

Uncommon Knowledge for the Common Good IV: 1000% On Your Money? Here's How

Saturday's With Jim

By Jim Pursley
President and CIO, Gaia Capital Management, Inc.
www.gaiacapital.com
1/31/15

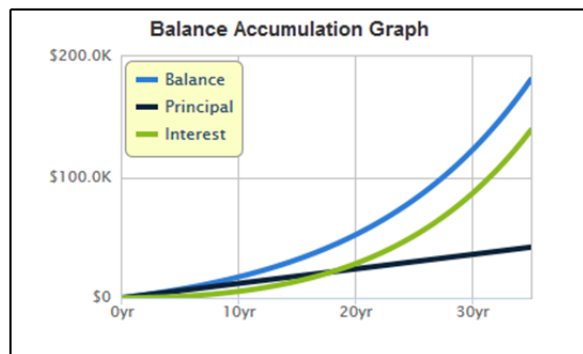


Dear Friends,

Accumulating a pot of money for later use involves 1) saving, setting aside money from current income, and 2) investing, putting the savings to work earning a return (equivalent to interest). In our June 21, 2014 SWJ, we explored the relative contributions of saving and investing on a typical retirement savings time horizon of 35 years. We found that what we earned on our money (the investing part) was a far more important contributor than was how much we saved; however, what we save is also a key component to our long-term wealth.

The growth of our money over 35 years happens in two periods. The first 20 years provides meaningful, if unexciting, growth. The final 15 years is explosive. Can we speed up the process to effect the steepening of the curve earlier? No. To have more money in periods under 15-20 years we must contribute more. Compounding, the process where money growth accelerates rapidly, begins to accelerate savings and investment only after a number of years of unbroken growth.

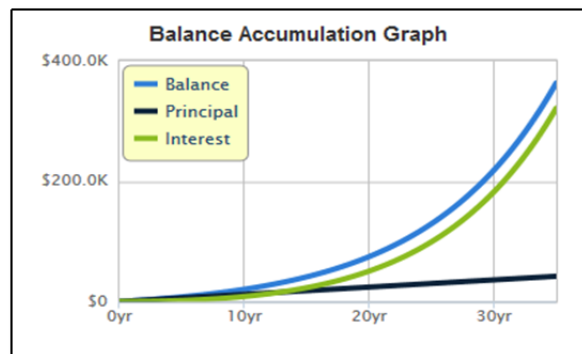
Chart 1: \$100 invested monthly for 35 years earning 7% interest



End Balance	\$181,156.08
Total Principal	\$42,000.00
Total Interest	\$139,156.08

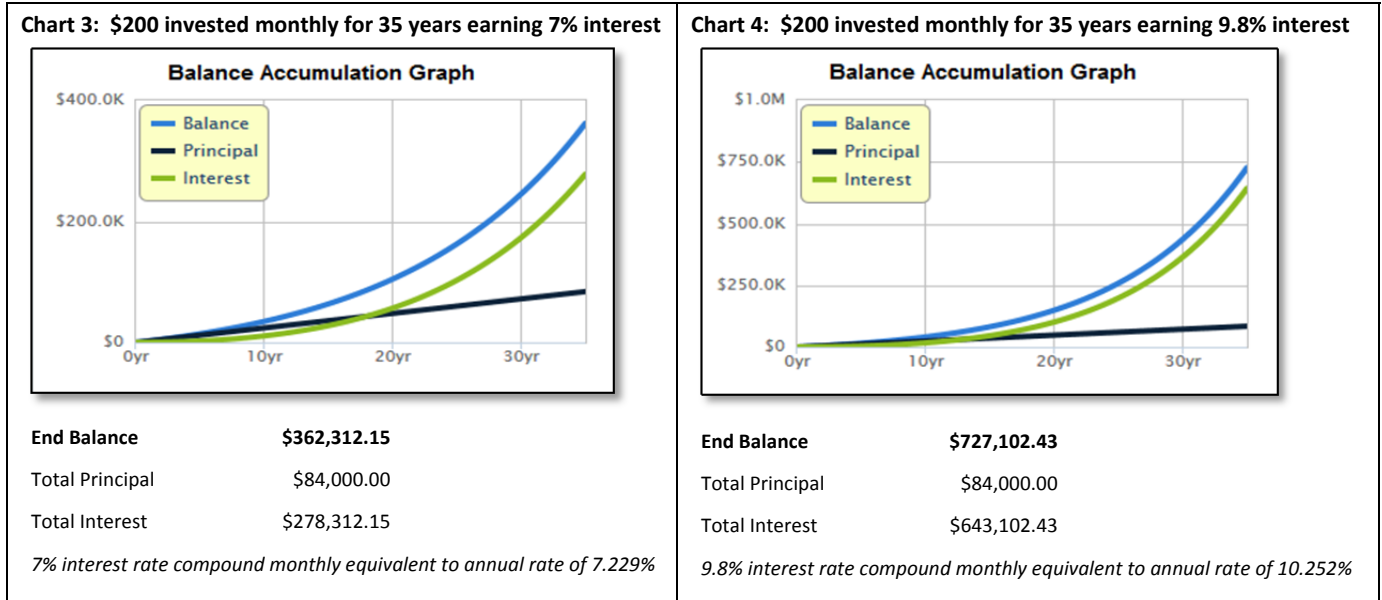
7% interest rate compound monthly equivalent to annual rate of 7.229%

Chart 2: \$100 invested monthly for 35 years earning 9.8% interest



End Balance	\$363,551.22
Total Principal	\$42,000.00
Total Interest	\$321,551.22

9.8% interest rate compound monthly equivalent to annual rate of 10.252%



Source: Charts and results taken from data input on Calculator.net, <http://www.calculator.net/interest-calculator.html>

The charts above show the growth of \$100 and \$200 monthly savings contributions over 35 years at 7% and 9.8% average annual rates of return (general investment term for interest). Look at the relative importance of contributions (principal) and return (interest) over the full 35 years. The results are amazing!

Contributions of \$100 per month at 7% and 9.8% average annual return over 35 years:

- Ending balance of \$181,156 at 7% - we contributed only \$42,000 while we earned \$139,156
- Ending balance of \$363,551 at 9.8% - we contributed only \$42,000 while we earned \$321,551
- Contributions of \$200 a month double those figures

Sadly, most of us will not make it to that holy grail of compounding where our money grows far faster than our contributions. We will experience divorce, job loss, illness, lack of faith in our program, contribution weariness and a host of other things which will cause us to take our eye off of our pot at the end of the rainbow. But do remember what is indeed possible with even a modest contribution if we but persevere.

Thank you for entrusting us with a portion of your wealth.

The opinions contained in this report represent the author's current knowledge and are based on sources known to him at the time of writing. Such opinions are subject to change at any time and are presented for educational value. Any other use, such as investment solicitation, is inappropriate and absolutely unintended by the author. Readers must evaluate information herein presented.