How Can I Be a Millionaire in a Decade?

Description

Equities have outperformed all other asset classes for the last several decades. That's why it is no surprise that stock markets have created massive wealth for long-term investors. If you want to create a healthy reserve for your sunset years, it will be prudent to invest in stocks.

Millionaire in 10 years

Moreover, asset allocation plays an important role when it comes to long-term investing. If you want to create a larger reserve in a relatively short period, you have to take a little extra risk and put a large chunk in growth stocks. Growth stocks are those that grow with an above-average pace but are more volatile and, thus are riskier.

For example, top growth stock **Shopify** (TSX:SHOP)(NYSE:SHOP) grew by an enormous 94% compounded annually in the last six years. In comparison, **TSX Composite Index** grew at a meagre 7% in the same period. Shopify benefitted from the surge in e-commerce activities, which was effectively translated into its revenues and stock price growth.

If you invested $25,000 in Shopify in May 2015, you would have made more than $1 million today. On the other hand, if you invested the same amount in a diversified portfolio of TSX stocks, you would have made $164,521.

Tech stocks generally exhibit superior growth, as they have growing markets and operate with higher profit margins.

Top TSX growth stocks

Another tech stock **Constellation Software** (TSX:CSU) has also been a solid money multiplier for years. It has grown by 44% compounded annually in the last decade, notably beating TSX stocks at large. A $25,000 in CSU stock a decade ago would have created $2.1 million today.

So, the point here to note is that investors should allocate some portion of the investible amount for growth stocks. This will diversify risk and substantially increase the probability of higher returns.

Both Shopify and Constellation Software could continue to grow at a superior rate. However, one should not expect the same historical performance for the future. Even if their growth rate halves, it will still be well above broader markets' average, which makes them attractive growth stocks.

Shopify will continue to benefit from the shift in consumer behaviour after the pandemic. It still has a big potential to grow in a mammoth e-commerce market.

Constellation Software, which acquires and operates smaller vertical market software companies, has been very consistent with revenue growth and profitability for years. It recently announced that it is readying for bigger acquisitions, which will unlock more value for its shareholders.

If you have decades to retire, you have a long investment horizon. In that case, you can afford to take a higher risk as compared to an individual who has only a few years to retire.

Growth versus defensive stocks

What if you are a conservative type of investor and have a lower risk appetite? In that case, a large portion should be invested in defensive stocks, and a small amount should go in growth stocks. You might take longer to reach a million-dollar target in that case.

Consider a top utility stock **Fortis** (TSX:FTS)(NYSE:FTS). It has returned 8% compounded annually for decades. You might not achieve superior returns with stocks like Fortis, but they provide stability and stable dividend payments. An investment of $25,000 in Fortis would take a little more than 20 years to make a million based on its historical performance.

This shows how higher risk pays off. Growth stocks will take a much shorter time to build a robust retirement portfolio as compared to defensive stocks. Investors with an above-average risk appetite and okay with volatility can consider adding these growth stocks to their portfolios.

CATEGORY

1. Investing

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3. TSX:CSU (Constellation Software Inc.)
4. TSX:FTS (Fortis Inc.)
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