

# Compound Interest MIND BEND

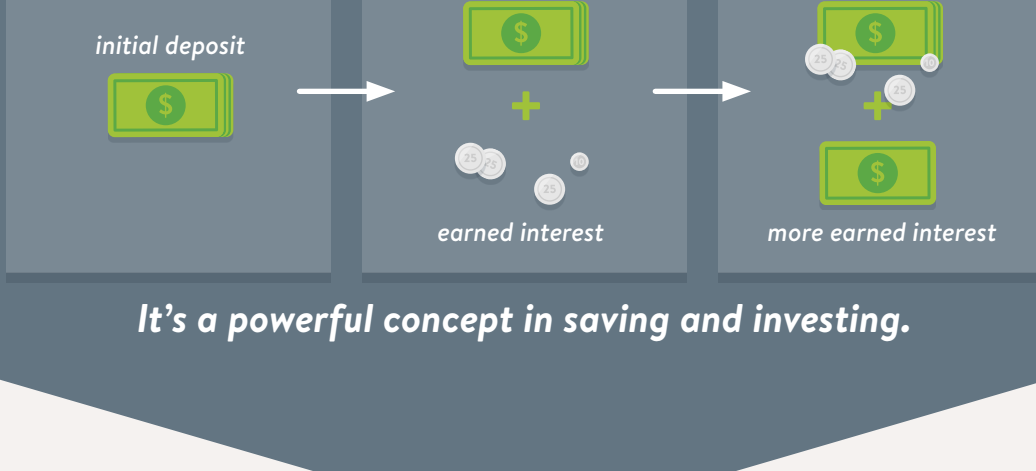
- IT'S A -  
**MONEY THING**



“Compound interest is the eighth wonder of the world. He who understands it, earns it... He who doesn't, pays it...”

- Albert Einstein

Compound interest means earning interest on your interest:



It's a powerful concept in saving and investing.

## How to make the most of COMPOUND INTEREST

3 Strategies + Takeaways

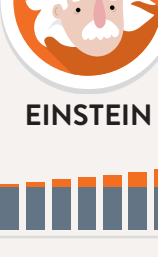
### STRATEGY 1

**SAVING THE INTEREST**

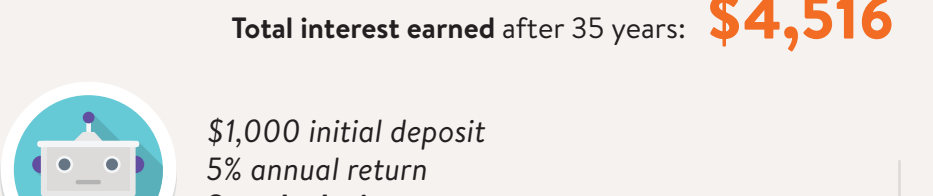
VS.

**SPENDING THE INTEREST**

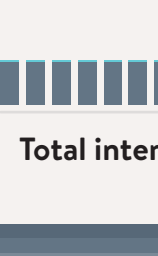
What happens if you withdraw your interest as you earn it?



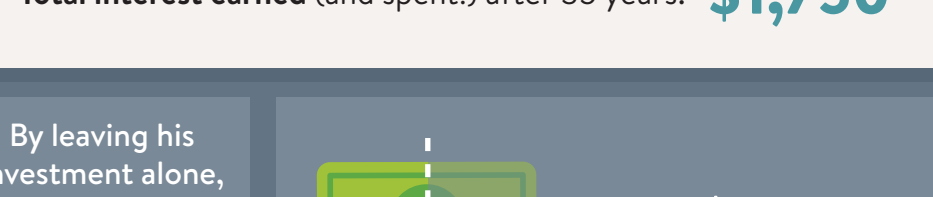
\$1,000 initial deposit  
5% annual return  
**Doesn't touch his account**



Total interest earned after 35 years: **\$4,516**



\$1,000 initial deposit  
5% annual return  
**Spends the interest every year**

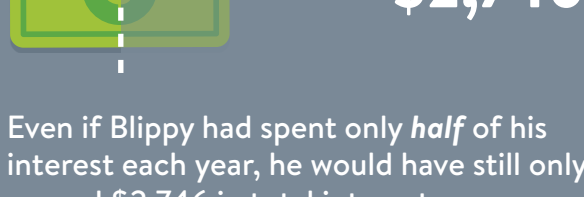


Total interest earned (and spent!) after 35 years: **\$1,750**

Blippy's spending keeps his interest from increasing

By leaving his investment alone, Einstein earned

**2.5x**  
more interest



Even if Blippy had spent only *half* of his interest each year, he would have still only earned \$2,746 in total interest.

**THE TAKEAWAY:**

Interest withdrawals—even if they are small—keep compound interest from doing its thing.

### STRATEGY 2

**STARTING EARLIER**

VS.

**STARTING LATER**

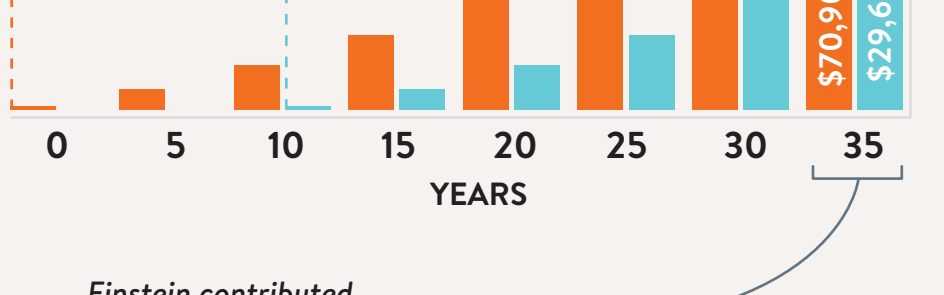
How much difference does a head start make?



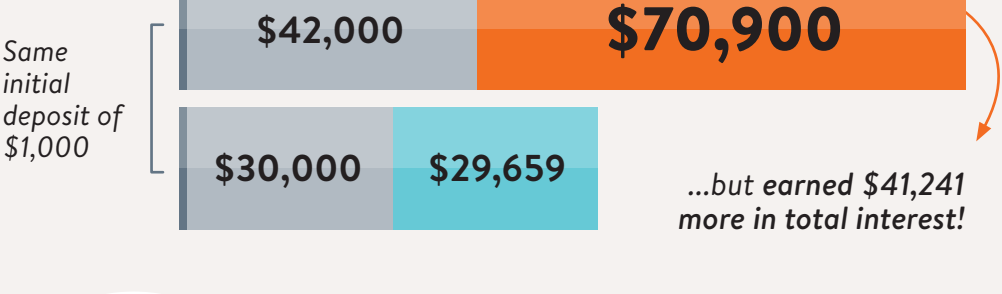
**Starts saving when he's 25**  
\$1,000 initial deposit  
\$1,200 annual deposit  
5% annual return



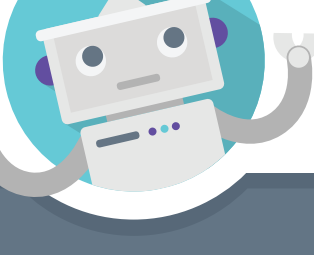
**Starts saving when he's 35**  
\$1,000 initial deposit  
\$1,200 annual deposit  
5% annual return



Einstein contributed \$12,000 more than Blippy...

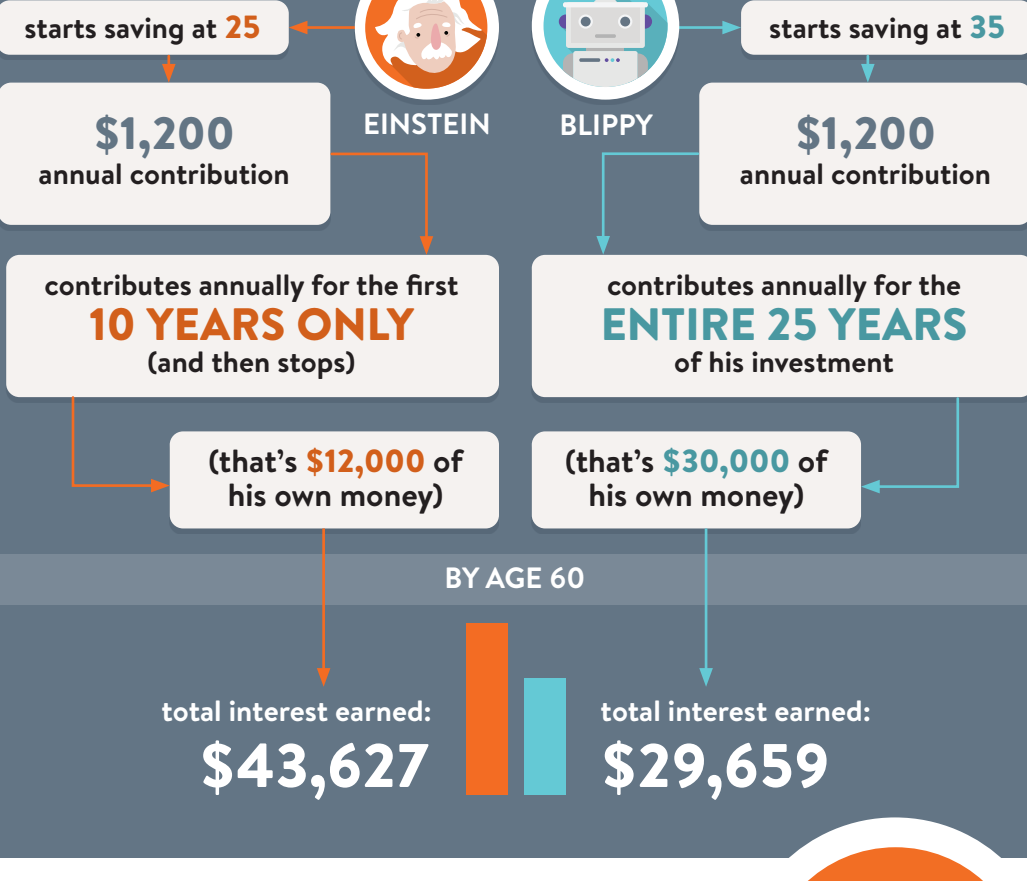


...but earned \$41,241 more in total interest!



Well, of course Einstein earned more! He started sooner *and* contributed more money than I did!

Does starting sooner still matter if you contribute less money?



total interest earned: **\$43,627**

total interest earned: **\$29,659**

Simply by starting to save sooner, I was able to contribute \$18,000 less but still make almost \$14,000 more in interest!



**THE TAKEAWAY:**

Time is money when it comes to compound interest. The longer you wait around, the less interest you'll earn.

### STRATEGY 3

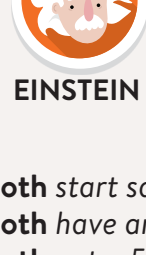
**MONTHLY COMPOUNDING**

VS.

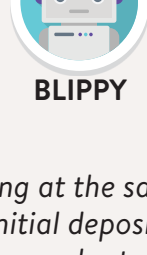
**ANNUAL COMPOUNDING**

What difference does the compounding frequency make?

Deposits \$100/month into an account that compounds monthly.



EINSTEIN



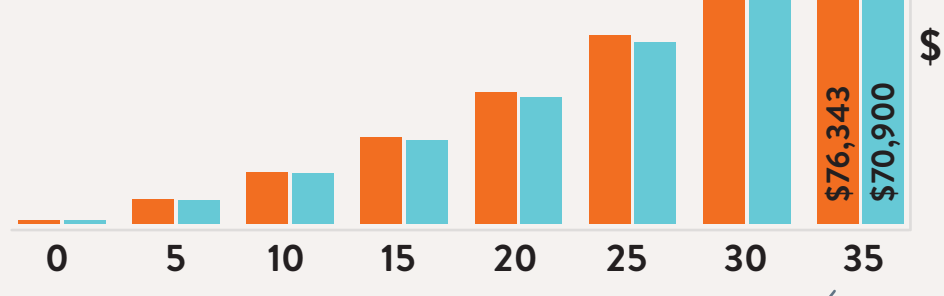
BLIPPY

Deposits \$1,200/year into an account that compounds annually.



Both start saving at the same time.  
Both have an initial deposit of \$1,000.  
Both get a 5% annual return.  
Both contribute \$1,200 a year.

Monthly compounding combined with monthly contributions means higher returns for Einstein over time.



Even though all other variables were the same, Einstein earned \$5,443 more than Blippy.

**\$5,443**

**THE TAKEAWAY:**

Smaller, more frequent contributions are better than larger annual contributions when it comes to monthly compounding.

### INVESTING CAN BE RISKY

Not all investments are guaranteed—some investments carry the risk of losing money, even when made through a financial advisor or financial institution



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- IT'S A -  
**MONEY THING**