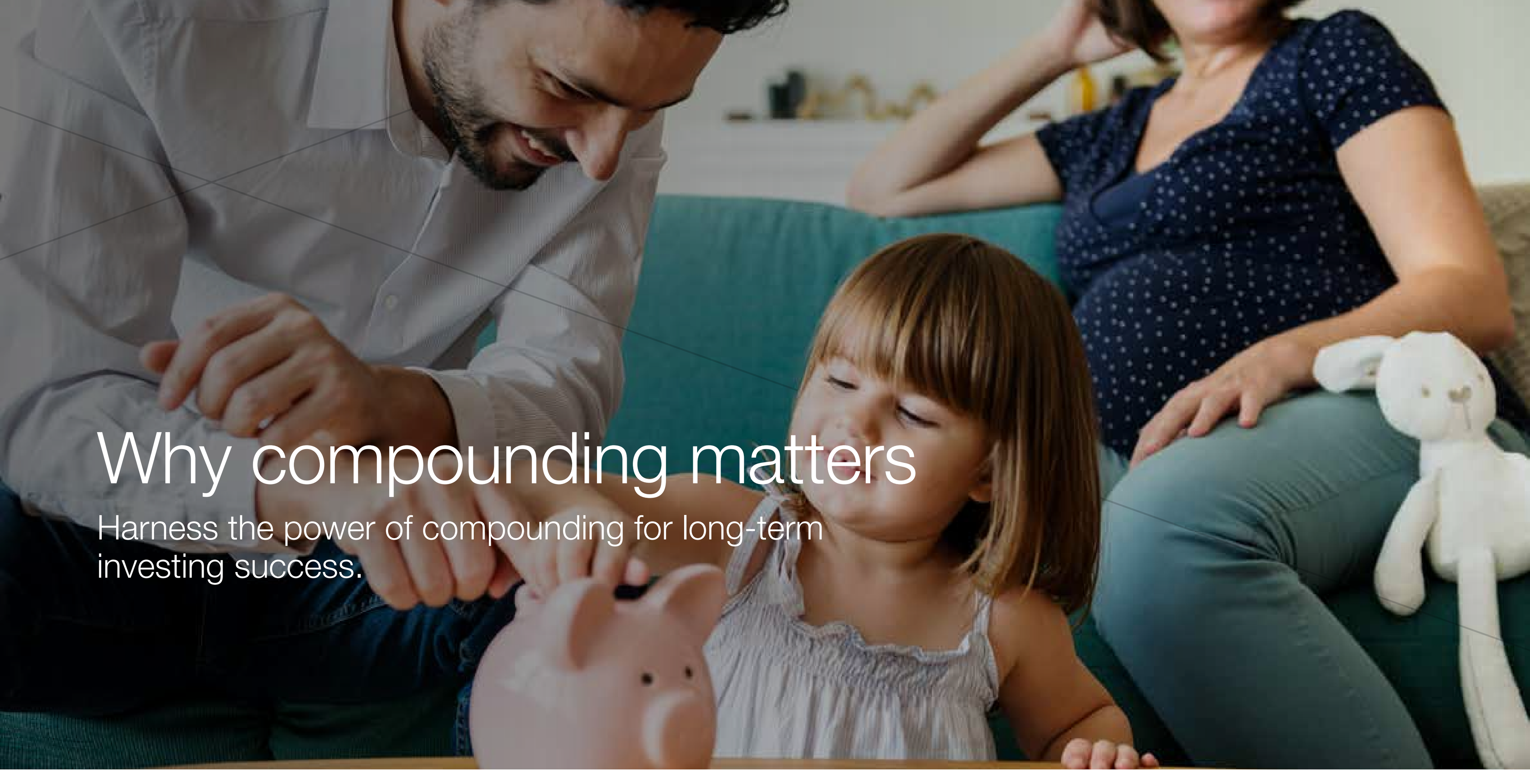


Why compounding matters

Harness the power of compounding for long-term investing success.

Albert Einstein once called compounding the most powerful force in the universe. Here's how it works, what affects it, and how to make the most of it in your investing strategy.

What is compounding?

When you make an investment, you hope it earns a return. For instance, a $1,000 investment might return 7% in year one, for a total return of $70. The next year, you could reinvest the $70 and make an investment of $1,070. If that investment once again returned 7%, you'd get a total return of $74.90. The $70 in returns from year one compounded to give you an extra $4.90.

Therein lies your opportunity: **The return on your investment generates its own return.** This effect can grow stronger with time.

The effect of compounding

YEAR 1	$1,000	+	7% return	=	$1,070	gain: $70
YEAR 2	$1,070	+	7% return	=	$1,144.90	gain: $74.90
YEARS 3-5	$1,144.90	+	7% return for 3 years	=	$1,402.55	gain: $257.65

Imagine the return after five years if you invest more than $1,000 initially. Or if you invest for 30 years instead of five.

Why is compounding important?

Compounding is most impactful for long-term investing, since its effects increase as time goes on.

Using our previous numbers, let's say you withdrew your returns every year, instead of letting them compound in the investment account. In our example, that would be a withdrawal of $70 each year.

Five years later, you would have earned $350 in withdrawals instead of $403 in compound interest (assuming a 7% return each year). In another five years (10 years total), the difference would grow: Taking the returns each year, without compounding, would earn you $700. Letting your investment compound would result in a gain of $968.

If you're investing for a long-term goal like retirement, the way returns can compound significantly over time means you can do more with less.

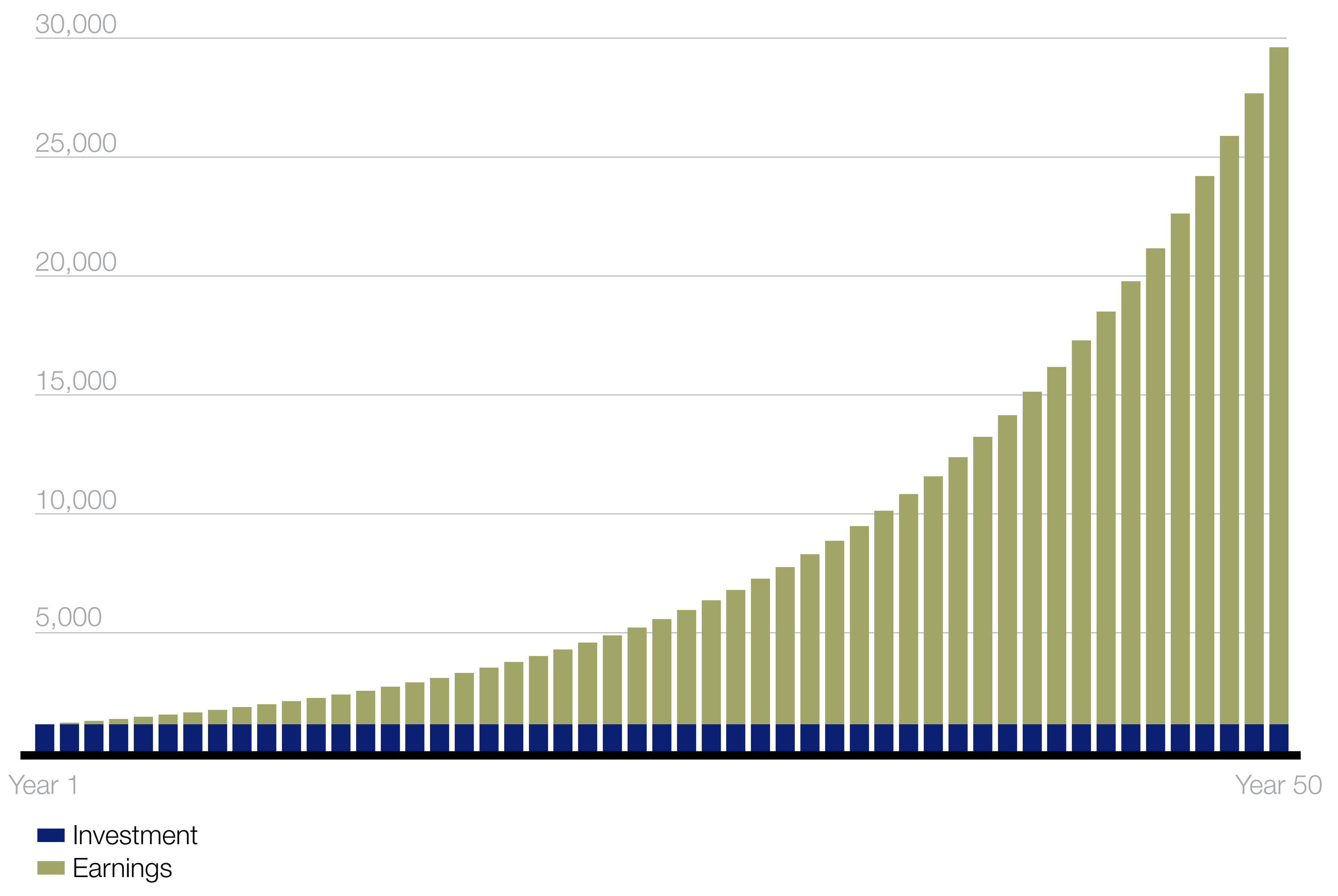
How to take advantage of compounding

The single biggest way to benefit from compounding is to start investing as early as possible. If you want to retire with a certain amount of money, the earlier you start, the less you would have to invest initially. You may even be able to set aside less as you age and put more money toward other goals. The longer your investments have to compound, the greater the impact.

Here's another illustration: Imagine you're planning to retire at 70. If you invested your first $1,000 at age 40 and held it for 30 years you'd have just over $7,613. If you had started at age 20 you'd have nearly four times that amount at age 70, more than $29,4548 — even if you never added another penny (again using a yearly return of 7% as an example).

If you were starting at age 40 and wanted that same $29,000 in retirement (assuming the same rate of return) you'd have to invest roughly $3,900 to start.

Future balance:
$29,458



The good news is even if you didn't start early, you still have more time now than you will next year, or the year after that. The more you can put away today (versus tomorrow) the greater the opportunity for compounding to work.

A financial professional can help you come up with a plan for how much you can afford to set aside and what type of retirement you might be able to expect based on how much you invest. While returns aren't guaranteed for any investments, a professional can likely show you how your portfolio will perform in different market scenarios, and how compounding might play out in various situations.

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