

Compound Interest MIND BEND

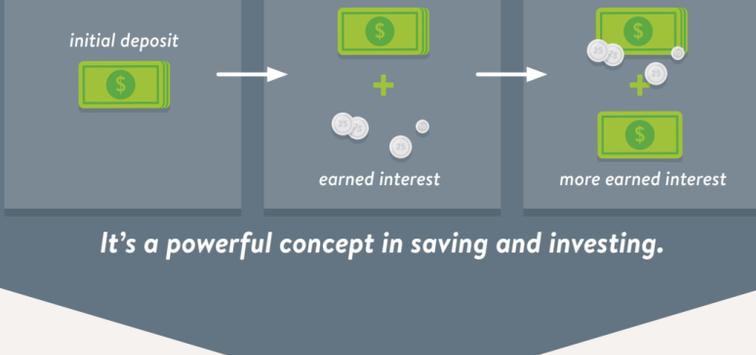
- IT'S A -
MONEY THING



“Compound interest is the eighth wonder of the world. He who understands it, earns it... He who doesn't, pays it...”

- Albert Einstein

Compound interest means earning interest on your interest:



It's a powerful concept in saving and investing.

How to make the most of COMPOUND INTEREST

3 Strategies + Takeaways

STRATEGY 1

SAVING THE INTEREST

VS.

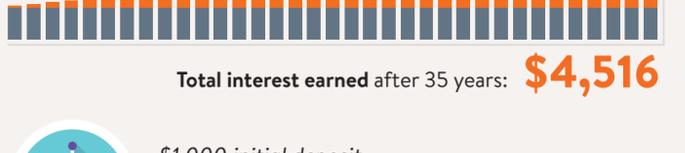
SPENDING THE INTEREST

What happens if you withdraw your interest as you earn it?



\$1,000 initial deposit
5% annual return
Doesn't touch his account

EINSTEIN



Total interest earned after 35 years: **\$4,516**



\$1,000 initial deposit
5% annual return
Spends the interest every year

BLIPPY



Total interest earned (and spent!) after 35 years: **\$1,750**

Blippy's spending keeps his interest from increasing

By leaving his investment alone, Einstein earned

2.5x

more interest

\$2,746

Even if Blippy had spent only half of his interest each year, he would have still only earned \$2,746 in total interest.

THE TAKEAWAY:

Interest withdrawals—even if they are small—keep compound interest from doing its thing.

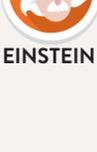
STRATEGY 2

STARTING EARLIER

VS.

STARTING LATER

How much difference does a head start make?



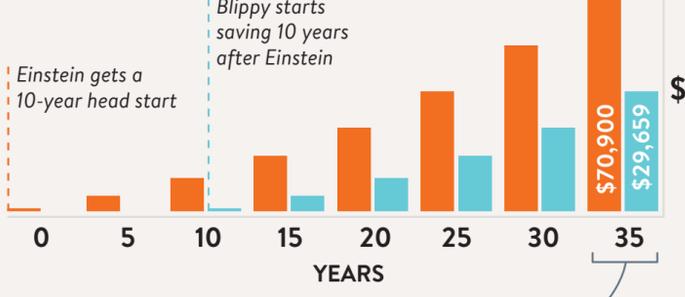
Starts saving when he's 25
\$1,000 initial deposit
\$1,200 annual deposit
5% annual return

EINSTEIN

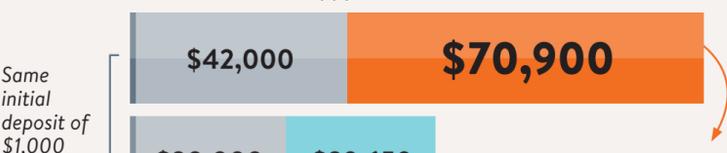


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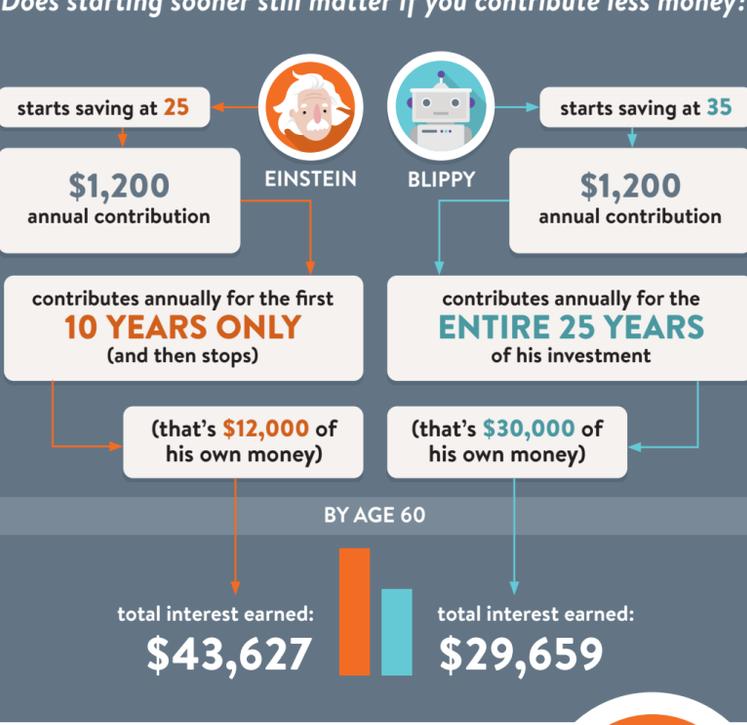
Einstein contributed \$12,000 more than Blippy...



...but earned \$41,241 more in total interest!

Well, of course Einstein earned more! He started sooner and contributed more money than I did!

Does starting sooner still matter if you contribute less money?



total interest earned: **\$43,627**

total interest earned: **\$29,659**

Simply by starting to save sooner, I was able to contribute \$18,000 less but still make almost \$14,000 more in interest!



THE TAKEAWAY:

Time is money when it comes to compound interest. The longer you wait around, the less interest you'll earn.

STRATEGY 3

MONTHLY COMPOUNDING

VS.

ANNUAL COMPOUNDING

What difference does the compounding frequency make?

Deposits \$100/month into an account that compounds monthly.



EINSTEIN



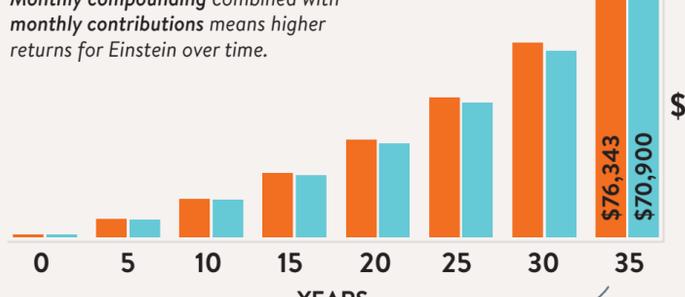
BLIPPY

Deposits \$1,200/year into an account that compounds annually.



Both start saving at the same time.
Both have an initial deposit of \$1,000.
Both get a 5% annual return.
Both contribute \$1,200 a year.

Monthly compounding combined with monthly contributions means higher returns for Einstein over time.



Even though all other variables were the same, Einstein earned \$5,443 more than Blippy.

\$5,443

THE TAKEAWAY:

Smaller, more frequent contributions are better than larger annual contributions when it comes to monthly compounding.

INVESTING CAN BE RISKY

Not all investments are guaranteed—some investments carry the risk of losing money, even when made through a financial advisor or financial institution



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