

**Mitochondria Learns to Invest #09**  
**By Klarise Yahya, Apartment Loan Broker**

*Continued from last month ...*

I was shocked! I was sure my math was right. I'd even used my fingers. "How could that be?" I asked.

"If you'd started two doublings ago", she assumed that dreadful lecturing tone she sometimes employed, "your money would have an *additional* two doublings to grow before you turn 65. It would have a chance to double not just seven times, but nine. After seven doublings, your projected wealth was \$3,200,000. After the eighth doubling, it would be \$6,400,000. And after the ninth doubling, you would have \$12,800,000.

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"Subtract the \$3,200,000 you would have after seven doublings and you find that your procrastination has cost you *nine million, six hundred thousand dollars*. With the two additional doublings you wouldn't have \$3,200,000, you would have \$12,800,000. *That is a huge difference!*"

I'd sure never thought of it like that. I'd always suspected that it might be nice to have some money invested, but whether I started this year or next or even fifteen years from now didn't seem to matter much.

"But I've looked at the charts! My income will probably peak when I'm in my 40s. That's when I'll have the most money to start investing". I was starting to whine. "Why can't I just wait until I have lots of money before I start investing?"

She seemed to know what was coming. "Dear, if you started right now to invest even a portion of your take-home pay and it earned 10% compounded, do you have any ideal how much you would have when you become 45?"

I had to admit that I'd never studied the matter.

"Get out your financial calculator", she said. "Assume you invest \$300 a month for 16 years – until you are 45 – then stop. You never invest another penny, but you do allow your accumulated savings to continue compounding. How much would you have when you're 65? Assume a 10% yield."

I did what she said. If I invested \$300 a month for 16 years I would have invested \$57,600. But, at 10% compounded return, it would have grown to almost \$142,000.

If I kept that \$142,000 compounding for another 20 years, without any more cash contributions, when I turned 65 it would be worth \$879,000.

"Now", Mrs. Langerhorn said, "go back to your calculator and pretend you start investing when you're 45. You make the same 10% a year return. And you stop after twenty years, when you're 65. But now you are making more money when you start, so you can save \$900 a month. How much would you have when you retire at 65?"

I did the math. "Mrs. Langerhorn, my calculator says I'd have \$690,000."

“That doesn’t surprise me. But do you see what’s in front of you? You would have more retirement savings if you invested only \$300 a month for the sixteen years from age 29 to 45 – then stopped putting new money in – than if you invested \$900 (*that’s three times the money!*) a month for the *twenty years* between age 45 and 65. Do you recognize what you’re seeing?”

I didn’t, of course. But I told her I did.

Mrs. Langerhorn told me what she wanted me to see, anyway. “Once again, we see that the most important component of investing is *time*. Enough time can turn even modest investments into substantial amounts of capital. And it is the one thing almost everybody throws away. They think they can offset a late start to their investment program by making greater deposits. *Well, they usually can’t!*”

“Can you go back to your calculator and figure out how much retirement you would have if you started saving \$300 a month right now, at your current age, and continued it for the next 36 years until you’re 65? Assume a 10% yield.”

“It says I will have invested a little under \$130,000 of my own money and it will grow to a little over \$1,250,000”, I reported. “But that’s a long way from the \$3,000,000 I wanted!”

“You only assumed a 10% yield”, Mrs. Langerhorn responded. “Remember, to get the \$3,000,000 we projected \$25,000 growing at a little over 14% per year.”

I’d been thinking about those numbers and didn’t want to believe what I thought they implied. “Those numbers, Mrs. Langerhorn, do they say that if a person waits until she has the money to invest, it’ll be too late to start?”

“A person who waits until she’s middle-aged to begin an independent investment program can not reasonably expect to retire with as much as someone who began in her youth. A person can, given ten or fifteen years of good investment decisions, retire very comfortably regardless of how old she was when she began. And her income can *continue* to increase even after retirement if she properly manages her assets.

“Basically,” she continued, “you need enough time to compound your returns. If you start early, you may be able to retire well before you turn 65. If you start later, you might have to work into your 70’s, but you can still have a comfortable retirement.

“You know how most folks prepare for their non-working years? Their retirement account topped out at \$300,000. They’ve been serially refinancing their home every three or four years to pay off their credit cards or to buy a new car or some jet-skis or pay for the kid’s college and now have very little equity left. And even if they sold their house, they still have to live somewhere. What are they going to do? The paltry income from that very modest \$300,000 retirement account has to support them and their house payment and all their other living costs for the remaining twenty or thirty years of their lives. Do you think there is much chance of that?”

“Since *time* is no longer on their side – they’ve absolutely squandered their best investment tool – the only thing left is for the old folks to take huge risks with whatever assets that remain.

“As we’ve discussed, young people don’t have to take such large risks because, for them, *time offsets yield*. For old folks who have few assets and still insist on retiring in five years, *yield* has to offset *time*. They must take unusual risks because there is no longer sufficient time for their assets to grow.”

Mrs. Langerhorn was quiet for a moment. I thought I saw her eyes fill up. “It just breaks my heart when I see how some of the old folks have to live. For them, today is bleak and their future is hopeless.”

"But at least mine is not, thanks to you!" I wanted to return the conversation to productive channels. I didn't want to be heartless, but a girl's gotta take care of herself.  
"Now what?" I asked. "Are you going to teach me how to get my 14%?" *Continued next month ...*

*Klarise Yahya is a Commercial Loan Broker. If you are thinking of refinancing or purchasing five units or more anywhere in the U.S.A., Klarise Yahya can help. Find out how much you can borrow! For a complimentary mortgage analysis, please call her at (818) 500-9966.*