

## The Power of Compound Interest (Something Most Know, But Few Achieve)



What holds us back in life from doing the things we need to do, the things we love to do, or the things we want to do?

I suggest that fear of failure is the culprit for not moving forward. Often it is easier to continue doing what we have always done rather than making the effort to do something different. I find myself being slow to change but have realized over the years that change, although sometimes difficult, allows the opportunity for great things to happen.

There have been many instances where I have resisted change but have ultimately succumbed to it. The result was a dynamic shift in my thinking and a realization of the amazing things life has to offer.

Financial decisions are like many other life decisions. As we think about the financial decisions that we have to make in life, it can sometimes seem daunting. Retirement, education funding, cash flow needs, house projects, and different wants and needs are concerns we all have. Like many of the things we want to accomplish in life, we need financial stability in order to do it.

To achieve financial stability, we need to have a clear understanding of what our current needs are and an idea of what our future needs will be. Although it is easier to identify needs today rather than in the future, it is still important to start saving now (rather than later) for future consumption.

The fundamentals of compound interest reinforce the importance of early planning and saving. But you may wonder: does it really make a difference? You bet it does!

Let me show you an example of saving now vs. later (assuming an annual return of 8% interest). Below is a chart comparing a 25-year-old who saved \$5,000 a year for 10 years until age 35, and a 35-year-old who saved \$5,000 a year until age 60. The evidence is clear. Not only is the total investment of the 25-year-old less than half of the late starter, the early saver amassed 50% more wealth. Reaffirming that doing something now is better than doing something later.

### Example: Saving Now vs. Later

<u>Age</u>	<u>Amount Invested</u>	<u>Year End Value</u>	<u>Age</u>	<u>Amount Invested</u>	<u>Year End Value</u>
25	\$5,000	\$5,400	25	0	\$0
26	\$5,000	\$11,232			
27	\$5,000	\$17,531	35	\$5,000	\$5,400
28	\$5,000	\$24,333	36	\$5,000	\$11,232
29	\$5,000	\$31,680	37	\$5,000	\$17,531
30	\$5,000	\$39,614	38	\$5,000	\$24,333
31	\$5,000	\$48,183	39	\$5,000	\$31,680
32	\$5,000	\$57,438	40	\$5,000	\$39,614
33	\$5,000	\$67,433	41	\$5,000	\$48,183
34	\$5,000	\$78,227	42	\$5,000	\$57,438
35	\$5,000	\$89,886	43	\$5,000	\$67,433
			44	\$5,000	\$78,227
			45	\$5,000	\$89,886
			46	\$5,000	\$102,476

			47	\$5,000	\$116,075
			48	\$5,000	\$130,761
			49	\$5,000	\$146,621
			50	\$5,000	\$163,751
			51	\$5,000	\$182,251
			52	\$5,000	\$202,231
			53	\$5,000	\$223,810
			54	\$5,000	\$247,115
			55	\$5,000	\$272,284
			56	\$5,000	\$299,466
			57	\$5,000	\$328,824
			58	\$5,000	\$360,530
59	0	\$569,981	59	\$5,000	\$394,772
60	0	\$615,580	60	\$5,000	\$431,754
<b>Total Amount</b>			<b>Total Amount</b>		
<b>Invested:</b>	<b>\$55,000</b>		<b>Invested:</b>	<b>\$130,000</b>	
<b>Final Retirement Value:</b>	<b>\$615,580</b>		<b>Final Retirement Value:</b>	<b>\$431,754</b>	

A common failure we all have is thinking that tomorrow is a guarantee and that the needs of today outweigh the needs of the future. Although partially true, the numbers don't lie in demonstrating the power of investing now, staying the course, and being patient.

If we don't make smart decisions today, the reality of the future may not be the dream we expect.

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