Time is Your Friend

A look at the potential of compounding and early, steady investing.

Time may be the greatest asset for the young investor. While some people may frantically try to catch up on retirement saving after age 50, you have the chance to harness the power of compounding by starting decades earlier.

When you start may matter more than how (or how long) you invest. Take the example of a hypothetical 25-year-old, Heather, who directs $10,000 a year into a retirement account earning 6.5% annually for ten years. At age 35, she quits investing entirely. Heather would still amass $950,588 by age 65 with no further effort. (If she keeps investing until age 65, that lump sum swells to more than $1.9 million.) In contrast, a 35-year-old who invests for 30 straight years at the same annual contribution level and **average annual return** ends up with $919,892, not even as much as Heather who quit after a decade.[1*]

Here's another hypothetical example, using smaller financial increments. Say a 25-year-old begins saving and investing $350 a month in a tax-deferred retirement account – about $75 a week. She increases that initial monthly contribution amount by just 2.5% each year while the account returns 7% annually. At age 67, she will have around $1.4 million in savings. If she waits until 35 to start, she will have only about $654,00 under the same conditions.[2*]

*Please note: This is a hypothetical example and is not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect taxes, inflation, or the deduction of fees and charges inherent to investing.

[1] businessinsider.com/compound-interest-chart-march-2016-2016-3 [3/11/16]
[2] nasdaq.com/article/20-tricks-to-retiring-rich-cm732007 [1/11/17]

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