

INVESTING YOUR WAY TO WEALTH

Do you want to be wealthy? Most people do. It usually takes a lot of patience, however, for most people to become wealthy. Most of us will not win the lottery, earn astronomical salaries playing for the NBA, or create a business in our garage that turns into Microsoft or Hewlett Packard. But if you are patient and use time to your advantage, you can accumulate wealth. You even could be a millionaire one day.

COMPOUND INTEREST

One way to reach this goal is by investing and saving wisely. Investing or saving in funds or accounts in which the interest is compounded eventually will double your money. The earlier you start your savings plan and the greater the interest rate, the sooner your funds will double.

Let's use an example to illustrate how compound interest can work to your advantage. How long will it take an initial investment to double at interest rates of 2 percent, 6 percent and 8 percent that are compounded annually? You really don't need a complicated formula to figure this out. All you need do is divide each interest rate into the number 72. Thus, it will take 36 years for your money to double at 2 percent compounded annually ($72/2=36$); 12 years at 6 percent ($72/6=12$); and nine years at 8 percent ($72/8=9$). So if you invest \$10,000 in a fund at 8 percent interest compounded annually, the fund will grow to \$20,000 in nine years.

RULE OF 72

Investors call this formula for doubling money the Rule of 72. It approximates how much time it takes for money to double at any interest rate that is compounded annually. You also can use the rule to figure what interest rate you need to reach a target. For example, if you would like to see your money double in 10 years, divide 10 into 72 to find the interest rate of 7.2 percent.

Actually, your money will double much faster if you invest it in an account that compounds quarterly or monthly. You also would be wise to periodically deposit money into an account. That way, not only does the base—or original amount of money—double over time, so, too, does each additional amount.

PLANNING FOR WEALTH

Thus, a 22-year-old who initially invests \$10,000 at 2 percent interest and adds \$300 each month for 45 years will have almost \$300,000 by age 67. If the money earns 6 percent interest, the amount would be roughly \$1 million by age 67 and nearly \$2 million if the interest rate is 8 percent. (We aren't considering interest rate fluctuations, inflation, fees or taxes here. Banks, for example, periodically adjust their interest rates up or down for savings accounts. Inflation lowers the value of money. And account fees as well as federal and state taxes on the interest earned each year can reduce overall earnings.)

MAKE THE MOST OF A 401(K)

A way to realize the gains that interest earned over time can provide is to contribute the maximum to tax deferred accounts like a 401(k) retirement savings plan. With a 401(k), your contributions are automatically deducted from your paycheck and reduce your current taxable earnings. You defer paying taxes on your plan contributions and earnings until you begin to make withdrawals, typically in retirement.

And, many employers match employees' contributions, which equates to getting free money from your employer. Employer contributions are added to your own savings and are not subject to the employee contribution limits.

A good savings and investment program should be part of your plan to accumulate wealth. Other things that you can do to help you toward that goal include getting a decent job, home ownership and the wise use of credit. If you do those things, it's possible to reach retirement age with at least \$1 million in assets—and probably much, much more. 📌

