

# KIM: Millennials, time in the market more important than timing the market

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Fellow IBJ columnist Ken Skarbeck recently emphasized to his daughters and nieces the importance of beginning a **program** of saving and investing at an early age. I couldn't agree more. I'd add what's **not** important is trying to find the next Facebook that will make you rich overnight and/or pick the "right" times to jump in and out or "time" the market.

In fact, those pursuits are actually **detrimental** to your long-term financial health. Albert Einstein wasn't an investment expert, but knew the basic mathematical concept that drives results. He referred to **compound interest** as "the greatest mathematical discovery of all time," "the most powerful force in the universe" or "the eighth wonder of the world."

Indeed, compound interest is a powerful lever that can make your financial life better. Or it can kill you.

How does compounding work? Assume you start with \$100 and earn 8%, compounded annually. After Year One, you have \$108 (\$100 original investment plus 8% earned on it). After Year Two, you have \$117 (the \$108 you had at the start of the year plus 8% earned on it). After Year 3, you have \$126 (the \$117 you had at start of the year plus 8% earned on it), and so on.

Left **undisturbed**, your original \$100 investment will have grown to \$200 after Year Nine. This happens because each year you earn interest on your original investment and on all of the accumulated interest earned (i.e. interest on interest).

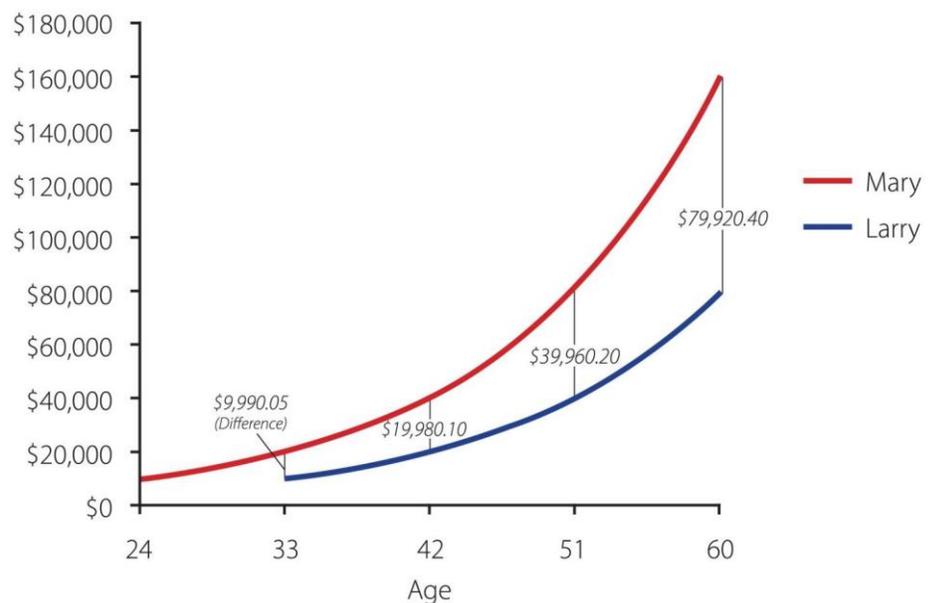
Meet Mary and Larry. The same age, they both invested \$10,000 and earned the same 8%, compounded annually. The only difference (and it's a big one) is Mary invested when she was 24, but Larry didn't get around to it until he was 33. By the time they are 42, Mary has \$40,000, but Larry only has \$20,000. Looking out to 51, Mary has \$80,000 and Larry \$40,000. By the time they are 60, Mary has \$160,000 and Larry \$80,000.

The gap between Mary and Larry widened from \$20,000 at 42 to \$40,000 at 51 to \$80,000 at 60, **just from compounding**. In other words, even though they *invested exactly the same amount and earned the same return*, Mary's account had the huge benefit of compounding for 9 years more than Larry's.

Enter the "Rule of 72," which investors love. Simply divide 72 by the assumed rate of return to get the number of years it takes to double your investment. At 6%, it takes 12 years. At 8%, it takes 9 years (you can ask Mary and Larry!). Whatever your return assumption, it's better to start sooner rather than later. **You want to let compounding work as long as possible for you.**

The corollary is credit card companies love the Rule of 72 even more than investors because the interest rate they charge dwarfs the returns investors can earn. At 18% interest, your credit card debt will **double every four years** (72 divided by 18). You can see how credit card debt can get out of control in a hurry.

Compound interest and the Rule of 72 can be tremendous financial levers to help you accumulate assets. Unfortunately, they can also crush you. Invest more and sooner and avoid credit card debt like the plague.



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