5 Financial Tips to Help You Get to a +$1,000,000 Stock Portfolio

Description

Here are five financial tips to help you plan out how to get to a +$1 million stock portfolio.

Save whenever possible

Wealth building must first come from savings. In the initial years of your investing journey, your savings will pull the biggest weight in building your wealth. Think of various ways to reduce your spending or increase your income so that you can boost your savings rate. In the long run, this will help you get to a +$1,000,000 stock portfolio sooner.

First, save regularly. Every month or every time you get a paycheque, be committed to saving 10-50% of it. Second, save any bonuses you receive. Sometimes you receive bonuses from work or excess cash as gifts. Aim to save 30-100% of it. Third, consider putting the returns (dividends and price gains) from your stock investments right back into your stock portfolio. That is, keep your investment returns invested.

Set a reasonable target return

The average long-term stock market return is 7-10%. So, aim for a target annualized return of at least 10%. This means that all the stocks that you're buying *must* have a target total return of at least 10% per year to your best educated estimate. You can follow investors who you trust, such as Warren Buffett, and learn from them and see what they're buying.

Always hold some dividend stocks

Always hold some quality dividend stocks to help stabilize your stock portfolio returns from market volatility. After all, about a third of stock market returns come from dividends. Dividend stocks that pay out safe and decent yields of 3-5% ensure you get that 3-5% return no matter what the market does. It goes without saying that you should aim to buy these dividend stocks at attractive valuations to make sure you get a reasonable long-term return, as per the previous tip.

Take opportunistic profits

Take opportunistic profits when stocks become overvalued. You can take a passive investing approach and not do this if you know you picked wonderful businesses for your portfolio. Alternatively, you can take partial profits so that you have room to add back positions should the stocks correct. If they keep going higher, you'll still be exposed to them. For example, last year, it was a good time to take at least partial profits from **Shopify** stock.

The idea is that if you do take opportunistic profits, you could reallocate the proceeds to more attractive ideas for higher returns. However, be cognizant of the costs of trading, which brings us to the final tip.

Minimize costs

Stock investing involves trading costs and income taxes. Costs add up. Thankfully, nowadays, we have online brokerages that offer $0 trading fees. We also have tax-advantaged accounts like TFSAs and RRSPs to help reduce our income taxes.

Otherwise, when you hold stock investments in non-registered accounts, you'll be paying taxes on dividends and realized capital gains. That said, you can strategically use tax-loss selling throughout the year in your taxable accounts to help reduce the income taxes paid on your capital gains.

Some investors even go as far as not selling any single share in their taxable accounts but instead go with a buy-and-hold approach. You'll figure out what works and doesn't work for you over time.

For instance, if you start out with $10,000 and save and invest $500 per month for the next 30 years for an annualized return of 10%, you'll arrive at $1,161,458.16.

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