Can You Retire a Multi-Millionaire With $500 a Month? Yes, But Here's What You Should Know First

Description

Believe it or not, but you don't need a high salary to retire a multi-millionaire. You don't even need to sock away a large part of your paycheques. In fact, you can retire a multi-millionaire with just $500 a month.

How does that work? It takes three things: start early, invest wisely, and stay out of debt.

Start early

There's perhaps no way around it: to retire a multi-millionaire on $500 a month, you must start at an early age. If you wait until your late 30s, 40s, or even your 50s, I hate to be the bearer of bad news, but it's very unlikely you'll retire a millionaire with only $500 a month.

To see why, let's run some numbers.

Let's say you're currently 30, and you want to retire when you're 70. You put $500 per month in your RRSP, or $6,000 per year. Over 40 years, that will come out to around $240,000 saved.

How do you make that a million? You invest it. In order to turn $500 a month into a millionaire after 40 years, you'll need to have a return rate of 6.2%. With that rate, you'll be left with $1 million in the bank.

Of course, numerous ETFs and index funds could promise a 6.2% rate of return. Many promise higher. But the point I'm trying to make is this: even with a conservative rate of return, you could retire a millionaire on $500 a month.

The same isn't true if you're in your 40s or 50s. Let's say, for instance, that you're 40. Again you want to retire when you're 70, and you invest $500 a month. With the same rate of return (6.2%), you'll be left with half a million in 30 years. In order to retire a millionaire, you'll need to have a return rate of at least 10%. It's not impossible, but it will require you to be more savvy with your investments.

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At 50, things look even more unlikely. With $500 a month, you'll save a total of $120,000 saved by the time you're 70. In order to turn that into a million, you'll need a return rate of 18.5%.

So, again, the best time to start investing was yesterday; the second-best time is today. The earlier you start, the more likely you'll retire a millionaire (nay, a multi-millionaire) with $500 a month.

Invest wisely

Invest — dare I say — *aggressively*. You can't make a million dollars off bonds, GICs, or any other investment that gives you a meagre rate of return.

Look again at the numbers above. If you're 30 and you're saving $500 for 40 years, the threshold is 6.2%. Any return lower than that, and you're not going to retire a millionaire.

To hit that threshold, you could invest your $500 monthly in an ETF or index fund — one that tracks the **S&P/TSX Composite Index**. If you did that, the odds of hitting a 6.2% return rate are in your favour. The average annual return on the S&P/TSX Composite Index since December 31, 1979 (just over 40 years ago) was around 8.7%. Future returns aren't guaranteed on the past returns, of course, but that number is certainly encouraging.

If you're in your 30s, it might be wise to invest aggressively in stocks. At this point, time is on your side. If you lose money, you still have time to earn it back. Identify some growth stocks that could grow 10-fold over the next 40 years or learn valuation metrics to find value stocks.

Stay out of high-interest debt

Finally, whatever you do, stay out of high-interest debt, such as credit cards and car loans. High interest rates will eat into your paycheque, making it less likely that you'll have the capacity to set aside $500 a month.

If you're overburdened with such debt, I would recommend a balance-transfer credit card. These cards typically come with low promotional APR periods, slashing high interest rates and making it easier for you to pay off your principal.

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