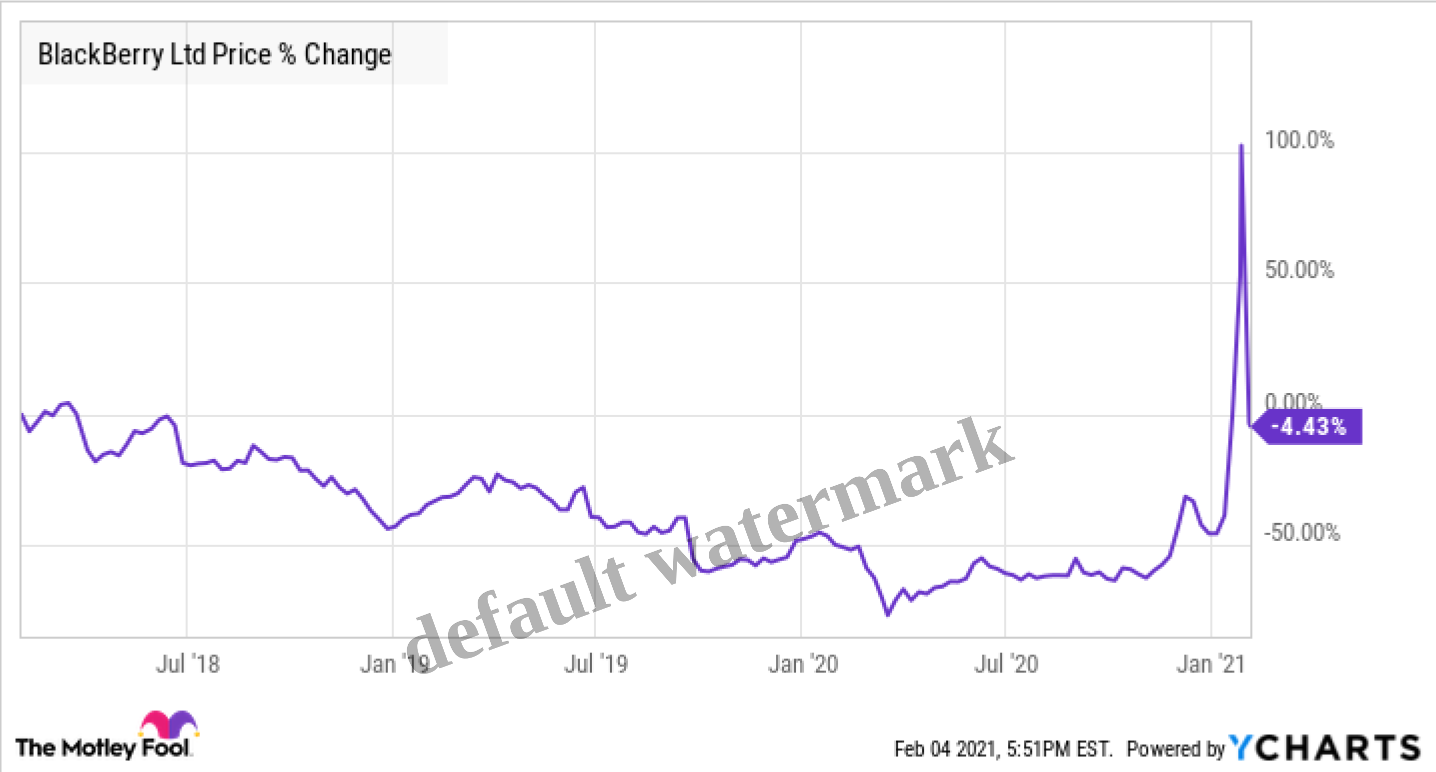
Put your savings in stocks

Once you’ve built an emergency fund of at least three months of your living expenses, the fun part starts. You can start putting excess savings in stocks to grow your wealth!

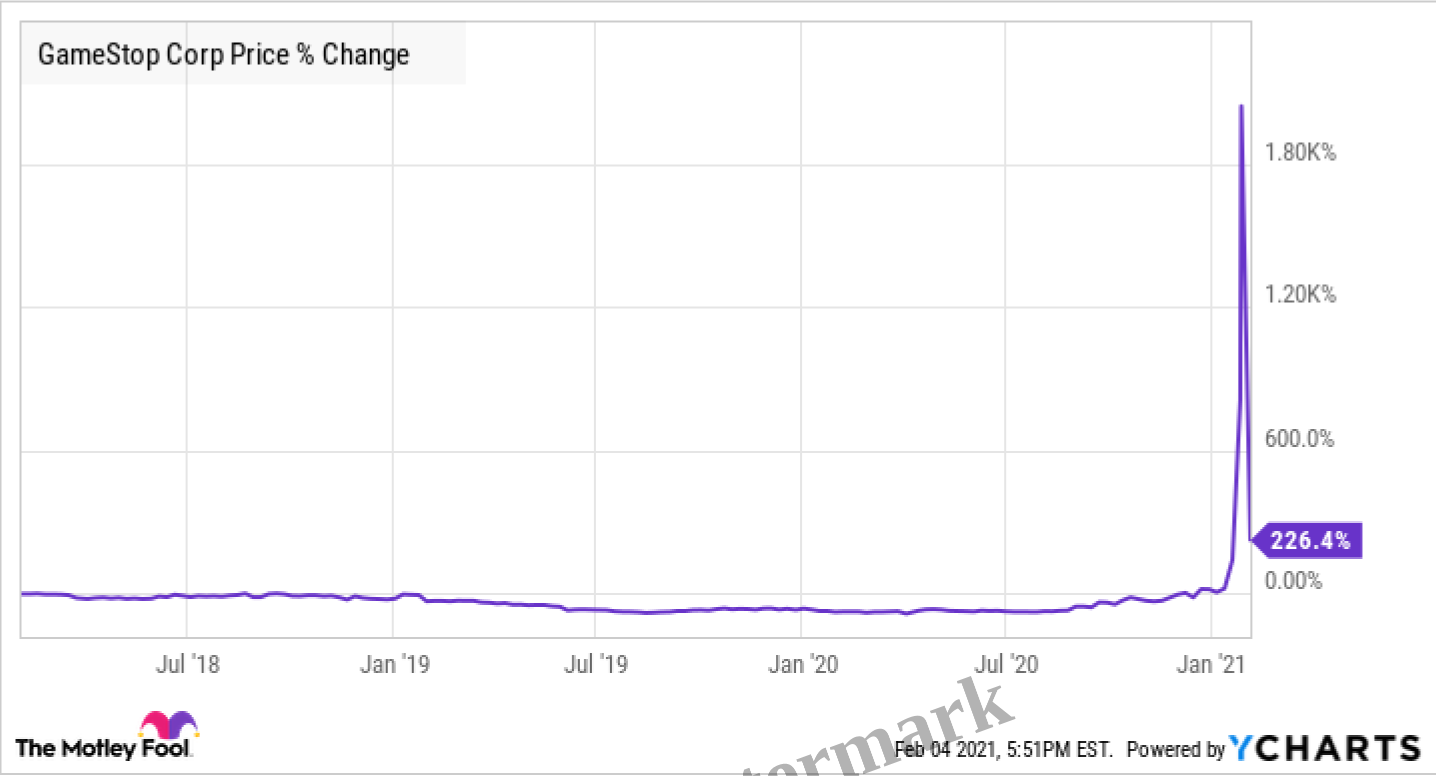
In contrast to what some new investors may think about the stock market, it is *not* a casino. It can be, but it doesn’t have to be. Whether the stock market is a casino or not depends on what stocks you buy.

For example, it was a casino at **BlackBerry**, **Gamestop**, and **AMC Entertainment** in the last few months. They were all pumped up by the market too far, too fast. They traded at ridiculously high valuations and the bubbles burst much more quickly than they formed, too, making lots of people lose money.

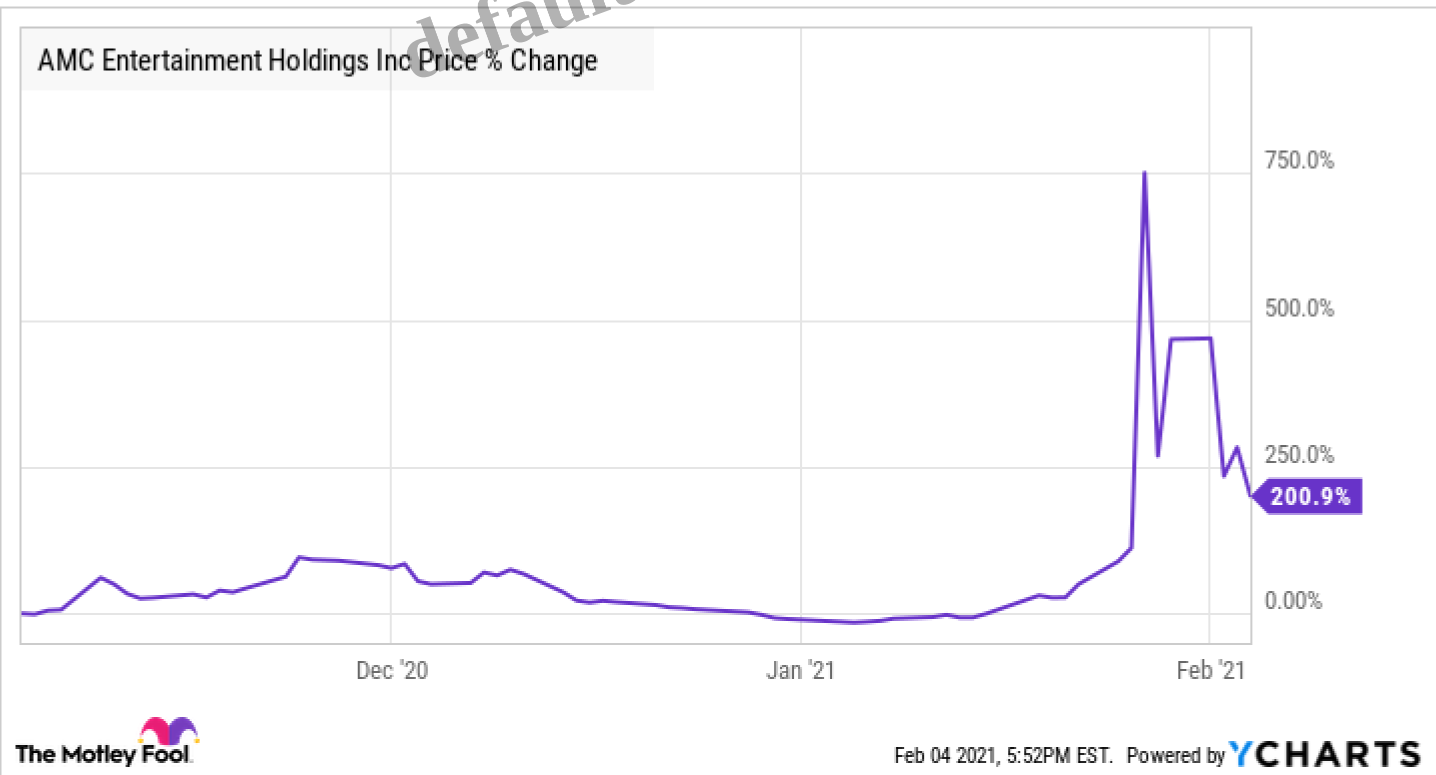
Study their charts below as examples to avoid, unless you were speculating.



BB data by YCharts. The three-year stock price action of BB stock.



GME data by YCharts. The three-year stock price action of GME stock.



AMC data by YCharts. AMC stock's three-month stock price action.

You would notice that before the stock prices collapsed, these stocks had prices that rocketed higher almost vertically. These are the bets I would avoid.

Instead of putting money in bubbles that are going to burst, buying wonderful businesses at good valuations is the safer way to invest.

Hold your stocks

Once you've bought shares in wonderful businesses like **Fortis** and **Brookfield Asset Management** at good valuations, it's simple — just hold on to your shares.

When you buy shares of a stock, you're investing in or becoming a part-owner of the underlying businesses. By holding on to your shares, you're letting the wonderful businesses work their magic over time.

In about 10 years, Fortis has more than doubled its shareholders' money with below-average risk, while paying a decent dividend income. In the same period, BAM has grown shareholders' money more than five times with above-average growth and market-beating returns.

Going forward, I don't see the two wonderful companies doing anything different. Moreover, they're trading at good valuations right now!

The Foolish takeaway

In summary, aim to pay yourself first by spending less than you make every month and contributing your savings to wonderful businesses with stocks that are trading at good valuations. Then repeat the process and hold on to all your stocks.

You can track your wealth-building progress every year by recording a snapshot of the cumulative savings you put in, your portfolio value, and maybe the annual income your portfolio generated. If you're doing things right, your portfolio value (i.e., your wealth) should grow over time.

Just remember there will be bumps along the way, as your savings rate could differ and stocks are innately volatile.

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