

"Rule of 72" - Compounding and Doubling Effect

Fact: You don't need a lot of money to create wealth. All you need is a lump sum now, or a consistent stream of cash to start with, that will then grow over a long period of time. This example illustrates the power of compounding of interest over time.

The Number 72 divided by the $\frac{72}{8}$ annual market interest earned Equals - the Number of Years an Investment will Double. (in this case it equals 9 Years)

—————> Therefore, a \$100 investment will grow to \$200 over the next 9 years

Let's assume the following facts:

- A. You have a 5 year old child or grandchild.
- B. You have an investment that earns 7.2% annually.
- C. You have a choice of a One-Time investment of \$1,000, \$2,000 or \$5,000.
- D. Assume that the retirement age for this individual will be raised to 75 years.

$\frac{72}{7.2} = 10$ Years - This investment will double every 10 years

	<u>Child's Age</u>	<u>One-Time \$1,000 Investment Value</u>	<u>One-Time \$2,000 Investment Value</u>	<u>One-Time \$5,000 Investment Value</u>
	5	\$ 1,000	\$ 2,000	\$ 5,000
	15	\$ 2,000	\$ 4,000	\$ 10,000
	25	\$ 4,000	\$ 8,000	\$ 20,000
	35	\$ 8,000	\$ 16,000	\$ 40,000
	45	\$ 16,000	\$ 32,000	\$ 80,000
	55	\$ 32,000	\$ 64,000	\$ 160,000
Retirement Age	65	\$ 64,000	\$ 128,000	\$ 320,000
—————>	75	\$ 128,000	\$ 256,000	\$ 640,000

RESULTS: As you can see, the numbers can grow dramatically over time. This is the value of compounding interest working for you. This person could have up to \$128,000 at age 75 due to a one-time deposit of \$1,000 today. That number could grow up to \$640,000 created by a one-time deposit of \$5,000 today.

CONCLUSION: You don't need a lot of money to create wealth. All you need is some money working for you over a long period of time. Obviously, this same result can be achieved by making consistent payment streams (annuity method) in the early years. Please refer to my IRA retirement example that also illustrates the Time Value of Money phenomenon.