



An Unseen Force Drives Our Accounts To Great Heights

Saturday's With Jim

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Dear Friends,

It started with one cell, which grew into two, then four, then eight and so forth until it overwhelmed its host. In nature we can find the very force which makes time the most critical element in building a high, sustainable and growing retirement income. In nature, it's called cell mitosis. In finance, it's called compounding.

Consider the table below, which shows a group retirement plan originally contributing \$8,000 a month, rising slowly by 2.5% a year. Money invested grew at the modest rate of 7% a year after all expenses. After five years, the balance grew to \$603,000 with a profit of \$99,000. That's \$20,000 a year in profit - not too shabby. But look what happened after ten years!

At the end of year ten, the balance grew to \$1,540,000 with the profit growing to \$463,000. That's a profit of \$46,300 per year, up from the \$20,000 average for the first five years. After 15 years of consistently investing the \$8,000 a month (remember it's an entire group plan) plus a 2.5% annual increase, the plan nearly doubled to a balance of \$2,950,000 while the profit grew to \$1,233,000, an average of \$195,000 per year. Check out the numbers for yourself in the table below.

Year	Total Annual Contributions	Plan Asset Balance	Cumulative Investment Gains
5	\$105,966	\$603,536	\$98,929
10	\$119,891	\$1,538,434	\$462,909
15	\$135,645	\$2,953,501	\$1,232,036
Totals	\$1,721,465	\$2,953,501	\$1,232,036

What is the force driving increasingly high account growth?

First, continual contributions increase the base on which the 7% growth rate is applied. Increasing contributions cannot be the primary cause of a profit jump from \$20,000 a year to \$195,000 a year – a tenfold increase. Contributions only grew from \$96,000 a year to \$135,000 a year – a much smaller proportional

increase. Something else must be at work. Surely the very account size itself is a factor in the growth rate increasing at an ever accelerating pace. Here's the key.

As the balance grows, the growth rate is applied to an ever increasing quantity. Just look at how \$1,000 grows over just three years at 7% a year. At the end of one year we would have \$1,070 and at the end of years two and three we would have \$1,145 and \$1,225 respectively. The key to having a substantial retirement account, at the time we want to quit working for the paycheck, lies in how long we contribute to the growth of our nest egg. Time is indeed our best friend.

We are grateful that you chose us to facilitate your financial journey. Thank you for investing with us.

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