The Power of Time and Patience

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It's challenging to be patient in a fast-paced, immediate gratification world, but some things are worth the wait. Consider, for example, how a powerful financial reality (compound interest) can help investors accumulate a lot of assets over time to reward their patience and perseverance. Here's how it works:

> You invest $1000 at a 5% annual interest rate. You'll have earned $50 in interest by the end of year one, making your original investment worth $1050. By simply leaving it alone and reinvesting, you'll earn 5% on your initial $1000 investment, plus 5% on the $50 in interest earned in year one. By the end of year five, your investment will be worth $1276. By year 40, it will be sitting at roughly $7,040. That's $6,040 gained by simply sitting tight.

Now imagine how these numbers could change if you made even modest annual contributions to your original investment. Compound Interest can add up quickly and, over time, help grow your retirement savings to achieve the financial freedom you dream of.

What makes compound interest work for you?

- **Time**

  The longer you allow your investment to compound, the higher your asset value be in the future. Time and patience can lead to financial growth for investors.

- **Contributions**

  Every dollar contributed adds to your potential to earn interest.

- **Frequency**

  Depending on the type of investment solution you choose, interest may be compounded daily, weekly, monthly or annually. The more often interest is compounded, the faster savings grow.

What the experts say

When asked how to grow wealth wisely, investment guru Warren Buffet advises people to begin right now. "The trick to a very long hill is either starting very young or living to be very old."[1]

Are there downsides to compound interest?

The power of compounding works slowly, and positive gains are seldom seen in the short term. It's the patient building of wealth in the face of market fear that works in your favor over the course of time.

It's also important to know that while compound interest has a powerful effort on wealth accumulation, it can also be detrimental to your financial well-being if you have too much consumer debt. Credit card companies apply interest to purchases whenever card balances are not paid in full. If only the minimum amount is paid every month on a credit card balance the debt may grow out of control over time.

How to make compound interest work for you

Whether you want to start leveraging the power of compound interest or establish a budget to reduce debt during this period of higher interest rates, the smartest thing you can do is to simply get started today. Having a financial advisor in your corner can make a big difference. We can help.

Contact our office today if you have questions [1] about compound interest.

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1. CNBC: In 1999, Warren Buffett was asked what you should do to get as rich as him - his advice still applies today - https://www.cnbc.com/2021/07/23/warren-buffetts-advice-from-1999-on-how-he-would-invest-10000-dollars.html [2]
2. Trading Economics: Canada Interest Rate - https://tradingeconomics.com/canada/interest-rate#:~:text=Interest%20Rate%20in%20Canada%20averaged,statistics%2C%20economic%20calendar%20and%20news [3]

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