



How I'd Invest \$25,000 Today to Reach a \$1 Million

Description

How to invest \$25,000 and arrive at \$1 million is a math question that has endless inputs. There are different ways to get to \$1 million depending on how much risk you're willing to take, and the investment opportunities available in the current macro environment. The investment decisions you make will affect how long it'll take to become a millionaire.

I'll discuss some possibilities in an asset class that has historically delivered the highest returns in the long run — stocks.

The math to \$1 million

Based on an investment of \$25,000 today, it'd take a return of 13.08% per year to transform into \$1 million in 30 years. If you require a shorter time to grow your investments, you'll need a higher return to arrive at \$1 million sooner.

If you're able to save and invest more every month, you can accelerate your journey to \$1 million. Let's say you're able to invest an additional \$500 each month. That'll make \$6,000 of additional investments a year. If your investment returns remained constant at 13.08% per year, you'd reach \$1 million in exactly 21.9 years.

In reality, we never get constant returns in the stock market, because the macro environment and businesses are ever-changing. For example, from the March 2020 pandemic stock market crash to the end of 2021, the stock market had an incredible run. In a span of about 1.75 years, it delivered total returns of about 76% (or annualized returns of approximately 38%). In contrast, year to date, the stock market has declined about 7.6%.

The [Foolish investing philosophy](#) believes that investing in a diversified basket of stocks driven by wonderful businesses will deliver solid long-term returns.

Where to invest today

[Dividend investing](#) is a proven way to invest. Many investors use dividends to pay their bills, but if you don't need the extra income, you can reinvest your dividends along with your savings every month to speed up your wealth creation (as long as you get positive returns).

Right now, an interesting dividend stock you can consider for a [diversified investment portfolio](#) is **Algonquin Power & Utilities** ([TSX:AQN](#)). Given its smaller size to larger peers in the regulated utility and renewable power spaces, AQN stock was able to increase its dividend at a higher annualized rate of 9.5% in the past 10 years.

Due to a rising interest rate environment, utility stocks that inherently have debt-heavy financial positions, have corrected meaningfully. AQN stock has declined about 18% year to date, which has elevated its dividend yield to 6.6%. This is the highest level its yield has been in more than a decade!

Algonquin's last dividend hike in March was 6%. Assuming it's able to maintain this growth rate supported by profitability, the approximated annualized total returns would be about 12.6%. Additionally, the [stock is undervalued](#). So, valuation expansion could drive additional returns over the next five years. It'd need valuation to drive price appreciation of only 0.48% per year — which is very little to ask for — for our target 13.08% return.

CATEGORY

1. Dividend Stocks
2. Investing

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Author

kayng

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