

It's Never Too Late to Take Advantage of Compound Interest

by Cullen Douglass, CFP®

Most planners have heard the famous quote attributed to Albert Einstein, "Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it." Did he really say this? Is this an urban legend? Einstein died in 1955, but this quote was first printed in the New York Times in 1983. Is this our modern-day example of "fake news"? I think we will never firmly know the truth of where this originated if it truly came from his lips or his pen.



Regardless of its origin, is it true, and what is it focusing on? Is it about passive earnings on your assets or is it about not paying someone interest? Is it ever reasonable to pay someone interest so you can leverage money and create more profits? I follow the simple rule that someone else financing your lifestyle because you don't have the resources to do it is a bad idea. Paying interest to someone else on a non-equity asset doesn't make sense, and you need to slow down your spending. We help our clients become interest earners instead of interest payers.

It's never too late to become an interest earner. The beauty of compound interest is that if you start early, you could earn a lot of money. But marketing that talks about the benefits of starting early can create a negative incentive if you are behind and need to save aggressively. It almost encourages you, if you haven't saved, to just stick your head in the sand and give up. If you didn't save early, you aren't doomed. Start where you are and forget the past. Most people are living longer and are healthier and active longer, which may offset some of the earlier savings since you may not retire as early.

Marketing pieces and quotes attributed to famous people are helpful only if they motivate you to take action. Take action and enlist someone who can help you create a financial plan and get the eighth wonder of the world working to your advantage.

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