Want to Retire Early? Do This and You Could Retire 10 Years Before Your Parents Did

Description

You don't need a six-figure income to retire early. Shoot, you don't even need an inheritance or generational wealth. While those things can certainly help, the average Canadian need not depend on them to retire earlier their parents did. They just need to start investing — and you need to start *now.*

The power of compound interest

The best time to start investing was yesterday; the second-best time is today. If you want to retire early, you have to *start* early. The earlier, the better.

Why is it imperative to start investing sooner rather than later? Two words: *compound interest*.

Compound interest is interest piled on interest piled on interest piled on *more* interest. It's your principal — the money *you* invest — plus the interest you earn on it, which includes any interest you earn on interest. It's one of the best ways to build wealth over time, even if you don't earn six figures.

How does compound interest work? Let's look at an example. If you were to put $1,000 monthly in investments with an 8% rate of return, here's how that money would grow over 30 years.

Invest for This Long	With This Much Per Month	Compounded Annually at This Rate	Here's How Much You'll Have
15 Years	$1,000	8%	$348,704
20 Years	$1,000	8%	$593,506
25 Years	$1,000	8%	$958,238
30 Years	$1,000	8%	$1,501,658

With compound interest, you'd have over a million after 30 years. What's really cool is, that's only $360,100 of your own money and $1,141,558 in investment earnings.

Let that sink in.

Of course, we're talking about retiring 10 years before your parents, which is likely not 30 years from now. To make that happen, you'll want to change some variables. For instance, let's say, instead of $1,000 per month, you invest $2,500. Let's also shorten our time horizon to 20 years tops.

Invest for This Long	With This Much Per Month	Compounded Annually at This Rate	Here's How Much You'll Have
5 Years	$2,500	8%	$185,071
10 Years	$2,500	8%	$460,660
15 Years	$2,500	8%	$871,262
20 Years	$2,500	8%	$1,483024

With a $2,500 monthly contribution, you could have a million dollars in fewer than 20 years (with an 8% annual rate of return). But what if you wanted to retire sooner than that? Leaving our monthly contribution the same (and making 15 years your retirement target), let's see what happens when we change our ROI.

Invest for This Long	With This Much Per Month	Compounded Annually at This Rate	Here's How Much You'll Have
15 Years	$2,500	8%	$871,262
15 Years	$2,500	9%	$953,579
15 Years	$2,500	10%	$1,045,363
15 Years	$2,500	11%	$1,147,792

Now we're talking, right? If you want to retire on a million in 15 years, the sweet spot would be $2,500 invested monthly with a 10% annual rate of return.

Could you retire earlier than your parents did?

These numbers are estimates, not facts. But if you want to retire 10 years before your parents did, the numbers tell us one thing: with compound interest, it's certainly possible.

Of course, to get an average rate of return of 8% or higher, you want to choose your investments wisely. More likely than not, you'll need to invest aggressively: growth stocks, micro-caps, small-caps, even value stocks will be your bread and butter. You might also want to invest in ETFs and index funds, as their built-in diversification can help you hedge against market downturns.

Speaking of diversification, it wouldn't hurt to diversify your investments. On the one hand, this means buying stocks in different market sectors. 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.

Outside of investing, you also want to keep your finances in top shape. I mean, look back at those numbers: $2,500 a month *isn't* chump change. To invest that much, you'll need to be frugal, cutting your expenses and refusing to go into debt.

So, yes, you can retire earlier than your parents. But it's going to take some work. If you're up for the challenge, go ahead and open a brokerage and start choosing your investments wisely.

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