Happy 21st birthday…here's what you need to know about money

The Amazing Power of Compound Interest

Albert Einstein called the power of compound interest the eighth wonder of the world. He said, he who understands it earns it, he who doesn't, pays it.

Compound interest is your money earning interest and then that interest earning interest and so on. In our example below, it is really interest, dividends and stock market growth (combined 6%). Many retirees I meet tell me they wish they learned this concept when they were in their 20's. I have heard this so many times I thought I would write a short article about the amazing power of compounding. I have also had friends ask me to speak to their children about money. In my opinion, this concept is what every 21-year-old needs to understand. The chart below will show you the value of starting to invest at age 21:

Hypothetical Example

If you start investing $500 a month at age:	You could potentially have this balance at age 67- assuming 6% average annual return:
21	$1,384,886
27	$936,749
32	$668,487
37	$469,606

For illustrative purposes only. Projections or other information regarding the likelihood of various investment outcomes are hypothetical in nature. They do not reflect actual investment results or the results of any specific investment product and they are not guarantees of future results. A plan of regular investing does not assure a profit or protect against loss in a declining market. Each investor's results will vary from these shown as investing involves risk, fluctuating returns and the possibility of loss. Results use average balances and are compounded annually. Calculations do not consider taxes or inflation. Investment decisions should be based on an individual's own goals, time horizon and tolerance for risk.

I realize many 21-year old's do not have any extra money. There are two ways to have extra money to invest; spend less or make more money. It's that simple. You could spend less by buying a good used car instead of a new car and living with roommates as an example. You could make more money by working in a fun part time job, in addition to your day job or advancing in your current career. Its up to you to figure out how to do this. My purpose in writing this article is to make you aware of the incredible power of investing when you are young. You have time on your side… and time and compounding can build your nest egg.

In the above example, if the funds were invested in a Roth IRA (maximum contribution of $6,000 annually/$500 a month) all of the $1,384,886 would be tax free. * Wow! This is amazing, and this is the reason retires wish they started investing when they were younger. In fact, in this hypothetical example starting at age 21, only 20% of the total value would be your investment, 80% would be the growth of your investment! Forget about the word retirement, think about future financial independence.

Lastly, you need to live your life and have fun along the way, just remember, if you can start investing early the power of time and compounding could really pay off. Consider yourself educated on the most important financial subject…what you do with this education is up to you!

*Contributions to a Roth IRA are not tax deductible and there is no mandatory distribution age. All earnings and principal are tax free if rules and regulations are followed. Eligibility for a Roth account depends on income. Principal contributions can be withdrawn any time without penalty (subject to some minimal conditions).

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