

Can You Get to a Million Dollars?

Often in life, you have investment goals that you hope to reach. Say, for example, you have determined that you would like to have \$1 million in your investment portfolio by the time you retire. But will you be able to get to a million dollars?

In trying to accumulate \$1 million (or any other amount), you should generally consider the current balance of your investment portfolio available to meet your anticipated future need, any additional contributions that you anticipate you can make to your investment portfolio, any amounts that you can earn on your portfolio, and the time that you have to do so.

Current balance--your starting point

Of course, the more that you have today, the less you may need to contribute to your investment portfolio or earn on your investments over your time horizon.

Time (accumulation period)

In general, the longer your time horizon, the greater the opportunity you have to accumulate \$1 million. If you have a sufficiently long time horizon and a sufficiently large current balance, with earnings you may be able to reach your goal without making any additional contributions. With a longer time horizon, you'll also have more time to recover if the value of your investments drops. If additional contributions are required in order to reach your goal, the more time you'll have to target your goal, and the less you may have to contribute.

The sooner you start making contributions, the better. If you wait too long and the time remaining to accumulate funds becomes too short, you may be unable to make the large contributions required. In such a case, you may need to consider whether you can extend the accumulation period--for example, by delaying retirement.

Rate of return (earnings)

In general, the greater the rate of return (ROR) that you can earn on your investments, the more likely that you'll reach your investment goal of \$1 million. The greater the proportion of the investment portfolio that comes from earnings, the less you may need to contribute to the portfolio. Earnings can benefit from long time horizons and compound rates of return, as returns are earned on any earlier earnings.

However, higher rates of return are generally associated with greater investment risk and the possibility of investment losses. It's important to choose investments that meet your time horizon and tolerance for risk. And be realistic in your assumptions. What rate of return is realistic given your current asset allocation and investment selection?

Amount of contributions

Of course, the more you can regularly contribute to your investment portfolio (e.g., monthly or yearly), the better your chances are of reaching your investment goal of \$1 million, especially if you start contributing early and have a long time horizon.

Contributions needed

Now that we've reviewed the primary factors that affect your chances of getting to a million dollars, let's consider this question: At a given rate of return, how much do you need to save each year to reach the \$1 million target? For example, let's assume that you anticipate that you can earn an annual rate of 5% (to be compounded monthly) on your investments. If your current balance is \$500,000 and you have 20 more years to reach \$1 million, you actually do not need to make any additional contributions (see scenario 1 in the table below), but if you only have 10 more years, you'll need to make annual contributions of \$13,956 (see scenario 2). If your current balance is \$0 and you have 30 more years to reach \$1 million, you'll need to contribute \$14,754 annually (see scenario 3), but if you only have 20 more years, you'll need to contribute \$29,873 annually (see scenario 4).

Scenario	1	2
Target	\$1,000,000	\$1,000,000
Current Balance	\$500,000	\$500,000
Years	20	10
ROR	5%	5%
Annual Contribution	\$0	\$13,956
Scenario	3	4
Target	\$1,000,000	\$1,000,000
Current Balance	\$0	\$0
Years	30	20
ROR	5%	5%
Annual Contribution	\$14,754	\$29,873

This is a hypothetical example and is not intended to reflect the actual performance of any investment. Actual results may vary. Taxes and inflation are not considered.

Securities and Advisory Services are offered through Multi-Financial Securities Corporation, member FINRA/SIPC. Multi-Financial Securities Corporation is unaffiliated with Beverly Financial Group, Incorporated. This article is written by Forefield, Inc.

These views are those of Forefield, Inc. and not the presenting Representative or the Representative's Broker/Dealer and should not be construed as investment advice. All information is believed to be from reliable sources, however, we make no representation as to its completeness or accuracy. Prepared by Forefield, Inc. Copyright 2011