QP consulting
RETIREMENT SOLUTIONS FOR YOUR BUSINESS

The Power of Compounding

Compounding is one of the most powerful forces in the world. Just ask Albert Einstein, who's said to have called it the "eighth wonder." The seemingly small decisions we make every day gain power over time. That's why it's important to take the long view and come up with a plan—in both wellness and investing—that creates momentum in the direction of our goals. Don't squander the power of time when you can recruit it to work in your favor.

Most of us understand that little things add up. Nowhere is this more evident than in our exercise and nutrition habits. Trading just 10% of your calories from meat for calories derived mostly from plants can extend your lifespan.[1] And don't feel like a failure if you can't reach 10,000 steps per day. Another study shows that 4,000 are enough to reduce the risk of dying from any cause.[2] The bottom line? What we do today really matters in the future.

No one expects to get stronger by lifting weights just one day per month. But when it comes to investing, there are folks who think the occasional big win is their ticket to success. This is simply not true. Just as your muscles benefit from the incremental increase in strength that comes from consistent training, so too do your investments benefit from a long-term time horizon. Because when it comes to investing, compounding means more than little amounts just adding up. The potential exponential growth provided by compound returns proves that time is literally money.

Let's say two people decide to make a one-time investment of $10,000 with an average annualized return of 9%. One is 30 years old, and the other is 40. When they reach age 75, the investor who started at 30 will have $483,000, while the one who started at 40 will have $204,000. Those extra 10 years invested in the market turn out to be worth more than $200,000, even though the initial investment was the same. And keep in mind that the extra return only comes if you stick to your plan and stay invested in the market.

Don't settle for the status quo when you can do just a little bit better—because a little bit becomes a lot over time.

Now let's factor in the importance of how you choose to invest your money. It can be tempting to put your money in investments that you think are more conservative when the market is rocky. The cost of that is likely the opportunity in missing on both the ups and downs that are likely to occur. Sticking to a long-term plan that meets your investment time horizon can allow you to let markets work for you. Just a 1% increase in returns makes an enormous difference. We just looked at compound returns resulting from a 9% annualized return.

What about investing the same amount of money for the same amount of time, but at a rate of 10%? Instead of ending up with $483,000, the investor who started at 30 ends up with $729,000. Yes, you read that right. So make investment decisions very carefully. Don't settle for the status quo when you can do just a little bit better—because a little bit becomes a lot over time.

In one of the year's best-selling books, *Outlive: The Science and Art of Longevity*, physician Peter Attia writes that "Sometimes doing nothing is the riskiest choice of all." He's talking about being proactive about your health, but the same is true in investing, where we talk about "opportunity cost." Every minute your money isn't invested in the market is one in which it can't compound.

Economics is the science of making choices. Considering how many choices human beings are required to make every day, we're all economists.

With advances in medical science, many of us are living longer, healthier lives than ever before. This means it's more important than ever to invest for the long term. Because with good habits, even if you didn't start investing at age 20, you may get those 10 extra years of compound interest after all.