The Secrets Of Wealth Creation - Compound Interest.

One of the most important areas of our lives is finance – yet most people have been given no training in this area. This is crazy! The fact is there is a lot of information out there you probably have not been exposed to. Most people just lack the knowledge necessary to make the right decisions when planning their finances, but did you know there are actually established Laws of Wealth Creation?. Perhaps you were never taught them or you do not know how to use them. But the knowledge for wealth creation exists and we are here to share that with you.

You can succeed financially! It is quite simple, boiling down to three simple secrets that go back to principles built on wisdom from the earliest civilisations. These are the secrets to becoming wealthy and make the financial concept of compound interest fun to understand. It comes from one of our favourite books on finance; 'The Richest man in Babylon' by George S Clason and the story of Arkad.

What makes his story so interesting is that Arkad did not begin life wealthy. He wanted to experience more from life than what his childhood circumstances had to offer.

Arkad's friends were confused as to why he had so much more money than they did. As children, they had been equal. So, what was his secret? How come he had become wealthy and they hadn't.

To Arkad's childhood friends, it seemed very unfair that ordinary little Arkad somehow became the richest man in Babylon, while they struggled daily to survive.

Arkad had become aware at a young age of what was possible in life if one had wealth. Being happy and content was a great way to live and having wealth made it even easier. He consciously made the choice to be happy and wealthy! He set out to learn the secrets of wealth creation and then focused on doing it well.

What he makes clear is that these "secrets" aren't really secret at all. They are simple formulas anyone can learn. You really can become wealthy if you are aware of a few key principles.

Secret 1: -A part of everything you earn is yours to keep.

Arkrad found the road to wealth when he kept and invested for himself one-tenth of all he earned. Start with 1% and work up to 10% or more as quickly as you can. You can start to do that right now!

Secret 2 :- Invest wisely.

Arkad learned to save and invest and reinvest his money. He told his friends they should put their money and that money's interest (i.e., the interest or return on their money) to work for them.

Make your money work hard for you rather than you working hard for your money. Have the patience and persistence to let your money grow, compounding each year.

The more money you save, the more money you can put to work for yourself.

Secret 3: Enjoy your wealth.

Arkad was famous for his wealth, kindness, and generosity. He gave generously to charities, his family, and his own expenses.

What Arkad understood was the Amazing Secret of Compounding

So, understanding the miracle of compound returns is key to wealth creation. Basically, this is about interest, and how earning a slightly higher rate of interest can make a massive difference to the amount of money you end up with in the long run. So , how does it work? Like this:

- You earn some interest
- Next year, you earn interest on that interest
- The year after that, you earn interest on the interest on the interest….and so on

With compound returns, interest earned is put into the pot, rather than set aside, which means the pot keeps getting bigger. The bigger the pot of money, the more interest the money earns... and the more interest that gets put back in. Over the long term, this can really add up!

Compound returns are driven by two factors: **rate** and **time**.

Rate

More than anything else, interest rates determine how quickly and how much your savings grow. The higher the rate at which you invest, the more - and the faster - your savings will grow, which is why you should make every effort to get the highest possible rate:

Four accounts, four rates, and a consistent investment of £100/month

	Investment value at these interest rates			
	1%	**3%**	**5%**	**7.5%**
Age 20	0	0	0	0
Age 30	£12,626	£14,009	£15,598	£17,904
Age 40	£26,578	£32,912	£41,275	£55,719
Age 50	£41,998	£58,419	£83,573	£135,587
Age 60	£59,038	£92,837	£153,238	£304,272

Even small differences in the rate of return have a huge impact on the amount of interest earned in later years. The two percent points between the 3% account and the 5% account yield a difference of over £60,000 after thirty years of saving - that's over £30,000 a percent point! Kind of makes it worth it to shop around for the right account, doesn't it?

Time

Another major factor in the growth of an investment is time - how long your investment appreciates interest. As a rule, the longer your investment sits around and gathers interest, the better:

It has been said that "Compound interest is the greatest mathematical discovery of all time,". The results are determined by time, not just how much you invest! Time really is magic.

Do You Know The Rule of 72?

If you are like most people, you may not know about this rule. This rule shows the dramatic effect of time and compounding. The rule of 72 says that your money will almost DOUBLE at a point in time determined by dividing the interest rate into 72. This rule can work for or against you.

The Rule of 72 , is an easy way to estimate how long it will take for your money to double with annual compounding. (Divide 72 by the percentage growth rate.) For example, with a 15% return your money doubles every 4.8 years. Round it to five years (for simplicity's sake). This means a $5,000 one-time investment made at birth by parents and grandparents would grow to $2,560,000 when the child is 45 years old. This awesome result is based on two major factors - compounding earned interest and time.

The effect of 5% savings rate over time with regular contributions

		Age started saving			
		20	**30**	**35**	**40**
Value of savings at different ages	**30**	£15,598	£0	£0	£0
	35	£27,188	£6,962	£0	£0
	40	£41,275	£15,598	£6,962	£0
	50	£83,573	£41,275	£27,188	£15,598
	60	£153,238	£83,573	£58,812	£41,275

What you should learn from this table: the sooner you start investing, the better.. While obviously it is better to start early, it is never too late and you can still benefit from the miracle of compound interest.. what we are saying is ……..it is not worth delaying.

How much should I save?

The short answer: as much as possible. We've used a figure of £100 for our examples, but if it is a smaller amount , that’s fine too. Small sums soon build into bigger ones and you can increase the amount you save each year. The trick, as we've said, is to start saving as early as you are able to and invest steadily in order to get the miracle of compound interest working for you.