

WELCOME TO...

THE
Rule
OF

72



POWERED BY





HOW **FAST** CAN WE **DOUBLE** OUR INVESTMENT?

We have already seen that compound interest can be incredibly powerful. Even Albert Einstein who studied black holes and relativity described it as the strongest force in nature.

If you earn 12% per year on an investment and reinvest your profits, you will double your investment in only 6 years!

How did we calculate that? It all comes down to 72 and a nifty trick that will let you calculate longer-term returns with a little mental math.



So What's The Trick?



In order to determine how long it will take for an investment to double in value, divide the number 72 by the expected rate of return, as a percentage, multiplied by 100.

$$\frac{72}{\text{RATE OF RETURN}} = \text{TIME FOR AN INVESTMENT TO DOUBLE}$$



The Strength of Compounding

There is an exponential relationship between the rate of return on an investment and the added benefits that you can receive as an investor through compound interest.

This concept works because it allows your profits to make more profits. In other words, imagine you're earning 12% by investing in an index-tracking ETF. After making 12% in the first year, you have 112% of your original investment.

The next year, you'll earn 12% on your original investment, as well as the 12% profit you made the previous year, which actually results in you having 125.4% of your investment by the end of year 2.

So Check This Out...

If you save \$50,000 which earns 1% in a high-yield savings account, the value of your account will double in 72 years. During that same period, let's say you invest \$1,000 in an index-tracking ETF, which earns 12% per year.

$72 / 12 = 6$ which means that every 6 years, your \$1,000 will double. This means that your \$1,000 investment would double TWELVE times in the same 72 years that it took your high-yield savings account to double, which is the same as multiplying by 4,096!

Even though you invested only \$1,000, it will be worth over \$4 million in comparison to the \$50,000 in your savings account which only grew to \$100,000 over a similar time period.

More Evidence With Different Rates of Return



Below are a few examples of different types of investments (or debts) to show how quickly you can earn money on investments if you rely upon compounding interest, and how compounding interest can ruin you financially if you let high-interest debt continue to build.

