

Compound interest MIND BEND

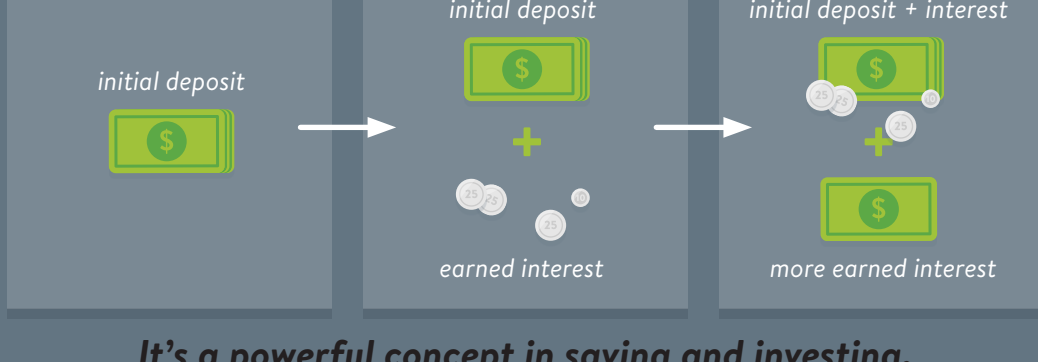
- IT'S A -
**MONEY
THING®**



“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

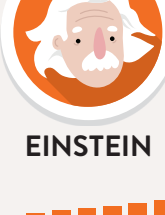
STRATEGY 1

**SAVING
THE INTEREST**

VS.

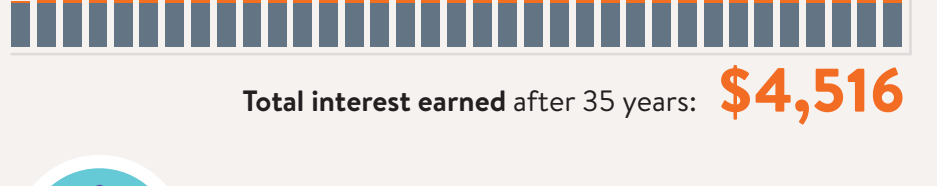
**SPENDING
THE INTEREST**

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

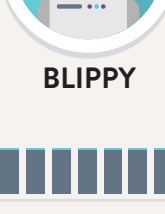


EINSTEIN

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

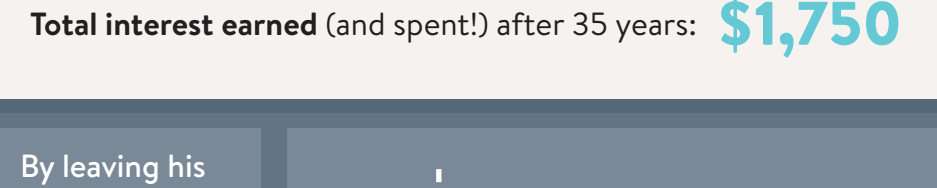


Total interest earned after 35 years: **\$4,516**



BLIPPY

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



Blippy's spending keeps his interest from increasing

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

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?



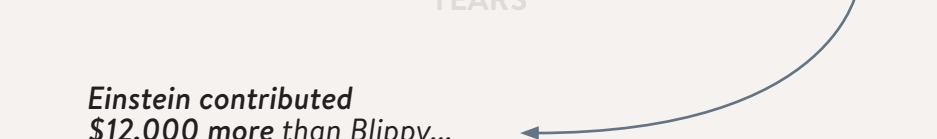
EINSTEIN

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



BLIPPY

Starts saving when he's 35
\$1,000 initial deposit
\$1,200 annual deposit
5% annual return

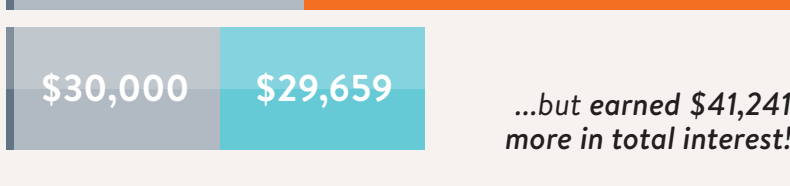


Einstein gets a 10-year head start

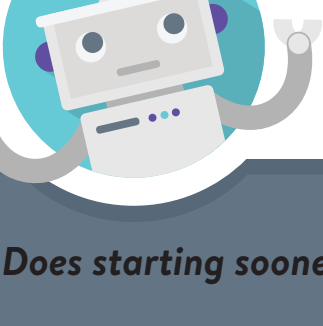
Blippy starts saving 10 years after Einstein

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

Same initial deposit of \$1,000

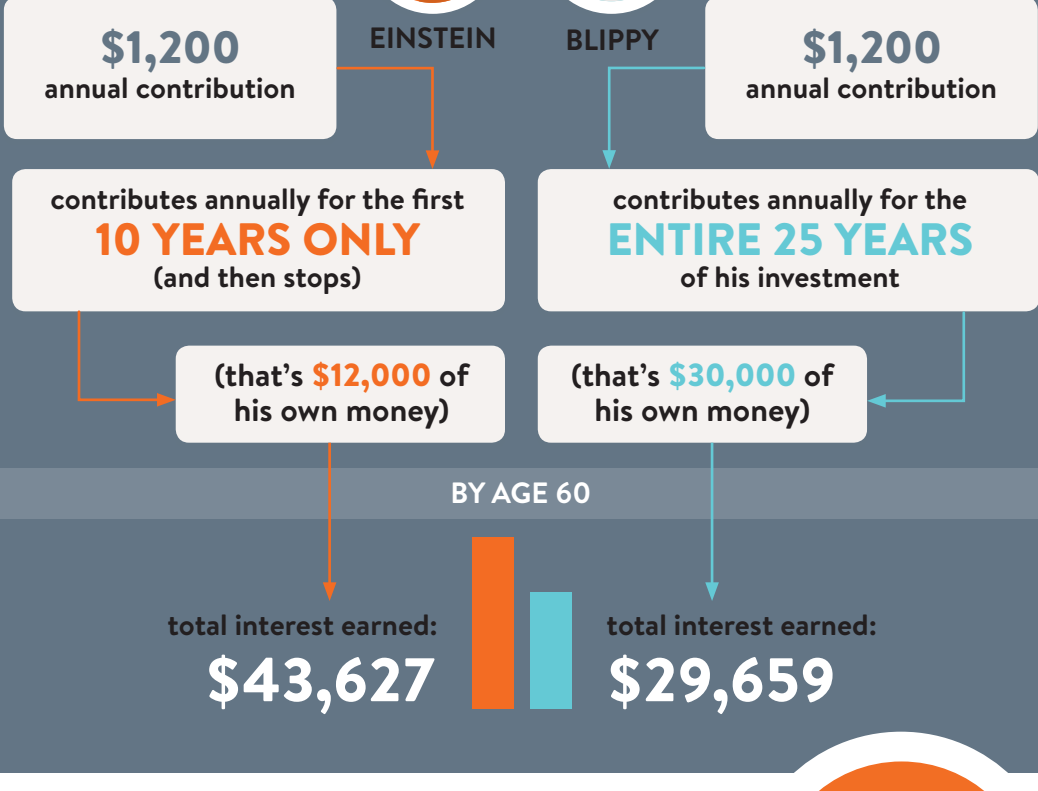


...but earned \$41,241 more in total interest!

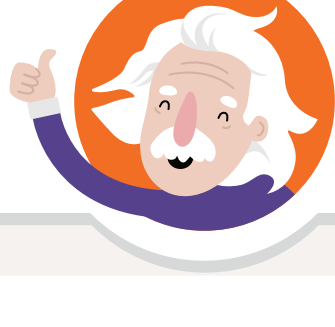


Well, of course Einstein earned more! He started sooner *and* contributed more money than I did!

Does starting sooner still matter if you contribute less money?



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

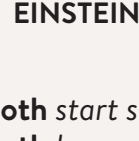
**MONTHLY
COMPOUNDING**

VS.

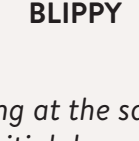
**ANNUAL
COMPOUNDING**

What difference does the compounding frequency make?

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

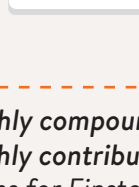


EINSTEIN



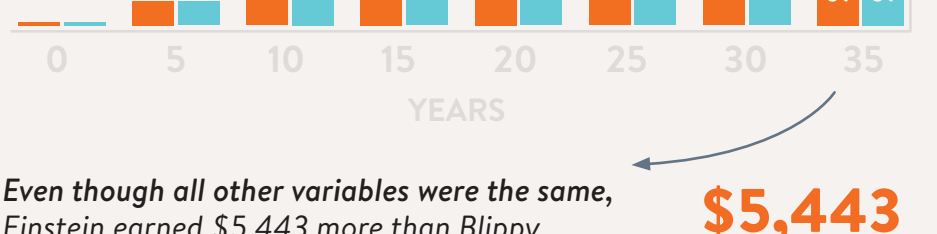
BLIPPY

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.

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