

# The Power of Compounding

The best argument we've seen for teaching children about finance and the power of compounding is summed up by the table below. These figures are based on an assumed annual rate of return of 10 percent, with no withdrawals and no taxes. Whether these conditions are attainable or desirable is beside the point. This table merely illustrates a principal that's based purely on mathematics. Assuming the same rate of return (10 percent) in each of the two examples, a person who invests early and for just eight years will have more money at 65 years old than will someone who starts late and invests for nearly 40 years. Naturally, someone who starts early **and** doesn't stop has the potential to do much better than either of these examples.

	Example 1:		Example 2:	
Age	Annual Investment	Year-End Value	Annual Investment	Year-End Value
19	\$ 2,000	\$2,200	\$ 0	\$ 0
20	\$ 2,000	\$4,620	\$ 0	\$ 0
21	\$ 2,000	\$7,282	\$ 0	\$ 0
22	\$ 2,000	\$10,210	\$ 0	\$ 0
23	\$ 2,000	\$13,431	\$ 0	\$ 0
24	\$ 2,000	\$ 16,974	\$ 0	\$ 0
25	\$ 2,000	\$ 20,872	\$ 0	\$ 0
26	\$ 2,000	\$ 25,159	\$ 0	\$ 0
27	\$ 0	\$ 27,675	\$2,000	\$2,200
28	\$ 0	\$ 30,442	\$2,000	\$4,620
29	\$ 0	\$33,487	\$2,000	\$7,282
30	\$ 0	\$36,835	\$2,000	\$10,210
31	\$ 0	\$40,519	\$2,000	\$13,431
32	\$ 0	\$44,571	\$2,000	\$16,974
33	\$ 0	\$49,028	\$2,000	\$20,872
34	\$ 0	\$53,931	\$2,000	\$25,159
35	\$ 0	\$59,324	\$2,000	\$29,875
36	\$ 0	\$65,256	\$2,000	\$35,062
37	\$ 0	\$71,782	\$2,000	\$40,769
38	\$ 0	\$78,960	\$2,000	\$47,045
39	\$ 0	\$86,856	\$2,000	\$53,950
40	\$ 0	\$95,541	\$2,000	\$61,545
41	\$ 0	\$105,095	\$2,000	\$69,899
42	\$ 0	\$115,605	\$2,000	\$79,089
43	\$ 0	\$127,165	\$2,000	\$89,198
44	\$ 0	\$139,882	\$2,000	\$100,318
45	\$ 0	\$153,870	\$2,000	\$112,550
46	\$ 0	\$169,257	\$2,000	\$126,005
47	\$ 0	\$186,183	\$2,000	\$140,805
48	\$ 0	\$204,801	\$2,000	\$157,086
49	\$ 0	\$225,281	\$2,000	\$174,995
50	\$ 0	\$247,809	\$2,000	\$194,694
51	\$ 0	\$272,590	\$2,000	\$216,364
52	\$ 0	\$299,849	\$2,000	\$240,200
53	\$ 0	\$329,834	\$2,000	\$266,420
54	\$ 0	\$362,818	\$2,000	\$295,262

55	\$ 0	\$399,100	\$2,000	\$326,988
56	\$ 0	\$439,010	\$2,000	\$361,887
57	\$ 0	\$482,910	\$2,000	\$400,276
58	\$ 0	\$531,202	\$2,000	\$442,503
59	\$ 0	\$584,322	\$2,000	\$488,953
60	\$ 0	\$642,754	\$2,000	\$540,049
61	\$ 0	\$707,029	\$2,000	\$596,254
62	\$ 0	\$777,732	\$2,000	\$658,079
63	\$ 0	\$855,505	\$2,000	\$726,087
64	\$ 0	\$941,056	\$2,000	\$800,896
<b>65</b>	\$ 0	<b>\$1,035,161</b>	<b>\$,2000</b>	<b>\$883,185</b>
<b>Less \$ invested</b>		(\$16,000)		(\$78,000)
		<b>\$1,019,161</b>		<b>\$805,185</b>
<b>Money increased</b>		<b>64 fold</b>		<b>10 fold</b>

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