

Avalanche! It Is Astonishing How Your Money will Pile Up

There is little as satisfying as the long-term gratification felt after planning ahead, saving, and reaping the rewards of your efforts. The best way to achieve that euphoria is to harness the power of compound interest by purchasing stocks and bonds that pay you a steady stream of income. Then put that income to use by compounding it, over and over again like an avalanche. In June of 2016 I encouraged investors to harness this “avalanche of return.” I wrote:

An Avalanche of Return

The most important aspect of investing for the long term is—without a doubt—compound interest. The act of compounding your investment over time creates an avalanche of returns that turns a small initial investment into a cascade of cash payments your family can rely on during good times and bad. And there’s no better time to get started than today. Like an avalanche, high initial dividends—once reinvested—will accelerate the profit generation of your portfolio.

At www.youngresearch.com, we post regularly on the awesome power of compound interest. In our latest compound interest post, we illustrate for readers the exponential increase in profits that compounding can deliver to you. Here’s an excerpt: “As each rate of return doubles, your profit more than doubles. When you compound at 2% for 20 years, your profit is 2.2X your profit when compounding at 1%. And when you compound at 8% for 20 years, you have more than 3X the profit that you do when you compound at 4%. Double your return again, which is admittedly unrealistic over a 20-year period, and your profit is 5X your profit when compounding for 20 years at 8%.”

That logic doesn't only apply to dividends, but it illustrates well the benefits of higher yields. On the chart below, you can see the differences in profit as returns move from 2% to 4%, and from 4% to 8%. It is astonishing how your money will pile up when given time to compound.

