

How to Put Time on Your Side

There is something to be said for growing your money through compounding. It's a simple idea but the effect on your workplace retirement account can be very powerful. When your investments earn money, those earnings are plowed back into investments. Over a long period of time you could see your money grow dramatically. Consider the following story, told by investment wizard Peter Lynch in his book *One Up On Wall Street*.¹

In 1626, the Indians of Manhattan sold their island to a group of immigrants for a mere \$24 in beads. If the Indians had converted the beads to cash and invested the money in a workplace retirement account with an average annual return of 8% (which was added back into their account each year, of course), their current net worth would be almost \$30 trillion. They could buy the land back ten times and still have plenty of money left over!

You don't have 367 years to grow your nest egg, but if you make weekly deposits of \$24 to your workplace retirement account over 10 years, earning a hypothetical 8% annually (compounded quarterly), you'd have \$18,845. If you stopped making deposits after 10 years but left the money in the account for another 20 years, you'd have \$91,880 all for a total investment on your part of only \$12,480. Compare that to someone who waits for 10 years and **then** invests the \$24 each week for 20 years. That person would have only \$60,457 at the end of 30 years, on a total investment of \$24,960 which means putting twice as much in and getting only two-thirds as much back! With compounding, it's all a question of time.

This hypothetical scenario is for illustrative purposes only and does not reflect any actual returns or investments.

¹Source: Peter Lynch with John Rothchild, *One up on Wall Street: How to Use What You Already Know To Make Money in the Market* (New York: Simon & Schuster, 1989), p. 67-68

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