The Amazing Power of Compounding

COMPOUND INTEREST IS HOW ANYONE CAN ACCUMULATE SIGNIFICANT WEALTH.

Let's look at an example.

Assume someone starts saving $7,500 per year (current IRA contribution limit) at age 21. They save for 45 years ($337,500 saved). If the money grows at 10%, assuming no taxes, what will the balance be at age 65?

ANSWER:

Amount Saved	$ 337,500
Gain from Compounding	+ 5,593,465
Balance at 65	$ 5,930,965

However...

... We Suggest You Watch Dividends Instead.

Assume a 15-year-old teen earns $7,500 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 $7,500 Investment @ 4% with 6% Dividend Growth – Dividends Spent

AGE	YEARLY DIVIDEND
15	$ 300
25	537
35	962
45	1,723
55	3,086
65	5,526

*** Notice how the greatest growth comes in the last 10 years ($237 growth in first 10 years, $2,440 growth in last 10 years) ***

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 $7,500 Investment @ 4% with 6% Dividend Growth – Dividends Reinvested

AGE	YEARLY DIVIDEND
15	$ 300
25	778
35	2,018
45	5,235
55	13,578
65	35,217
75	91,427
85	237,397
95	616,180

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 $3 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 $3 million Investment @ 4% with 6% Dividend Growth – Dividends Spent

AGE	YEARLY DIVIDEND
65	$ 120,000
70	160,587
75	214,902
80	287,587
85	384,856
90	515,024
95	689,219

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 6.0% per year.