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The Rule of 72 and Saving \$1 a Day

I attended Midwestern State University and majored in accounting. In my Junior year, we studied the Rule of 72. It is a super simple rule and helps you determine how long it will take for you to double your money.

$72 \div \text{your compound annual interest rate} = \text{how many years until your investment doubles}$

If you want to double your money in 6 years, you can divide 72 by 6 and it tells you that you must make 12% on your interest rate. Basic algebra (keeping both sides of the equation equal) means that if you divide 72 by the interest rate, you get the number of years it will take. So if you know you are making 9% interest, your money will double in just 8 years. 8% interest means it will take 9 years. So it is a fast and simple method to determine years and percentages.

That is what compounding of interest does for you. If you take our initial example of making 12%, the reason it will double in 6 years is after the first year, you have your initial investment amount (say \$1,000) plus that year's interest of \$120. So the second year, you make much more interest as your basis is now $\$1120 * 12\% = \134 , etc. until you roll into \$2,000 at the end of the sixth year.

May not be exact, but is a good rule of thumb.

The rule of 72 has been around for a lot of years. Luca Pacioli, a mathematician from Italy wrote about it in his book "Summary of Arithmetic, Geometry, Proportions and Proportionality", around the year 1494. Some credit Albert Einstein for the rule, but no documentation supports this claim.

The Rule makes it easy to see why compounding is super important, especially if you will start the process in your early years, particularly around 20 to 25.

What if I told you that you could save One Million dollars by investing just \$1. Not once a year, but ONCE. It can not happen with 0% interest. But with 3% interest, it can happen.

Sound impossible? In his book "**Multiple Streams of Income**", Robert G. Allen gave that exact example. He said if you just save \$1 you will accumulate 1,000,000 dollars if you receive 3% interest in just 468 years.

What?? 468 years. I doubt many of us would live to see that happen. However, if you change that interest rate to 5%, it would only take only 264 years. 20% nets you one million in 75 years. Think of that... One dollar invested and because of time, it would be worth One Million. Most people are not disciplined enough to leave the money alone, much less invest more consistently. So Consistency and Discipline are very important.

Now let's bump the ante a little bit. What if you saved \$1 a day. How long would it take At 3% interest, 147 years, 5% - 100 years, 10% - 56 years, 15% - 40 years, 20% - 32 years.

See the importance of consistent steady investments. It is not nearly as important on the amount as the steady savings month after month.

And using our rule of 72, if we can average 12% returns, our money doubles every 6 years. In his book "The Total Money Makeover" Dave Ramsey points out that there are dozens of growth mutual funds that average 12 to 15% per year. So a person who

starts young and consistently invests in an investment that makes 10% or more is sure to have a large amount in their savings by the time of retirement.

Robert Allen says in his book: “ The real key is to keep socking away the money. Let the numbers whisper their silent but relentless message. Consistency. Day in, Day out. Save, Invest, Save, Invest. It may be dull, but no matter, just do it.

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