The Amazing Power of Compounding

COMPOUND INTEREST IS HOW ANYONE CAN ACCUMULATE SIGNIFICANT WEALTH.

Let's look at an example.

Assume someone starts saving $1,000 per year at age 21. They save for 45 years ($45,000 saved). If the money grows at 10%, assuming no taxes, what will the balance be at age 65?

ANSWER:

Amount Saved	$ 45,000
Gain from Compounding	+ 673,905
Balance at 65	$ 718,905

However...

... We Suggest You Watch Dividends Instead.

Assume a 15-year-old teen earns $7,000 from summer jobs and invests in dividend-paying stocks in a Roth IRA. If the initial yield is 4% and dividends increase by 6% per year, what will future dividends be if the dividends are spent each year?

One-Time $7,000 Investment @ 4% with 6% Dividend Growth – Dividends Spent

AGE	YEARLY DIVIDEND
15	$ 280
25	501
35	898
45	1,608
55	2,880
65	5,198
75	9,237
85	16,542
95	29,623

However...

... The *REAL* Power is in Reinvested Dividends.

The last example assumes the dividends were spent each year. But what if the dividends are reinvested in new dividend stocks?

One-Time $7,000 Investment @ 4% with 6% Dividend Growth – Dividends Reinvested

AGE	YEARLY DIVIDEND
15	$ 280
25	726
35	1,884
45	4,886
55	12,673
65	32,869
75	85,255
85	221,129
95	573,552

Can you see why young people should attempt to fund their Roth IRAs at an early age? (Or have parents or grandparents who help?)

How Does This Work for a Retiree?

Assume a couple retires at age 65 with $1 million. The current life expectancy tables tell us at least one of the couple will live 30 years beyond age 65. The dividends are spent each year. What will the annual dividends be in 30 years?

One-Time $1 million Investment @ 4% with 6% Dividend Growth – Dividends Spent

AGE	YEARLY DIVIDEND
65	$ 40,000
70	53,529
75	71,634
80	95,862
85	128,285
90	171,675
95	229,740

The dividend stream would grow to over **5x** the initial dividends by year 30!

***COMPOUND*… Dividend Growth Really is AMAZING!**

Compounding of dividends is amazing for both:

1. Someone attempting to build their wealth, or

2. Someone who has accumulated wealth and now wants to live off the dividend stream being produced.

Note the above illustrations assume dividend growth at 6% per year. The actual growth for S&P 500® dividends over the past 30 years has been 5.8% per year.