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The Power of Compound Interest (Video)

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Watch Grimes & Company Advisor Gordy Thomas break down the concept of compound interest in an approachable, straightforward way that will demystify the topic and set you up for a clear game plan for tapping into the power of compound interest with your own savings strategies.

Watch the video below:

VIDEO TRANSCRIPTION:

My name is Gordy Thomas, and I'm a wealth manager here with Grimes & Company and today we're going to talk about compounding interest, what it is and why it's so powerful. Albert Einstein once said, "Compound interest is the eighth wonder of the world. Those who understand it, earn it, and those who don't end up paying it."

So what is compounding interest? It's essentially your money earning interest and then the interest on that earning more interest going forward.

A really quick example of compounding and how powerful it can be would be to take an investment of $300 a month earning 7% annually compounded over 10, 20, 30 years.

In that example, the $300 a month with 7% annual growth rate would have grown to about $52,000 after year 10. After the first 20 years, it would have grown to $148,000. And then after 30 years, it would have turned into $366,000. The most important thing from this example is that most of the growth took place in years 20 to 30. So in the last 10 years, you actually earned more than you did in the prior 20 years where you were still saving money. And that's really what makes compounding so powerful is once you get started, the growth is exponential, not linear.

In another example, if there were two people, Person A and Person B, if they were to roll a snowball down a very, long hill,

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if Person A started 10 years prior to Person B, Person B would have to add more snow, more money, at a far greater pace in the later years to have any chance of catching up to Person A, which for most people is not a very easy thing to do. And that's why starting early is very, very important in order to have long-term success from compounding.

Some key points and takeaways are number one, start early, start now, even if it's in small amounts, and be consistent. So every month when you're getting your paycheck, start putting a little bit away and pay yourself first. And then lastly, find an investment strategy that you're comfortable with and can stick to long term to fully enjoy the effects of compounding over years and decades to come.

And again, my name is Gordy Thomas with Grimes & Company. For more information, please check out our website and click the link below.

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