

Dividends are Vital. The Reason Why Is Compound Interest

Why are dividends important? Because they allow the power of compound interest to work for you. I was speaking with a client yesterday who is in the process of helping his children establish Roth IRAs. I told him it's amazing how just getting in the game can do wonders for one's financial well-being: Imagine what this will look like in 50-years. Remember, just the process of starting an investment puts you or a loved one light years ahead of those bogged down and doing nothing at all.

Take a look below at the power of compound interest. An investor who makes eight annual contributions starting at age 25 and then makes no more will end up at age 64 with \$227,390 at an assumed growth rate of 9%. Meanwhile, another investor who skips those eight contributions early in life and begins investing later at 33 and makes annual contributions each year until age 64 will end up with only \$214,560 that year (assuming the same 9% growth rate). That's the power of compounding.

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THE POWER OF COMPOUND INTEREST

Get A Head Start To Retirement!

Assumed growth rate of 9%.

HYPOTHETICAL INVESTOR #1			HYPOTHETICAL INVESTOR #2		
AGE	ANNUAL CONTRIBUTION	YEAR-END ACCOUNT BALANCE	AGE	ANNUAL CONTRIBUTION	YEAR-END ACCOUNT BALANCE
25	\$1,200	\$1,308	25	\$0	\$0
26	\$1,200	\$2,734	26	\$0	\$0
27	\$1,200	\$4,288	27	\$0	\$0
28	\$1,200	\$5,982	28	\$0	\$0
29	\$1,200	\$7,828	29	\$0	\$0
30	\$1,200	\$9,841	30	\$0	\$0
31	\$1,200	\$12,034	31	\$0	\$0
32	\$1,200	\$14,425	32	\$0	\$0
33	\$0	\$15,724	33	\$1200	\$1,308
34	\$0	\$17,139	34	\$1200	\$2,734
35	\$0	\$18,681	35	\$1200	\$4,288
36	\$0	\$20,362	36	\$1200	\$5,982
37	\$0	\$22,195	37	\$1200	\$7,828
38	\$0	\$24,193	38	\$1200	\$9,841
39	\$0	\$26,370	39	\$1200	\$12,034
40	\$0	\$28,743	40	\$1200	\$14,425
41	\$0	\$31,330	41	\$1200	\$17,032
42	\$0	\$34,150	42	\$1200	\$19,872
43	\$0	\$37,223	43	\$1200	\$22,969
44	\$0	\$40,573	44	\$1200	\$26,344
45	\$0	\$44,225	45	\$1200	\$30,023
46	\$0	\$48,205	46	\$1200	\$34,033
47	\$0	\$52,544	47	\$1200	\$38,404
48	\$0	\$57,273	48	\$1200	\$43,168
49	\$0	\$62,427	49	\$1200	\$48,362
50	\$0	\$68,046	50	\$1200	\$54,022
51	\$0	\$74,170	51	\$1200	\$60,192
52	\$0	\$80,845	52	\$1200	\$66,917
53	\$0	\$88,121	53	\$1200	\$74,248
54	\$0	\$96,052	54	\$1200	\$82,238
55	\$0	\$104,697	55	\$1200	\$90,948
56	\$0	\$114,119	56	\$1200	\$100,441
57	\$0	\$124,390	57	\$1200	\$110,789
58	\$0	\$135,585	58	\$1200	\$122,068
59	\$0	\$147,788	59	\$1200	\$134,362
60	\$0	\$161,089	60	\$1200	\$147,762
61	\$0	\$175,587	61	\$1200	\$162,369
62	\$0	\$191,389	62	\$1200	\$178,290
63	\$0	\$208,615	63	\$1200	\$195,644
64	\$0	\$227,390	64	\$1200	\$214,560
TOTAL CONTRIBUTIONS: \$ 9,600			TOTAL CONTRIBUTIONS: \$ 38,400		
TOTAL EARNINGS: \$ 217,790			TOTAL EARNINGS: \$ 176,160		
FINAL ACCOUNT BALANCE: \$ 227,390			FINAL ACCOUNT BALANCE: \$ 214,560		