BURROWS
CAPITAL ADVISORS

Einstein once said *"Compound interest is the eighth wonder of the world. Those who understand it, earn it; those who don't, pay it".* He was talking about "interest on interest" which is the interest earned on both your initial investment and the accumulated interest from previous periods. It's a snowball effect that makes your money grow at an accelerated pace. Building wealth through investing is predicated on the principle of compound interest.

Think of it like this:

You invest $10,000 at an annual interest rate of 5%.

After one year, you'll earn $500 in interest, bringing your total balance to $10,500.

In the second year, you'll earn interest not just on the original $10,000 but also on the $500 you earned the previous year. So, you'll make $525 in interest, bringing your total balance to $11,025.

As you can see, the amount of interest you earn keeps growing each year thanks to the magic that Einstein had referred to, but the power of compound interest is most evident in the long term. The longer your money is invested, the more times it has the chance to be compounded, leading to significantly higher returns.

Time Is Your Ally:

As an example, take the $10,000 discussed above and the same 5% expected return. After two years at 5% your balance will be $11,025 but after 40 years that balance will be approximately $70,400 without making any more account contributions.
If you were to make monthly contributions of $500 in this example, after 40 years your balance would be approximately $836,594. If your return was 7% that balance would be approximately $1.47 million. As you can see, the time, amount invested, and interest rate earned on your investment can be adjusted to project future and approximate account balances.

Risks & Diversification:

Compound interest can work for you in a diversified investment portfolio of stocks and bonds, which is why it's important to re-invest portfolio interest and dividends when applicable. Higher risk equates to a higher return.

The Key Takeaways:

Rising costs of living make it imperative for investors to hedge long term inflation and have enough money saved for retirement. The longer you invest, the more powerful compound interest becomes. Starting early and investing regularly is the best way to harness the power of compound interest and achieve your financial goals. A financial advisor can help you create a financial plan for your retirement needs and goals and implement these compounding principles. Visit burrowscap.com/resource-center for more resources including retirement calculators.