



## Millionaire by 40: Top 4 Ways to Hit Your 1st Million

### Description

So, you want to be a millionaire by 40, huh? Perhaps you want to retire early, quit a job you hate to take on a job you love (but pays less), or just achieve financial independence. Well, if that's case, I have good news. These days, with work from home and the abundance of side hustles, retiring at 40 has never been more possible.

But you'll have to work. And you'll have to work hard. Though hitting a million isn't easy, if you're going to do it, you'll want to start with these four tips.

### 1. Start now — and don't stop

I hate to break it to you, but the best time to start investing was yesterday; the second-best time is *today*. If you want to become a millionaire before you hit 40, you have to start early. And the earlier, the better.

The only time I would seriously consider delaying your investment plan is if you're overburdened with high-interest debt. In that case, you may save more money in the long term by paying off your debts before you start investing.

One rule of thumb: if the debt on your interest rate is higher than the expected return on investments, consider paying off the debt first (this doesn't always work, so do the math). For instance, if your credit card debt is accumulating by an APR of 19.99%, you'll probably want to pay off your debt before you start investing in an index fund that *maybe* returns 7%.

Once you start investing, however, don't stop. Make it a habit of putting money in your brokerage account every month (or every paycheck). You can use dollar-cost averaging to do this — investing a consistent amount periodically.

### 2. Open the right retirement accounts

If you're going to build wealth quickly, you'll need the right tools. And perhaps two of the best tools at your disposal are Canada's tax-advantaged retirement accounts: the RRSP and TFSA.

The RRSP allows you to contribute 18% of last year's earned income (or a maximum of \$29,210 for 2022, whichever is less). For instance, for a household that earns \$70,000, you could contribute \$12,600 per year, or around \$1,050 per month.

But consider this: with RRSP contributions, you don't pay capital gains taxes on investment earnings. So, whatever you earn will only help you earn more, without losing momentum to taxes.

Oh, but that's not all.

You can also *deduct* RRSP contributions from your taxable income, helping you lower your taxes. For instance, if you earned \$70,000 and contributed \$12,600, your taxable income would be lowered to \$57,400 (and that's not even taking into account other deductions).

Of course, with that much tax-saving power, the RRSP has one major downside. If you withdraw money before you turn 71, you'll pay a withholding tax to the CRA. For withdrawals that are between \$0 and \$5,000, the tax is 10% of the withdrawal. That tax jumps to 20% for withdrawals between \$5,001 and \$15,000 and a whopping 30% for withdrawals of \$15,000 or more. On top of that, you'll also pay income taxes at your marginal tax rate.

But that's assuming you want to retire early. If you're just trying to hit a million before 40, the RRSP has the space and the tax benefits to help you accomplish that.

You might want to use a TFSA, too. A TFSA has tax benefits, such as eliminating the capital gains tax on your investment earnings. Because you contribute after-tax money to your TFSA, you won't pay taxes when you withdraw it. You have less contribution space in your TFSA (\$6,000), but unused space rolls over into the next year.

### **3. Work, work, and work**

To hit a million by 40, you'll have to think beyond your nine-to-five job. Unless you make a considerable amount of money, now might be the right time to find ways to boost your income.

Fortunately, with the gig economy running strong in Canada, you have plenty of options. You don't have to deliver groceries (though you can if you want); you can teach English, fill out surveys, assist a business virtually, or even start your own blog.

If you don't have time for a side gig, then consider passive income. Most sources of passive income require work up front, but after the initial startup, they can generate money without strenuous labour.

### **4. Diversify your investments**

Finally, be sure you invest your money in numerous securities.

On the one hand, this means buying stocks in different industries — not just one. On the other hand, it means investing in *other* securities — not just stocks. For instance, you might consider buying real estate property (if you can afford that), or investing your money in commodities, cryptocurrency, and bonds.

By diversifying your portfolio, you're trying to limit your losses, while capitalize your gains. If you can accomplish that, your money will work hard for you — so hard, in fact, you'll put yourself in a good place to hit that millionaire status by 40.

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