How to Turn Your Savings Into a Retirement Fund

Description

It's critical to save money for a rainy day. So, good job on having some savings under your belt. Continue the savings program. A big amount probably comes from your paycheque. Turning your savings into a retirement fund is about getting your money to work for you. The sooner you start this process, the better.

Do you have years until retirement?

If you're still early on in your asset-accumulation journey, it's an ideal time to turn your regular savings into money-making investments. This way, you are essentially averaging into your investments. As a young investor with perhaps decades to invest, it should serve your retirement fund well by allocating much of your capital in stocks versus bonds.

Particularly, interest rates are at historical lows. So, investors can't make much from fixed-income investments. Generally speaking, your wealth should swell over time by parking money across a diversified investment portfolio. Depending on your investing experience and how involved you want to be in your investments, you might invest in exchange-traded funds (ETFs) or individual stocks.

Some ETFs are balanced funds that include an equity and bonds portion. Others are equity ETFs which could be focused on a certain industry or sector. Maybe you're well aware of which sectors are out of favour now but have growth potential for the long haul. Then, you can choose to invest in ETFs in those sectors.

In any case, you can easily trade for low to no commission fees via online brokerages. I would encourage young Canadians with an interest in investing to consider picking up a book or two about value and dividend investing. Learning the trade should allow you to generate a long-term rate of return of at least 7%.

Let's say you already have $50,000 saved and continue to save $500 per month. If you invest them for returns of 7% annually, you'll achieve more than $500,000 in 22 years! Some youngsters like to go for growth. If you can generate a return of 12% annually on the same savings, you'll be a millionaire in 21 years.

Are you retiring soon?

If you're planning to retire in about five years, you should get your assets ready for the distribution phase. Some Canadians who are retiring soon have the notion that they must save up a large retirement fund and spend it down through their retirement.

Your retirement fund can last longer and be more fulfilling for your lifestyle if it continues to generate good income during your retirement. It could be a lasting retirement fund if you focus on holding solid dividend stocks. Ideally, you want to buy these dividend stocks at attractive valuations *ahead* of retirement so you can confidently hold them for income *during* retirement.

Right now, you can get safe yields of about 3-6% from robust dividend stocks like **Fortis**, **Enbridge**, and **Royal Bank of Canada**. However, they're not necessarily super attractive based on their current valuations. If you're new to stock investing, you should contemplate whether holding individual dividend stocks or a basket of dividend ETFs would be a better option for your retirement lifestyle or investing style.

The Foolish investor takeaway

If you're not interested in managing your investment portfolio or if you're in doubt about your investment decisions, book an appointment with a financial advisor. If you're not sure about the plausibility of your retirement plan, speak with a financial planner.

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