Money Matters

The rule of 72 will make you money

Did you know that if you could double your money 10 times in a row, an initial investment of $1,000 would grow to over $1 million?

Do you know the rule of 72? It is infallible, and simply states: Divide the rate of return into 72, and it will tell you how long it takes for money to double in value, if you let it compound.

In other words, if you earn nine per cent, nine goes into 72 eight times, which means money earning nine per cent will double in eight years. Or, if you earn 12 per cent, money will double in six years, or six per cent, money will double in 12 years.

If you average 15 per cent per year, money doubles in a little less than five years, because 72 divided by 15 equals 4.8 years.

Simple, isn't it, and this rule is always right.

Let's play with it.

If you were 20 years old, and had $1,000, and it doubled every five years for the next 50 years, (15 per cent return doubles every five years) until you were age 70, it would be worth over $1 million.

If someone gave you $1,000 at birth, and it doubled every five years (at 15 per cent) it would be worth over $8 million at age 65. Fantastic isn't it? (Where was my Guardian who didn't put $1,000 to work for me when I was born).

What if you only earned nine per cent. That $1,000 "at birth gift" would double every eight years, making it worth $2.7 million. You would have $5.3 million less than the 15 per cent rate of return.

This fantastic growth of money is made possible by what we call compounding. Too many of us never want our earnings to grow, but rather we want to spend those dollars, or the earnings on those invested dollars, every year.

If the infant who received the

IT'S YOUR MONEY
Paul J. Rockel

$1,000 had put the monies in a mutual fund and averaged 15 per cent per year (most good equity mutual funds have done even better over the past 10 years) $150 would have been earned from that investment each year. If the parents had spent that $150 each year on something for the child, and as the child matured into an adult, he/she also spent the $150 per year, they would have spent $9,750 in total by age 65.

The person who allowed the $1,000 to compound until age 65, would actually have $8,817,787 (to be exact - if my calculator is working right - why don't you work it out?). That person could now go out and spend that $9,750 the "spend each year" person spent, and still have over $8,800,000 left.

If you had $8 million at age 65, and you converted that to a mutual fund withdrawal program of one per cent per month (12 per cent per year) you would be receiving $80,000 per month.

Could you live on $80,000 per month?

Mind you, if inflation averages just five per cent over the next 65 years, that "baby" will need $71,000 per month to match what $2,500 per month will buy today.

They'd just squeak by with $80,000 per month.

Scary isn't it?

For a FREE chart comparing the growth of equal RRSP contributions to a mutual fund with a fixed investment earning 10 per cent, contact Peter C. Masson M.B.A., Regal Capital Planners Ltd. 10 Fagan Drive, Georgetown, Ontario or phone 877-7216.

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Life insurance advice

By ISABEL WEGG, CLU

Here are a couple of good questions I'm sometimes asked by consumers:

Is it true that two people buying identical life insurance policies might have to pay quite different rates?

If so, doesn't this mean that life insurance companies are guilty of discrimination?

Let me make my answers as clear-cut as I can: Yes and no.

Yes, people are charged different rates based on their age, sex and health. But no, this isn't discrimination, in the sense of being unfair. It simply reflects the facts of life, and of life insurance.

On average, younger people have longer to live than older people, women outlive men, and the healthy outlive the unhealthy. So, they pay less for the same life insurance coverage.

Thus, there can be a very considerable difference between the rates charged a 25-year-old women in good health, and, say, a 45-year-old man who chain-smokes and is overweight.

What life insurance companies practice, then, is "fair discrimination" rather than "unfair discrimination" in pricing their products.

They treat people, not equally, but equitably.

If you want more information about how life and health insurance rates are calculated or about how to get the best value for your dollar spent, have a frank discussion of these matters with your life insurance agent.