

The Winning Investment Technique Used by Queen Elizabeth I

Two years ago I told readers the story of John Maynard Keynes' lectures on compound interest in the late 20s. Keynes told the story then of Queen Elizabeth I and her impetuous and insightful use of compounding to build the British Empire. I wrote:

Compound Interest, the Foundation of an Empire

In a series of lectures and papers in 1928, John Maynard Keynes traced England's success from the late 16th century, starting with a treasure Francis Drake had stolen from the Spaniards in 1580. Keynes was writing at the height of the British Empire, and he chalked England's success up to compounding. He wrote, "In that year he [Drake] returned to England bringing with him the prodigious spoils of the Golden Hind. Queen Elizabeth was a considerable shareholder in the syndicate which had financed the expedition. Out of her share she paid off the whole of England's foreign debt, balanced her Budget, and found herself with about £40,000 in hand. This she invested in the Levant Company—which prospered. Out of the profits of the Levant Company, the East India Company was founded; and the profits of this great enterprise were the foundation of England's subsequent foreign investment. Now it happens that £40,000 accumulating at 3.25 per cent compound interest approximately corresponds to the actual volume of England's foreign investments at various dates, and would actually amount today to the total of £4,000,000,000 which I have already quoted as being what our foreign investments now

are. Thus, every £1 which Drake brought home in 1580 has now become £100,000. Such is the power of compound interest!"

Keynes opined "the power of compound interest over two hundred years is such as to stagger the imagination." You, like me, may not be a fan of the great body of Keynes' work, but on compound interest, there is no doubt he was correct.