by Bill Spalding

Making BIG DREAMS COME TRUE

We all have big dreams. And most of us were taught that big dreams require big sacrifices. But that isn't always true. There are some big things that can be achieved by doing little things over time. Eventually they make a huge difference. One of those little things is making an investment plan and sticking to it. The benefits of time and discipline, even with a small investment, could be greater than what you might realize from a larger investment later on.

For instance, there are some "secrets" to maximizing your money—and even doubling it! It's just a matter of time…as explained by *The Rule of 72*. I have a friend who has a degree in economics, yet he wasn't taught this rule in college—and it's extremely simple and useful! The Rule of 72 answers the question of how long it will take you to double your money at various rates of return.

Recently, Money Magazine ran an article on "Where to Put $5,000 Now." Using The Rule of 72, if you left the $5,000 sitting in a money market account at 3 percent interest, how long do you think it would take to double in value? The answer is a whopping 24 years! But if you took the same $5,000 and invested it with an 8 percent return, it would only take nine years to double.

While it's impossible to guarantee an always-constant rate of return, it is helpful to think of The Rule of 72 when considering various investments. For example, what is "safe" investing? A certificate of deposit with a rate of 5.25 percent (even though bank guaranteed) may barely keep your nest egg ahead of inflation—or even cause you to fall behind if inflation steps up. Using the formula, you can see what inflation does to your money. If the inflation rate is 4 percent, you can divide that into 72 to see that the buying power of your money would be cut in half every 18 years. Even with inflation at a somewhat low rate, your investments will continually lose ground unless they are outpacing inflation.

If you have any questions or financial issues you would like to see addressed in a future column, e-mail bill@spaldingwealth.com

Baby Boomers, many of whom are expected to lead healthy lives into their 80s, still have lots of time to make *The Rule of 72* work for them. At age 60, for example, most can look forward to more than 20 years to continue wealth accumulation and plan for wealth distribution.

Some Baby Boomers have children who are now entering the workforce. For them, there is another key to maximizing income—and that is tax-deferred compounding. If you have a child or grandchild in their late teens or twenties, encourage them to start a retirement account now and they could accumulate considerable wealth by the time they are 50! Taking advantage of compound interest, over time, can have dramatic results.

As you think about The Rule of 72, you can visualize the future consequences of making thoughtful investment decisions. With time and discipline on your side, there is no reason why those big dreams cannot come true.

THE RULE OF 72

RATE	Years for funds to double using The Rule of 72
5%	14.4
6%	12.0
7%	10.3
10%	7.2
12%	6.0

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