New Investors: 1 Trick to Make Millions the Safe Way

Description

New investors have come to the right place if they're looking for investment advice. The Motley Fool was the first place I looked when I first had kids and wanted to learn about my finances. Since then, I've not only learned a great deal but come up with some solid tips and tricks to help other new investors.

That's why today, I'm going to go over the very best trick I can recommend after years of working for Motley Fool. And it comes down to two words: *automated contributions*.

How it works

Automated contributions are pretty self-explanatory. Whether it's your Registered Retirement Savings Plan (RRSP), Tax-Free Savings Account (TFSA), or anything else, this can be your lifeline to creating millions.

Every single time you get paid, new investors should put aside a set amount into these investment accounts. You can do the calculations, but a great place to start is around 10%. So, if you're making $50,000 per year, that's $5,000 you'll set aside each year for investments!

Will it hurt? Not if you change your mindset. Think of putting those automated contributions aside just like an automatic bill payment. But these are bills towards your future. Plus, it's way easier to put aside $250 bi-weekly than $5,000 all at once.

Now what?

From there, the next choice is putting your investment somewhere safe. Now, new investors should speak to a financial advisor. But I can also give you a few things to look out for to put automated contributions away safely.

A great place to start is by looking at the Big Six banks — especially right now. These banks have been around for 100 years, offering solid growth but also dividends. Dividends are cash in your pocket each quarter, no matter what. Furthermore, all the banks trade at incredibly cheap rates.

But if you're a new investor, I'd recommend **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). It has the highest dividend of the batch, offering $6.44 per share per year. So, you can set it up that your contributions automatically go right towards the stock.

Then what?

Watch the magic happen. Automated contributions made by new investors coupled with compound interest *and* dividend reinvestment is the perfect combination. Let's take a look at how it can play out over a decade or more.

The first year, that $5,000 will bring in about $219 of dividends for reinvestment and perhaps give returns around 7%. That's based on historical performance at a compound annual growth (CAGR) over the last decade.

If we then fast forward, new investors can keep contributing that $5,000 each year and reinvesting dividends. After a decade, this could turn to $98,550 based on past performance. Two decades? That's $353,313. To make a million, it would take 30 years and 40 years to make about $2.7 million.

Foolish takeaway

Now, this is just an example for new investors. But think of it. This is just *one* investment and only $5,000 per year. If you make more money and can put more away towards other solid companies similar to CIBC stock, you could have even more millions stashed away.

The key is continuing to contribute with that long-term growth mindset in your head. If you keep that going, there's nothing new investors can't accomplish.

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