

Alan Unplugged



THE POWER OF COMPOUNDING

Possibly the most powerful concept in investing is the power of compounding. If you could instill one concept to the young investor in your house, this would be the one. All that's needed is a little money and time. This concept is best demonstrated using an example. Please take a look at the accompanying chart. Investor B (let's call her Barbara) opens an RRSP at age 19 and invests \$2000. "Having made the smart decision to invest her RRSP with the Kemp Investment Group, she potentially sees her money grow at 10% per year". After 7 years of faithfully investing a total of \$14,000, she makes NO MORE contributions – she's done!

Meanwhile, Investor A (let's call him Alan) is a little slow out of the gate, however he does manage to start an investment program at age 26 (the same year that Barbara stops making contributions). Unlike Barbara, Alan has great investing discipline, contributing \$2000 to his RRSP each and every year until he is 65!

Now, study the incredible results. Barbara, who invests a grand total of \$14,000 over just seven years, ends up with a net gain of \$930,641, a 66-fold increase in her money. Alan, the poor disciplined lackey, invested every last nickel he had over 40 years of his working life, a total of \$80,000, only to realize a net gain of \$893,704. To add insult to injury we understand that Barbara spent the extra \$2000 on a trip every year for those same 40 years!

The difference between the two is that Barbara had seven more earlier years of compounding than Alan, and thanks to the power of compounding, those seven years were worth more than all of Alan's 33 additional contributions.

Show this to your children. It's the most powerful lesson you could ever teach them about money.

Alan

| Age | INVESTOR A | | INVESTOR B | |
|----------------------|-------------------|-------------------|-------------------|-------------------|
| | Contri- bution | Year-End Value | Contri- bution | Year-End Value |
| 19 | | 0 | 2,000 | 2,200 |
| 20 | | 0 | 2,000 | 4,620 |
| 21 | | 0 | 2,000 | 7,282 |
| 22 | | 0 | 2,000 | 10,210 |
| 23 | | 0 | 2,000 | 13,431 |
| 24 | | 0 | 2,000 | 16,974 |
| 25 | | 0 | 2,000 | 20,872 |
| 26 | 2,000 | 2,200 | 0 | 22,959 |
| 27 | 2,000 | 4,620 | 0 | 25,255 |
| 28 | 2,000 | 7,282 | 0 | 27,780 |
| 29 | 2,000 | 10,210 | 0 | 30,558 |
| 30 | 2,000 | 13,431 | 0 | 33,614 |
| 31 | 2,000 | 16,974 | 0 | 36,976 |
| 32 | 2,000 | 20,872 | 0 | 40,673 |
| 33 | 2,000 | 25,159 | 0 | 44,741 |
| 34 | 2,000 | 29,875 | 0 | 49,215 |
| 35 | 2,000 | 35,062 | 0 | 54,136 |
| 36 | 2,000 | 40,769 | 0 | 59,550 |
| 37 | 2,000 | 47,045 | 0 | 65,505 |
| 38 | 2,000 | 53,950 | 0 | 72,055 |
| 39 | 2,000 | 61,545 | 0 | 79,261 |
| 40 | 2,000 | 69,899 | 0 | 87,187 |
| 41 | 2,000 | 79,089 | 0 | 95,905 |
| 42 | 2,000 | 89,198 | 0 | 105,496 |
| 43 | 2,000 | 100,318 | 0 | 116,045 |
| 44 | 2,000 | 112,550 | 0 | 127,650 |
| 45 | 2,000 | 126,005 | 0 | 140,415 |
| 46 | 2,000 | 140,805 | 0 | 154,456 |
| 47 | 2,000 | 157,086 | 0 | 169,902 |
| 48 | 2,000 | 174,995 | 0 | 186,892 |
| 49 | 2,000 | 194,694 | 0 | 205,581 |
| 50 | 2,000 | 216,364 | 0 | 226,140 |
| 51 | 2,000 | 240,200 | 0 | 248,754 |
| 52 | 2,000 | 266,420 | 0 | 273,629 |
| 53 | 2,000 | 295,262 | 0 | 300,992 |
| 54 | 2,000 | 326,988 | 0 | 331,091 |
| 55 | 2,000 | 361,887 | 0 | 364,200 |
| 56 | 2,000 | 400,276 | 0 | 400,620 |
| 57 | 2,000 | 442,503 | 0 | 440,682 |
| 58 | 2,000 | 488,953 | 0 | 484,750 |
| 59 | 2,000 | 540,049 | 0 | 533,225 |
| 60 | 2,000 | 596,254 | 0 | 586,548 |
| 61 | 2,000 | 658,079 | 0 | 645,203 |
| 62 | 2,000 | 726,087 | 0 | 709,723 |
| 63 | 2,000 | 800,896 | 0 | 780,695 |
| 64 | 2,000 | 883,185 | 0 | 858,765 |
| 65 | 2,000 | 973,704 | 0 | 944,641 |
| Less Total Invested: | | (80,000) | | (14,000) |
| Equals Net Earnings: | | 893,704 | | 930,641 |
| Money Grew: | | 11-fold | | 66-fold |

