

A Motley Fool Special Report

Your 10 Step Guide To Making A Million In The Market

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Greetings Fellow Fool,

It must be the target of every ordinary investor — to make a million from shares.

Just think. A £1 million portfolio could mean...

...no more work,

...no more worries,

...and the financial freedom you've always dreamt of.

But can anyone become a stock-market millionaire?

Well, let's face it — for most people, making serious money from shares will always remain a pipedream.

Simply put, earning life-changing sums from the stock market does require time, effort and even a little sacrifice — and most people always prefer to take what seems like the easy option, only to wonder why they're no better off years down the line.

But you, however, would appear to have a different approach to your financial well-being.

By requesting this special free Motley Fool report, you've already shown an interest in shares and a desire to improve your wealth. What's more, by requesting this report, you've already indicated an ambition to work hard for the potential significant rewards.

So clearly you seem the sort of person that:

- wants to know about shares;
- wants to invest over time; and
- wants to adopt a hard-work mindset that can help create a possible £1 million portfolio.

So let's get straight to some calculations, and provide you with some inspiration. Look at the figures in Table 1 below.

The numbers, particularly the large one in the bottom-right hand corner, are little short of staggering:

**Table 1: The sensational creation of wealth
from regular annual contributions and high investment returns**

(£) Year	Opening Valuation	Investment	Total	Growth at 15%	Closing Valuation
1	—	10,000	1,500	1,500	11,500
2	11,500	10,000	21,500	3,225	24,725
3	24,725	10,000	34,725	5,209	39,934

(£) Year	Opening Valuation	Investment	Total	Growth at 15%	Closing Valuation
4	39,934	10,000	49,934	7,490	57,424
5	57,424	10,000	67,424	10,114	77,537
6	77,537	10,000	87,537	13,131	100,668
7	100,668	10,000	110,668	16,600	127,268
8	127,268	10,000	137,268	20,590	157,858
9	157,858	10,000	167,858	25,179	193,037
10	193,037	10,000	203,037	30,456	233,493
11	233,493	10,000	243,493	36,524	280,017
12	280,017	10,000	290,017	43,503	333,519
13	333,519	10,000	343,519	51,528	395,047
14	395,047	10,000	405,047	60,757	465,804
15	465,804	10,000	475,804	71,371	547,175
16	547,175	10,000	557,175	83,576	640,751
17	640,751	10,000	650,751	97,613	748,364
18	748,364	10,000	758,364	113,755	872,118
19	872,118	10,000	882,118	132,318	1,014,436
Total		190,000		824,436	1,014,436

Now before you get carried away, Table 1 shows a projection outlining what's *possible* — and certainly does not offer any sort of promise or likely outcome from investing.

As you should be aware, there are never any guarantees with the stock market. Share prices can fall — and often fall heavily! — as well as rise. Furthermore, the returns shown in Table 1 are taken *before* dealing costs, any taxes and other expenses.

That said, if you:

- invest £10,000 every year, and;
- enjoy a 15% return (more on that later) after costs every year...

...the sums show you would have turned total payments of £190,000 into a magic £1,000,000 after 19 years of stock market investing.

Of course, not everybody can set aside £10,000 a year to invest in shares. And certainly not everybody will achieve returns of 15% a year for 19 years. Indeed, the historical average return from the London stock market is something like 9% a year since 1900.¹

Step 1: Start Now

As such, **Step 1** to making a million in the market is to simply **Start Now**.

Look at Table 2, which shows how long it takes to reach a million by investing £2,500, £5,000 and £7,500 a year and enjoying returns of 5%, 10% and 15% per annum:

Table 2: Time taken to reach a million

	5% growth a year	10% growth a year	15% growth a year
£2,500	62 years	38 years	29 years
£5,000	49 years	31 years	24 years
£7,500	41 years	28 years	21 years

Clearly the less you invest, the longer it will take to ever reach a million. But the earlier you can start placing your money in the market, the better your chances should be.

Step 2: Spend Less Than You Earn

That brings us neatly to **Step 2** to making a million in the market, which is to **Spend Much Less Than You Earn, And Then Invest The Difference.**

Now, too many people these days always complain about not having enough money for saving and investing... you know, your neighbour, your work colleagues, family members, and so on.

But funnily enough, somehow these people always seem to have the means to buy that new car, travel on that exotic holiday and purchase that latest computer gadget.

But spending *your* cash on such short-term luxuries isn't going to help *you* create life-changing wealth from the stock market. In particular, you'll need to:

- Calculate what you can realistically afford to invest each month, allowing for unexpected bills and emergencies;
- Be willing to trim your current expenditure, remembering that every penny saved is a penny earned — and that such savings can also be invested over time and can count towards your million;
- Be disciplined enough to fund your investment contributions by automatic direct debit, so you're not tempted to blow your surplus cash, and;
- Commit to regular payments over a long-term timeframe — so there's no cutting corners and/or giving up when the markets undergo a bad patch.

In our view, if you can adopt this necessary spending mindset, then you really could be on your way to building a sizeable share portfolio.

Now this step may sound difficult, but once you adopt the right mindset, you may well find it becomes second nature.

Step 3: Use Tax-Efficient ISAs

Let's move to **Step 3** now and explain why you should **Take Full Advantage Of Tax-Efficient ISAs**.

One of the greatest hurdles you'll face on the road to a stock market million is the tax man. You see, sizeable profits on shares can incur a Capital Gains Tax (CGT) liability and such tax payments can create significant dents to your investment returns.

Now we think the very best way to avoid paying CGT entirely is to shelter your investments within an **Individual Savings Account (ISA)**, rather than a standard share-dealing account. You see, any investment held within an ISA is not liable to CGT when the time comes to sell — *no matter how large the gain!*

Indeed, this ISA tax advantage over standard dealing accounts really comes into its own after you've been investing for a few years.

If you look back at Table 1, we used £10,000 as the annual investment contribution. That's actually less than the £15,240 you can put into an ISA for the 2016/17 tax year (here in the UK, tax years run from 6 April to 5 April).

So if your ISA-sheltered portfolio starts to compound well and your annual gains start to run into five figures — and into CGT-paying territory as the rules stand now — the tax savings could ultimately become substantial.

Indeed, CGT is currently charged at 10% for basic-rate taxpayers and 20% for higher-rate taxpayers. The rules are complicated, but essentially gains generally become liable for CGT when they exceed your annual exemption — £11,100 for the 2016/17 tax year.

Step 4: Shares Beat Funds

Let's move now to **Step 4** and why you should **Forget Large Funds And Buy Individual Shares Instead**.

It stands to reason that making a million from the market requires superior returns. So if you're determined to become a portfolio millionaire, then you need to concentrate on the very best opportunities for wealth-creating profits — and in our experience, the very best individual shares almost always beat the returns from the very best managed funds.

Of course, collective investment funds do have their attractions. Buying a fund effectively hands the stock-picking over to a City expert, who then does all the hard work for you. Own several funds, and you can easily establish an extremely diversified portfolio that shouldn't provide too much in the way of volatility.

But fund managers do tend to own quite a wide range of shares in their portfolios, thereby minimising the effect of any winning selection on the fund's overall performance. And the larger the fund, the less nimble it can be picking the very big winners we seek.

Consider Neil Woodford, who used to run the country's largest unit trust, the multi-billion pound Invesco Perpetual High Income Fund. Now Mr Woodford is a very accomplished

investor. For instance, during his last ten years of managing the High Income fund, he delivered a 200% return — equivalent to roughly 12% per annum².

So you may think Mr Woodford's 200% performance wasn't that bad. But during the same ten years, Mr Woodford's High Income fund was trumped by dozens of different shares — some of which rocketed by 1,000% or even more.

Step 5: You Can Beat A Flat Market

That brings us neatly to **Step 5**, which is: **In Any Market, There's Always The Potential For Tremendous Capital Gains.**

We've already highlighted the wonderful potential compounding effect on your money from enjoying 15% annual returns. But we recognise 15% returns every year may sound impossible, especially as we've noted how the wider stock market has delivered 9% average annual returns over the last century or so.

It's vital to realise that individual companies can still prosper — and their share prices can still produce outstanding gains — even when the stock market as a whole remains in the doldrums.

The last decade has included the credit crunch and a lengthy recession. And there is a common perception that the stock market hasn't gone anywhere for many years. But just take a good look at Table 3:

Table 3: Selected 'multibaggers' of the last ten years ³

Share	Total Return
Accesso Technology (LSE: ACSO)	6,397%
ASOS (LSE: ASC)	5,009%
JD Sports (LSE: JD.)	1,551%
Judges Scientific (LSE: JDG)	1,360%
Abcam (LSE: ABC)	1,203%
Staffline (LSE: STL)	716%
Walker Greenbank (LSE: WOB)	711%
Telecom Plus (LSE: TEP)	658%

Every one of those shares has soared during the last ten years -- and generated average gains of 20% or more per annum. Certainly buying one or two of those particular companies back in 2006 could have really set your portfolio motoring and put you well on the way, perhaps, to making a million in the market.

That said, most of those 'multibagger' shares may not be that familiar -- even after their superb gains. For example, Walker Greenbank designs soft furnishings, while Accesso Technology makes devices that help you avoid long queues at theme parks.

Yet market history tells us that you can also create serious wealth from more familiar names and products. **Domino's Pizza** ([LSE: DOM](#)), **Ted Baker** ([LSE: TED](#)), and **Hargreaves Lansdown** ([LSE: HL](#)) are examples of well-known UK companies that have multiplied their shareholders' money several times over the last ten years.

Step 6: Reinvest Your Dividends

As well as capital gains, shares can also enhance your wealth through the regular payment of dividends — which brings us to **Step 6** to making a million in the market: **Harness The Full Power Of Reinvested Dividends**.

Many shares on the stock market pay out dividends to their investors. While these cash payments may initially be small in relation to the capital value of the investment, reinvesting them into yet more shares can dramatically enhance your portfolio's return.

Let's look at **British American Tobacco** ([LSE: BATS](#)). It made a 227% capital gain in the ten years to 31 August 2016. But along the way, shareholders received regular dividend payments as well that could have really *turbo-charged* the investment.

In fact, had you bought more shares with every dividend payment, a British American Tobacco investment ten years ago would have since grown by an amazing 395%³ — equivalent to an average compound total return of just over 17% a year!

To put this another way, if you had invested £10,000 and then enjoyed BAT's capital gain — but spent all the dividends you receive — and you would have seen your money grow to £32,700. But had you invested £10,000 and then enjoyed BAT's total, dividend-reinvested 395% return, your pot would have surged to £49,500.

That extra potential £16,800 could certainly make all the difference in achieving a landmark £1 million portfolio. So as we saw in Table 2, the greater your percentage returns, the quicker your portfolio could grow towards that magic million. As such, reinvesting dividends is *essential* for investors determined to create superior wealth.

Step 7: Think Different

Step 7 to making a million in the market — **Think Different To Other Investors** — could be the most difficult to achieve. You see, good old human nature always tells us there is 'safety in numbers' and what other investors are doing must be worth copying.

Yet following the crowd and buying what's popular might not generate the market-trouncing returns required for millionaire status. Just look back at those wonderful individual share gains from the last ten years. Now you'll notice many of those shares have a connection to technology.

Now this may be hard to believe, but ten years ago hardly any investor wanted to know about technology shares. The sector had collapsed in the wake of the dot com bubble. Just a few

years before, these shares had been on everyone's shopping list, but a decade ago you couldn't give them away.

Yet anyone with the proper mindset to make a million — and who was thinking differently to other investors — could have ignored all that, and alighted on unloved technology shares and held on to make a packet. Easy to say in hindsight of course, but not so easy to have achieved in reality, when so few other investors were interested.

Step 8: Thinking Big While Investing Small

As well as Step 7, you can always take **Step 8** and **Hunt For Bargain Opportunities Under The City's Radar**.

Many of the companies we listed in Table 3 probably aren't familiar to you. Indeed, even after their bumper gains over the last ten years, they are still relatively small companies today.

Many City investor shuns companies of this size. Put simply, they are looking to invest billions of pounds, and it often doesn't make sense for them to invest a few million pounds in the companies that inhabit the smaller reaches of the market.

This can create opportunities for private investors like us though. Not only do small companies have plenty of room for growth, you can get an extra kicker when they get sufficiently large enough for those in the City to finally take notice of them.

Something else to realise on your quest towards a million is that you don't have to pick the hot new sector to win big with shares.

Big winners tend to come from a wide range of industries, and they are often non-flashy companies in what can seem to be fairly mundane lines of business. But they do things well, and their customers come back again and again. That's often a recipe for a great long-term investment story.

Step 9: Invest Long Term and Stop Over-Trading

Step 9 to making a million in the market is to **Invest Long Term And Stop Over-Trading**. The reason is simple enough: we believe the best returns generally come from the best opportunities — and it's logical to assume these opportunities do not present themselves on a regular basis.

So once you've found an attractive and convincing opportunity, it makes sense to hold on for the long run — rather than bank a quick profit and then wait in cash, or even switch into something with less appeal.

In fact, constantly chopping and changing your portfolio can rack up sizeable dealing costs, which can damage your returns and leave you with less money in your quest to a million.

To put the potential costs into perspective, imagine contributing £10,000 into your next ISA, buying a share, paying 0.5% stamp duty, and enjoying 15% annual returns for the next ten years.

By the end of year ten, your actual cash investment — that is, £10,000 less, say, £10 dealing costs and £49.75 stamp duty — would have grown into £40,215. So far, so good.

But now imagine the same £10,000 ISA contribution, but this time with the 15% returns produced by ‘switching’ from one share to another after every year. Table 4 shows how the buying and selling costs could add up, assuming a £10 dealing charge for every sale and every purchase, and 0.5% stamp duty levied on every purchase.

Table 4: How dealing costs can hurt your returns

(£) Year	Investment	Costs	Net Investment	Growth at 15%
1	10,000	60	9,940	11,431
2	11,431	67	11,364	13,068
3	13,068	75	12,993	14,942
4	14,942	85	14,857	17,068
5	17,068	95	16,991	19,539
6	19,539	108	19,431	22,346
7	22,346	122	22,224	25,558
8	25,558	138	25,420	29,233
9	29,233	156	29,077	33,439
10	33,439	177	33,261	38,251
Total		1,083		

All told, this ‘switching’ portfolio would end up with £38,251 -- some **£1,964 less** than the investor that just bought and forgot.

Step 10: Hold Your Nerve

Our final step, **Step 10**, to making a million in the market is to **Hold Your Nerve**. This is particularly important in volatile markets, whereby sizeable — but temporary — share-price falls can flush you out of great long-term investments just at the wrong time.

For example, we have seen two periods this century where the UK stock market saw major falls. Firstly, there was the decline between 2000 and 2003. A little more recently, the financial crisis hit shares between 2007 and 2009.

In both these periods, the value of the UK stock market fell by around 50%. Some shares fell by even more!

For many people, the natural reaction at such times would be to sell everything. You probably know some people who did just that, and they probably swore that they would never invest in the stock market again.

But stock markets rebound, and when they do, they really do spring back. What's more you might note that the multi-baggers we covered in Step 5 recorded their wonderful gains over a 10-year period that spanned the 2007-2009 financial crisis.

Selling out when the skies were darkest would have meant locking in your losses, and not enjoying the ride back up again.

Riding both the ups and downs, and keeping calm throughout is essential to making the most of what the stock market can offer.

Foolish bottom line

By now you should have a good understanding of what's involved in making a million from shares.

As we said at the start, the route to life-changing wealth requires time, effort and some sacrifice. You have to commit to a proper investing philosophy, taking full advantage of ISAs and looking beyond about mainstream funds.

You have to recognise that, even in tricky markets, shares with enormous compound-growth potential can still exist. And they might be just ready and waiting for you to buy.

Often, you'll have to invest away from the crowd — in sectors that have been forgotten, or in shares too small for City investors to pick up on.

Keeping your nerve — and perhaps buying more — when the market hits the panic button, is crucial as well. Consistently reinvesting dividends and trying to keep trading costs to a minimum are other great ways of maximising your chances of reaching a million.

None of this is easy, of course, but none of it is impossible either — for those with the right long-term, determined mindset, that is.

So isn't it time you took that first step — and started now?