4 Stocks That Could Turn $100,000 Into $500,000 by the Time You Retire

Description

Retirement is a big decision. The amount of money on which you can comfortably retire is dynamic. Imagine walking into a new phase of your life with little working income. You don't want to assume any debt through loans at that time. Plus, you don't know what your medical expenses will be or future inflation rates. Ask those who retired in 2022. Inflation eats up a significant chunk of your savings.

My retirement fund

Hence, it is important to incorporate investments that grow with the economy and give you inflation-adjusted returns. Your retirement fund should have a mix of growth and dividend stocks. This way, your dividend income will take care of inflation. The capital gains from growth stocks will take care of medical and other expenses.

If you are in your late 30s and planning to retire at 60, you have 20 years to build a retirement fund. You can invest $100,000 in four stocks over time and grow your overall portfolio to half a million.

Dividend stocks

With a 20-year timeframe, you could invest $500 a month in two dividend aristocrats, **BCE** (TSX:BCE)(NYSE:BCE) and **Canadian Utilities** (TSX:CU). BCE is a telecom company set to ride the 5G wave. The fifth-generation wireless technology will bring broadband-like speed and low latency to edge devices. 5G will pave the way for autonomous vehicles and other mission-critical applications. This hints that BCE can continue growing its dividend at a 5% compounded annual growth rate (CAGR) as the 5G subscriptions continue to increase.

Canadian Utilities generates, transmits, and stores electricity and natural gas. Electricity and natural gas are not going out of demand in the next 20 years. Instead, electricity demand will only grow as 5G leads the way to the internet of things (IoT) proliferation. More electrical devices need more electricity. Plus, the electric vehicle (EV) revolution will take electricity demand to a new level. These power demand drivers assure Canadian Utilities can continue growing its dividend at a 8-10% CAGR.

How to invest in dividend stocks

The above two companies offer a dividend reinvestment plan (DRIP). DRIPs reinvest tax-adjusted dividend payments to buy more shares. If you invest $500 each in BCE and Canadian Utilities, your investment would be $6,000 in each stock in a year and $24,000 in four years. Even if you stop investing, the DRIP will do the rest.

A $25,000 investment in the BCE DRIP by 2026 (2022 + four years of regular investing) could grow your portfolio to $90,700 by 2042. When you retire, you can convert DRIP to dividend payments and earn $5,442 in annual dividends, assuming a 6% dividend yield. Similarly, your $25,000 investment in Canadian Utilities could become $78,000 + $3,100 in passive income by 2042. The $8,500 passive income could grow every year, and help you beat inflation.

Growth stocks

For emergencies and leisure, you need wealth. Hence, you need to invest in long-term growth stocks like **Constellation Software** (TSX:CSU) and **Descartes Systems** (TSX:DSG)(NASDAQ:DSGX).

Constellation stock has grown at a CAGR of 33% from $25 in September 2007 to $1,940 in September 2022. It grew by acquiring small vertical-specific software companies with mission-critical applications. The software solutions provider is now targeting companies above $100 million in revenue. The company spun off its subsidiaries to trade on the Toronto Stock Exchange, opening a whole new segment of growth. If it maintains a 15% CAGR for 15 years, a $25,000 investment over four years can become $234,000 by 2042.

Descartes Systems helps companies manage their supply chain and logistics operations. It was a key beneficiary in the United States-China trade war of 2018 and the e-commerce boom of 2020. The global supply chain is disrupted due to geopolitical tensions, pulling down Descartes's stock in the short term. But it presents an opportunity to facilitate a new supply chain in the long term.

Descartes's stock grew at a CAGR of 22%, from $4.40 in 2007 to $87 in 2022. Even if its 15-year CAGR slows to 10%, a $25,000 investment over the next four years could become $115,000 by 2042.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. NYSE:BCE (BCE Inc.)
3. TSX:BCE (BCE Inc.)
4. TSX:CSU (Constellation Software Inc.)
5. TSX:CU (Canadian Utilities Limited)
6. TSX:DSG (The Descartes Systems Group Inc)

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