Can I Become a Millionaire by Investing $500 Monthly?

Description

Stock markets beat all the other investment avenues when it comes to returns. It is vital to invest at least some portion of your savings in stocks if you want to create wealth. And really, it is not that risky nor as complicated as they say. One just needs to invest for the long term in a disciplined manner.

Millionaire by retirement

A simple calculation shows that if you start early, it is enough to invest $500 per month to become a millionaire by retirement. For example, suppose a 25-year-old investor sets aside $500 a month and invests in a TSX stock that grows 8% per year. After 35 years, they will have $1.03 million in their retirement reserve.

It’s not hard to find a stock that grows 8% yearly. Even the TSX Composite Index has grown by around similar in the last few decades.

Let’s say you started investing a bit late and have a lesser time horizon. You can still achieve the seven-digit bank balance. But you either have to invest a higher amount monthly or invest in a higher-retuning stock. For example, if I am starting at 35, I have 25 years to retire. If I invest $625 monthly in a stock that grows 12% per year, I will generate million dollars by the time I become 60.

Is the math too intimidating for you? It is not, really!.

Long-term investing

The point here is that starting early is the key to the investing journey. The longer investment period enables compounding at a higher rate. Also, when you invest for the long term, you are more likely to survive multiple market downturns. This alleviates short-term volatility risk and increases returns.

As earlier stated, it is not that hard to find quality stocks. Many well-known companies, which are around us for decades, have been solid money multipliers in the long term.

Consider **Fortis** (TSX:FTS)(NYSE:FTS). At first glance, it's a boring utility company whose stock hardly moves. However, this Dividend Aristocrat has returned 12% per year in the last 25 years, notably beating broader markets.

Utilities like Fortis generate stable earnings, even in recessions. That's why their share prices do not fall significantly during market crashes. Instead, investors generally take shelter in these stocks because of the perceived safety and regular dividends.

Fortis currently yields 4%, marginally higher than TSX stocks at large. It has increased dividends for the last 47 consecutive years. Investors should note that the utility will likely continue the dividend-growth streak in the future, driven by stable earnings and its strong balance sheet.

Top TSX stocks

Another familiar name that has created significant wealth over the years is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). It has returned 15% annually in the last 25 years, including dividends. If you invested $500 monthly in TD since 1995, you would have accumulated $1.3 million today.

TD Bank is the second-biggest bank in the country by market capitalization. It has significant exposure to the U.S., which gives it a diversified revenue base and growth opportunities. The stock yields 4.3% at the moment. Notably, TD Bank has seen multiple crises in the past and has emerged stronger after each one.

Bottom line

Investors should note that you don't have to pick jazzy, growth stocks every time to create wealth. Strong brands with a stable business model can be safer investment options. They can even beat risky, high-flying tech names in the long term.

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