

$$FV = PV \times (1+i)^n$$

Okay, if you're a bit rusty on your algebra or your Albert Einstein, this is the 8<sup>th</sup> Wonder of the World according to the genius who gave us the Theory of Relativity. He is quoted as saying, "*Compound interest is the eighth wonder of the world. He who understands it, earns it.....he who doesn't.....pays it.*" In English, a Future Value is equal to the Present Value times the result of that present value plus the interest rate (for each compounding period) taken times itself for the number of compounding periods. If this is still as clear as mud, let's just say that Albert recognized this for being the powerful and brilliant thing that it is. You can probably also see that you should earn and not pay "it."

### **Where Is The Power?**

Even if math and equations are not your thing, we all know that higher Future Values are better for us than lower ones. There are three different factors that we can adjust to increase future values. 1.) We can begin with a larger starting amount. 2.) We can look for a higher rate of interest paid each period. 3.) Finally, we can always wait for more compounding periods, something none of us particularly like or (may I say) are very good at doing. Still, Einstein understood that given enough time and a reasonable rate of interest, powerful and wonderful things happen.

### **A Little Exercise**

My start in financial services came in 1983, a little over 35 years ago. Exactly 35 years ago, as I'm writing this on May 23<sup>rd</sup>, the 30 year Treasury bond was quoted at an annual rate of interest of 10.78%. If something (no such investment has ever existed) could have compounded once a year at that rate for 35 years, what would **\$1,000** be worth at the end of 35 years in this hypothetical investment? At Calculator.net it worked out to be **\$35,987.16** at the end of 35 years. Do you think Einstein might have been on to something?

### **Pay Less, Earn More**

Face it, for we mere mortals, spending money is much more enjoyable than saving it. Still, if we are to get the 8<sup>th</sup> Wonder of the World on our side, it makes sense that, on balance, we will need to spend less money than we earn after taxes. So, in our moments of choice may I suggest a simple question for you to ask yourself? "*Will this choice allow me to earn more interest or cause me to pay more interest?*" It is an annoying little question, but for those prudent enough to use it, a very powerful one!

## **More and More Often**

The folks in our office get together at the start of each year to hear from some pretty bright people. One of our speakers passed along another bit of Will Rogers or Samuel Clemens style, homespun wisdom, that he had heard from an older colleague. That colleague said to him simply, "*Just invest more and more often.*" The speaker said he really wished he had followed that simple wisdom over the years. Can it really be that simple? I believe so.

## **A Little Insight**

On a side note, if someone, some business or some government needs to borrow money, interest is the price they pay to use that money for a while. The lower the interest rate they have to pay, the more they tend to borrow, because the cost to borrow is lower. When consumers borrow more, they in turn purchase more. When businesses borrow more, they tend to invest more on potential growth opportunities for that business. If you were the Federal Reserve Bank what might you do to get the economy to grow? If you lowered interest rates what might that do for the economy? So here's the hint: "they" want you to spend more of your money. The deck is stacked slightly against you.

## **Good, But Tough News**

Okay, I get it. Life comes with a LOT of bills and just getting by for most folks is demanding. Yet, over 35 years I've encountered people making modest incomes who have managed to save considerable sums, while some with over \$250,000 incomes have little saved or are in debt. Those with savings have made that a priority. Perhaps unconsciously they understood "it" and chose to earn, rather than pay the "it" that Einstein alluded to, as the 8th Wonder.

## **Bottom Line**

Interest rates change, markets go up and down, job opportunities vary and the cost of things goes up and down (flat screen TVs?). It's a funny thing, how money works remains pretty much constant through the millennia. It is better to be an earner than a payer of interest. Even owners of real estate or businesses understand that that they need to earn more than they pay in costs and interest. Is it time to get this wisdom working harder for you?

## **Your Feedback**

I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I'd like it to be of value to you

and to encourage an exchange of great ideas and insights. Please send your feedback to:

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