Outlook on Business

$500 'spent' means a future loss of over $500,000

IT'S YOUR MONEY
Paul J. Rockel

(NC)—I had to learn it from my wife.

She confronted me with the statement: "Did you know our youngest son (aged 16) cashed in $500 of his mutual fund investments you made for him?

I had to answer truthfully, "No, I didn't."

You see, I, as a parent, had deemed that each of our five children should end up being millionaires at age 65. I knew that if I invested $140 for them at birth, and it averaged 15 percent per year through to age 65 (which mutual funds have proven to do), that $140 would be worth over $1,230,000 (over one and a quarter million) at age 65. Mathematics alone tells me that.

So, I invested that $140 for them at birth. True, I didn't know about those formulas when the first two were born, so I had to invest a larger amount when they were older. You would have to invest $281 in them at age five to have the same result, and $566 for a child 10-years-old, to end up with $1,250,000.

In the case of our 16-year-old, the $140 mutual fund investment had grown to almost $2,000 (it averaged better than 15 percent). He decided he wanted a motorcycle to get back and forth to work easier (since he was 14 he's been working as a packer and carry-out person at one of the local supermarkets — after school and Saturdays). While he had saved some money, he was apparently $500 short, so he cashed in some of his mutual funds.

I didn't like it, but it also opened up an opportunity to get a message across.

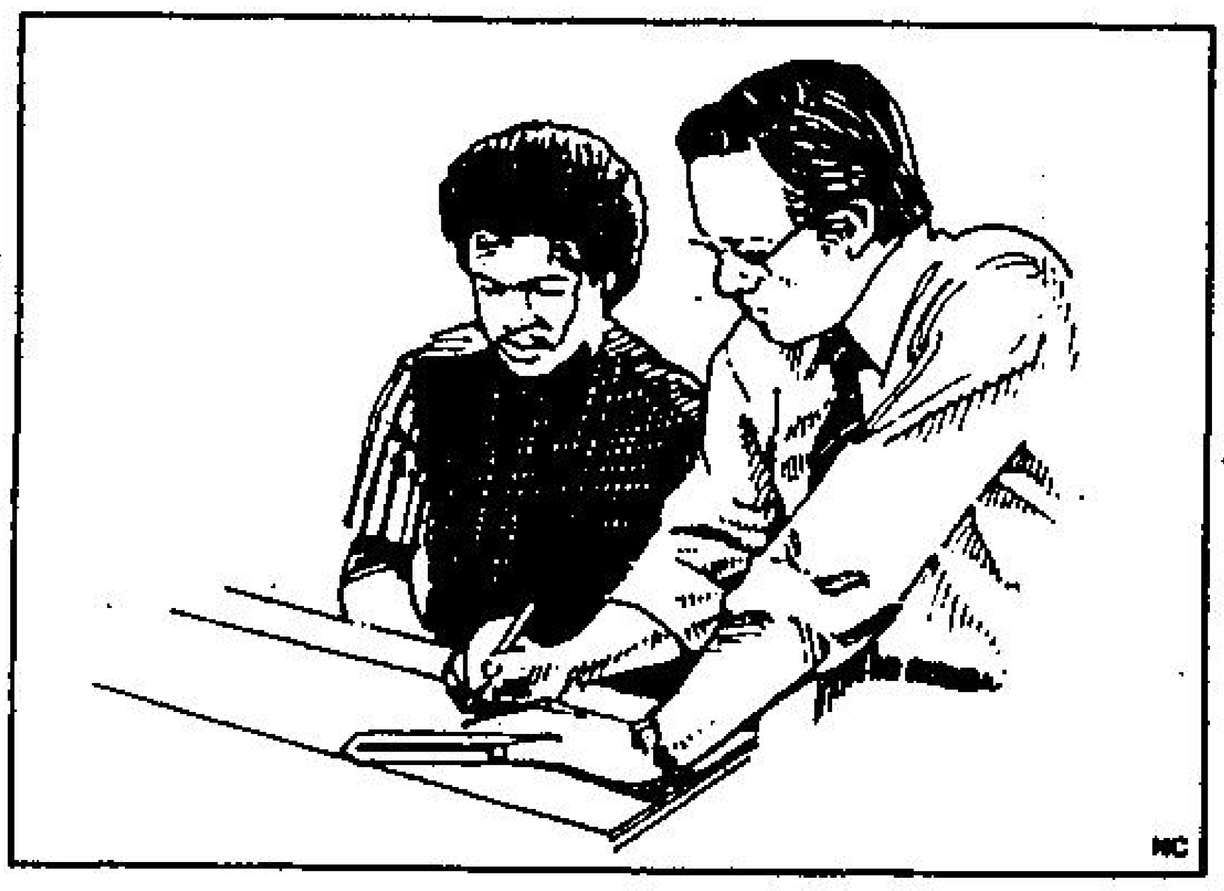
"Remember," I asked him, "the riddle you posed to me a few months ago? The one where you asked if I'd rather have $100,000 for working the full 31 days of a month, or being paid .01 (one cent) the first day, .02 the second day, .04 the third day, and so doubling the amount every day for the 31 days? Do you remember the answer?"

"Certainly," he replied. "The person who took the penny the first day, two cents the second day, etc., ended up with over $20 million in total pay ($21,475,399 to be exact) for the 31 days. That was much better than the $100,000 offered for the month."

"Now," I responded, "let's apply the same principle to your life. Remember that monies averaging 15 percent per year, double in value every five years. Just like the "worker" who took the one cent the first day, and then doubled each amount in the succeeding days, would you sit down and double $500 every five years, starting at age 16 through to age 66, and tell me what answer you get."

I gave him a pencil and paper, and asked him to figure it out, which he went away and did.

When later I asked for the answer, he told me the $500 at age 16, if doubled every five years, would be worth $512,000 at age 66. That's over one-half million dollars.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He was right.

His comment: "Gee, Dad, I better replace that $500 as soon as I can." (I hadn't asked him to.)

Possibly that $500 was the best expenditure he ever made, or will make, because it was used to teach a valuable lesson. Too many of us save, or use our savings, to spend "Now," without giving a thought as to how much that "now" expenditure cost us, in *lost* future benefits. If we are saving to build a "second income" (first income is YOU AT WORK, second income is MONEY AT WORK), we should allow it to build, add to it regularly from our first income, until such time as we feel comfortable that that second income is sufficient to support us.

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