<u>The Amazing Power of Compound Interest</u>

Happy 21st birthday… Here's What You Need to Know About Money

Albert Einstein famously referred to compound interest as the *eighth wonder of the world.* "He who understands it, earns it. He who doesn't, pays it."

At its core, **compound interest** means earning interest on your money – and then earning interest on that interest. Over time, this snowball effect can build significant wealth. In the example below, the assumed return includes interest, dividends, and stock market growth, all averaging around **6% annually.**

I've met many retirees who say the same thing:

> "I wish I had learned this in my 20s."

I've heard it so often that I decided to write this short article. I've also had friends ask me to talk to their kids about money. In my opinion, this is the *one concept* every 21-year-old should understand.

Start Early – Watch it Grow

Let's look at what happens when you invest **$500/month** starting at different ages:

Start Age	Value at Age 67 (Assuming 6% Avg Annual Return)
21	$1,384,886
27	$936,749
32	$668,487
37	$469,606

This is a hypothetical illustration. Results are not guaranteed and do not represent any specific investment. Returns vary and investing involves risk. Figures are compounded annually and do not account for taxes or inflation.

Can't Afford to Invest? Start Simple

You may by thinking, *"I don't have extra money."* That's fair – many 21-year-olds don't.

But it comes down to two options:
Spend less or **earn more.**

<u>Ideas to free up cash:</u>

- Buy a used car instead of a new one
- Live with roommates
- Take a part-time job or side hustle
- Seek career advancement to increase your income

It's up to you to figure out what works best. But the sooner you start, the more time compounding has to work in your favor.

Why the Roth IRA is So Powerful

If you invested $500/month into a **Roth IRA** (up to an annual max of $6,000), the entire $1.38 million in our earlier example could be **tax-free** in retirement. *

That's right **– every penny of growth and withdrawals** could be yours without owing the IRS, as long as Roth rules are followed.

In fact, only **20%** of the total value in that scenario would come from your actual contributions. The other **80%** would be pure growth.

This is why so many retirees wish they had started earlier.

It's Not Just About Retirement – It's About Freedom

Forget the word *retirement* for a moment. Think about what financial independence could mean:

- Freedom to work on your terms
- Peace of mind
- Options to travel, pursue passions, or give back

You don't have to choose between living your life and planning for the future. You can do both. But the earlier you start, the **less you have to contribute** to get where you want to go.

The Bottom Line

You've now been introduced to one of the most powerful financial concepts that exists:
Compound Interest.

What you do with this knowledge is entirely up to you.

But if you start investing early – even just a little – the power of time and compounding can lead you toward a future of financial security, independence, and opportunity.

Disclosures & Notes:
**Contributions to a Roth IRA are not tax deductible and there is no mandatory distribution age. All earnings and principal are tax free if rules and regulations are followed. Eligibility for a Roth account depends on income. Principal contributions can be withdrawn at any time without penalty (subject to some minimal condition)*
**The maximum contribution mentioned in this article is from 2022. This amount is subject to change.*