FINANCIAL WISDOM

- WEALTH BUILDER -

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The Power of Compound Interest

"Money makes money. And the money that money makes, makes more money." [1] This quote by Benjamin Franklin is referencing the power of compound interest. Albert Einstein extolled the wealth-building virtues of compound interest as well. He is reputed as saying he considered it to be man's greatest invention and the eighth wonder of the world.[2] A much simpler way to describe compound interest is that it is an excellent way to watch your investments grow exponentially over time.

Compound interest means that you begin to earn interest on the interest you receive, which multiplies your investments at an accelerating rate. For example, if you have $1000 and it grows by 10%, you have $1100. Then, if you earn 10% on that, you end up with $1210. And so on, until eventually, your original $1000 is far surpassed by the growth you've gained over time. If you didn't add to your initial investment of $1000 and let it compound annually, in 10 years you would have gained $1,593.74. Your $1000 became $2,593.74, and you didn't have to do a thing. The more you invest and the longer you let it compound, the more your initial investment will grow. *[3]

Key Factors of Compound Interest

Time

Time is a critical factor in compound growth. Therefore, thinking in terms of years rather than days is foundational to your investment plan. The longer you leave your money invested to compound, the more you'll have in the future.

Regular Contributions

Every dollar you add to your investment plan increases your overall balance. As your investments grow, your balance increases, your investments increase and so on.

Patience

Compound growth rewards patience. With calmness and fortitude - and a willingness to let your investment grow with few or no withdrawals - you could begin to see significant growth in your long-term returns.

Growth Rate

The compound growth rate is the key factor for how well an investment portfolio grows over time. Some investments grow as little as 1% per year whereas a diversified portfolio of high-quality mutual or segregated funds has tended to earn higher returns of the long term. Contact our office for more details about long term investment performance numbers.

Compound interest is a bit like rolling a snowball through the snow. The longer you roll it, the larger it gets. And as it grows, it becomes larger at a faster rate. It takes time and patience, but the good news is that whether you begin with $100, $100,000 or $1,000,000, compound growth can help you make money with your money. The key is to start as soon as you can, and the best place to begin is with a trusted financial advisor.

Looking to make the most out of your money? Contact us right away!

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