The Most Important Thing in Investing

Back in 2006 I was celebrating 20 years of writing *Intelligence Report*. Debbie and I were in Vermont, and had just visited Vermont's Authentic Designs to purchase lighting fixtures. The shop uses 150 year-old machines to manufacture colonial and early American lighting fixtures. There, on one of the machines for all the craftsmen to see was taped a sign that read "Simple is Sophisticated."

After reading that taped up sign in Vermont all those years ago, I adopted "Simple is Sophisticated," as a personal mantra to keep me focused on the essential elements of my investment strategy. The most fundamental of these, and the one I have employed to the greatest benefit to myself, and hopefully to you if you have been a subscriber or client, is compound interest. Below you will read the story of how I have employed compound interest to the benefit of my grandchildren, and how you can do the same. I wrote back in May of 2006:

> ***Rich as Croesus***
>
> *I want you to begin on your quest for sophistication through simplicity by focusing laser-like on compound interest. Here is an amazing story. I call it my grandchildren's "rich as Croesus" strategy. (Croesus was the last king of Lydia from 560–547 B.C.)*
>
> *When each of my four grandchildren was born, I opened accounts for them at Vanguard's TaxManaged Growth & Income fund. Each year, I deposit $10,000 (and yes, I know you can now give away $11,000/year tax-free). The money is invested with little in the way of long-term tax implications. Let me show you how compound interest works its magic.*

> ***Gettin' Rich Slowly***
>
> *If you invest for a compounded rate of return of 10%, it's easy to think that your long-term return would be twice the return gained by investing at 5%. That is not the case—not by a long shot. Let's take a long-term look here, for that is my intention with my grandchildren. Investing $10,000 at 5% for 50 years gives them $115,000—a staggering sum, to be sure. But at 10%, $10,000 grows to a mind-boggling $1,174,000 (that's million). Double the growth rate to 20% (admittedly unrealistic, but useful in this example), your $10,000 would become a stratospheric $91 million (over 77 times the return). And you thought you understood compound interest?*
>
> ***You and Counterbalancing***
>
> *As noted, a 20% annual return year after year is unrealistic. But you can achieve really terrific success, most conservatively, by counterbalancing your portfolio with fixed-income and common stocks. …*
>
> *In 1989, the editors of Fortune published an article headed, "A Low Risk Path to Profits" profiling Loews Corp. money manager Joseph Rosenberg. Fortune noted that J.R. believed so fervently in the awesome power of compound interest that he carried a compound interest table in his pocket at all times. Sayeth J.R., "It is the most important thing in investing." As the article noted, it's foolish to undermine the power of compounding by taking big risks that kick you out of the game.*

As Rosenberg noted then, compound interest "is the most important thing in investing." If you want to succeed as an investor for your family, your grandchildren, or yourself, stay focused on the simple, yet sophisticated strategies that really make a difference.