Miss This Investing Concept to Your Everlasting Sorrow

Lack of patience, more than anything else, hamstrings investors in their pursuit of profits. I wrote in July 2004 that impatiently trading in and out of equities with no eye toward compound interest will bring investors everlasting sorrow.

> ***Compound Interest and You***
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> *Here's a compound interest story that should help you and your spouse. Let's assume a hypothetical $10,000 investment with a 7% annual return for 20 years. Investor A draws the 7% ($700) each year for living expenses. At the end of 20 years, the original $10,000 in capital remains in place, and $14,000 in simple interest has been drawn for living expenses. The end value in capital and interest drawn is $24,000. Now let's assume hypothetical Investor B invests the same $10,000 at the same 7%, but draws nothing and simply let's the money compound for 20 years. Well, $10,000 compounded at 7% for 20 years has an end value of $38,696. You will see that $14,696 ($28,696 – $14,000) represents interest on interest. Over half of the long-term total return for Investor B reflects interest on interest. Unfortunately, compound interest is not a concept that is well understood by most investors.*
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> *To their everlasting sorrow, most investors not only lack a basic knowledge of compound interest, but also lack patience and dividend/interest religion. Many are greedy, trade way too often, and are in debt. For the record, I have no debt. I buy for cash. I have never employed margin and tend to own the investments I make for a long, long time.*

Retired and soon to be retired investors should place their confidence in the unmatched power of compound interest.