INVESTOR

HELPING YOU MAKE INFORMED INVESTING DECISIONS

THE POWER OF COMPOUNDING

PUTTING YOUR MONEY TO WORK FOR YOU

Perhaps when the Rolling Stones sang "Time is on my side" they were thinking about their investment portfolios.

When you invest your money for the future there are two key elements that determine how much it grows: the rate of return you receive and the time available for that investment to benefit from the power of compounding.

What is the power of compounding? That's what happens when the money you have earned from your investments is left untouched in your portfolio to continue growing. Even a small amount of money put away regularly can blossom significantly if left untouched over time.

The power of compounding makes your money grow faster than simple interest, because in addition to earning returns on the money you invest, you also earn returns on those returns over time.

One of the world's most famous investors, Warren Buffett, has acknowledged the power of compounding in helping him build his fortune.

> *My wealth has come from a combination of living in America, some lucky genes, and compound interest.*[1]
>
> Warren Buffet

Anyone who has a credit card is familiar with the power of compounding when it works against you. Look at your credit card statement. Unless you paid it off in full the previous month, the interest charged will be added to your total, and next month's interest will be charged on that new, higher amount—the principal PLUS the interest. This will continue month after month until the entire balance is paid off. Over time, the total amount repaid can far exceed the initial debt.

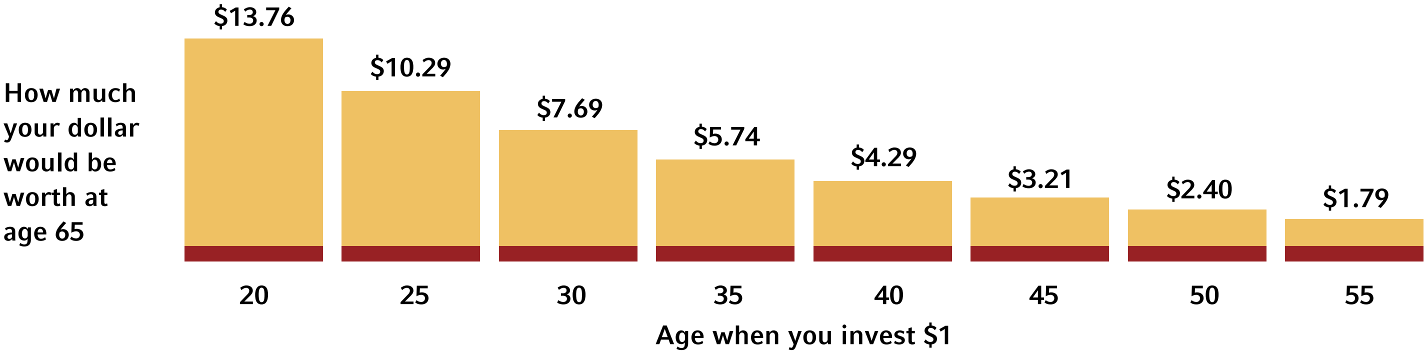
NOW LET'S LOOK AT HOW YOU CAN MAKE COMPOUNDING WORK IN YOUR FAVOR.

While the rate of return is important, time is your best ally for harnessing the power of compounding in your retirement portfolio. You know that old saying "the best time to plant a tree was 15 years ago. The second-best time is today?" Even a small nest egg, when created early, can become a large one over many years. The sooner in your working life you start investing for your future, the better.

The chart below illustrates this concept. It compares how much a $1 investment is worth at age 65, depending on your age when you first invest it. In this example, assuming a 6% annual growth rate, that dollar invested at age 20 is worth $13.76 when you reach the traditional retirement age. At the same rate of return, that dollar invested at age 40 grows to only $4.29 by the time you are 65. It's never too late to start investing for retirement or other long-term goals, but the earlier you start the greater the potential benefit of compounding.

Start early

Make your retirement savings work hard for you



For illustrative purposes only. Assumes a 6% return after inflation.

[1] Warren Buffett – The Giving Pledge, 2010. www.givingpledge.org

Moreover, beginning to save for retirement early provides financial flexibility, simply because you will end up with a larger nest egg. Trying to play catch-up later in life becomes increasingly difficult. You may be tempted to take on additional investment risk in hopes of obtaining additional return. That could boost your portfolio if markets rally, but if markets decline, your riskier portfolio will likely pay the price. And a smaller late-in-life nest egg may mean you will need to save more, continue working longer than planned, or spend less in retirement—all choices most of us would rather avoid.

START EARLY AND PERHAPS YOU CAN:	START LATE AND YOU MIGHT HAVE TO:
Save less	Save more
Spend more in retirement	Spend less in retirement
Retire on time or perhaps even early	Postpone your retirement date
Take less risk with your investments	Take more risk with your investments later in life, when you ideally should be reducing risk

Let's see how compounding works by looking at three different investors.

- **Juanita Early** invests $10,000 every year from age 20 to age 30, totalling $110,000. Then she stops saving, but leaves the money invested until she retires at age 65.
- **Jayden Late** doesn't begin investing until he is 30. But then he contributes $10,000 a year without fail until he is 64—or $350,000, which is triple the amount that Ms. Early contributed.
- **Judith Prudent** starts early like her friend Juanita, at 20, but she continues to invest $10,000 a year until retiring at 65. She has invested $450,000, four times as much as Ms. Early but only about 30% more than Mr. Late.

In this hypothetical example, all three investors receive 6% annual investment returns on their portfolios over time.

Mr. Late has invested **three times as much** as Ms. Early, yet his retirement account is only slightly higher than hers. Ms. Early saved for just 10 years while Mr. Late saved for 30 years. The best scenario here is Ms. Prudent, who begins saving early and never stops. As you can see, the value of her retirement portfolio dwarfs the other two.

All it took was starting early and remaining invested—two relatively simple strategies that together helped Ms. Prudent build substantial wealth.

For illustrative purposes only. Assumes a 6% return.

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