Your Conservative Advisory Firm Since 1990 ***Second Quarter 2016***

A Word to Young Investors

You have the investor's best friends at your side - Time and Compounding. The sooner you put them to work for you, the easier it will be to build wealth.

When it comes to investing, the most important tool you have is time. A relatively small investment can become a sizable retirement fund given time and the impact of compounding.

Compounding is the process of earning interest on interest and dividends on dividends, over time. At first, your money grows relatively slowly, then with increasing speed as compounding takes effect.

One of the all-time great examples of the impact of compounding is the question...Which would be the better compensation plan?

- $100,000 per year with 10% annual increases
- One penny the first month, with your pay doubling with each successive month?

In three years, the individual who chose the $100,000 salary with 10% annual increases would have received $331,000 in compensation. The individual who chose the penny and saw her income double each month would have received $343 million dollars. Naturally, that's compounding to an extreme. But the same basic principle holds true at lower rates of appreciation.

The sooner you put your savings and investment plan into action, the longer your money goes to work for you. And the longer compounding has to work its math, the more substantial your nest egg can become.

Suppose you start saving $2,000 a year at age 19 and continue doing so for ten years before you stop adding to your account. At the same time, your twin waits until age 29 to start saving and then sets aside $2,000 a year for the next 36 years until he is 65. If you both earn 7% annually on your account, at retirement your investment of just $20,000 will have compounded to $337,774. Your twin will have invested more than $74,000, but ends up with $318,674, despite saving for 26 more years. The earning leverage of the early years made all the difference.

To enhance the power of compounding, you want to minimize the impact of taxes. After all, every dollar you pay in taxes reduces the amount you have to compound. That's why it's important to invest as much as you can in tax-deferred retirement accounts, or a Roth IRA where earnings accumulate tax free.

Understanding the value of time and compounding is one step toward accumulating a healthy retirement fund, but the most important step is to do something. Until you set up a plan of steady contributions using an investment approach that works for you, you are letting time and the value it can bring slip away.

Nothing happens unless someone does something. Whether it's for your own retirement or a young person's, call me today and let's put a plan in place to build financial security.

The compounding examples cited above are hypothetical and used for illustrative purposes only. Investment results fluctuate and past performance is not indicative of future results. The possibility of loss exists along with the potential for profit.

Sincerely,

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