



Matthew Martin, CFP®, *Certified Financial Planner*

248.767.3828

mmartin@retirementplanadvisors.com



RETIREMENT PLAN ADVISORS

THE FUTURE IS BETTER THAN YOU THINK

# Saving Early & Letting Time Work for You

**The earlier you start pursuing financial goals, the better your outcome may be**

**AS A YOUNG INVESTOR, YOU HAVE A POWERFUL ALLY ON YOUR SIDE: TIME.** When you start investing in your twenties or thirties for retirement, you can put time to work for you.

**THE EFFECT OF COMPOUNDING IS HUGE.** Many people underestimate the power of time, so it's worth illustrating. Let's take a look using a hypothetical 5% rate of return.

**HOW DOES IT WORK?** A simplified example goes like this, using \$100 and the aforementioned hypothetical 5% rate of return. After a year, you earn 5% interest, or \$5. Another year, another 5%, which adds \$5.25 this time. In the third year, your 5% interest earned amounts to \$5.51, bringing your balance to \$115.76. The more money you deposit, the more that 5% returns. So, if you were to deposit \$100 every month into that same account, you'd make a hypothetical \$836.63 in compound interest from \$6,100 in deposits over five years. That compounding continues, even if you stop making deposits. All you really need to do is let that money stay put.<sup>1</sup>

**THE EARLIER YOU START, THE GREATER THE COMPOUNDING POTENTIAL.** If you start saving and investing for retirement in your twenties, you may gain an advantage over someone who waits to save and invest until his or her thirties.

**EVEN IF YOU START EARLY AND THEN STOP, YOU MAY OUT-SAVE THOSE WHO BEGIN LATER.** What if you contribute \$5,000 to a retirement account yearly starting at age 25 and then stop at age 35 – with no new money going into the account for the next 30 years. That's hardly ideal. Yet, should it happen, you still might come out ahead of someone who begins saving for retirement later.

**ARE YOU WARY OF INVESTING?** If you were born in the late 1980s to early 1990s, you're old enough to remember the market volatility in the early 2000s and the credit crisis of 2007-09. Recent events, in the wake of the coronavirus, might bring back memories of that time.

All this may have given you a negative view of equities, shaped during your formative years. These events are clear examples of how risk plays a part in this type of investment.

The reality, though, is that many people preparing for retirement need to build wealth in a way that has the potential to outpace inflation. You will retire on the compounded earnings those invested assets are positioned to achieve.

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105 West Adams Street, Suite 2175 | Chicago, IL 60603 | 312.701.1100

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1 - [thebalance.com/compound-interest-4061154](https://thebalance.com/compound-interest-4061154) [12/6/19]

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