

How Money Grows
 Why Your Kids Should Invest
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Why should kids invest? What's the rush? Well, there are some very compelling reasons why you should think about getting your kids involved in investing. One big reason is, simply, that there's a lot of money for them to make -- if they start *NOW*.

When people think about investing, they often think about companies and stocks, about bonds and bank accounts, about gold and collectibles, about risk and interest rates... and a host of other things. But they usually don't think about time. And yet, time is incredibly important -- especially for kids, because they have so much more of it left than we do. If you're 35 years old, you might only want to keep your money invested in stocks for 30-40 years. If you're 45, you might consider 20-30 years. But if you're 15, you've got 50-60 years. And that's a huge difference.

Let's look at a specific example. If you're 35 years old and you invest just \$100 once and forget about it, it will grow. Table A below shows you how it will grow at various rates of return. (5% is what you might get at a bank or with bonds; 10% is what you might get if you match average stock market returns; and 20% or more is what you might get if you invest Foolishly.) (Table A)

growing at	5%	10%	15%	20%
age				
35	\$100	\$100	\$100	\$100
40	\$128	\$161	\$201	\$249
45	\$163	\$259	\$405	\$619
50	\$208	\$418	\$814	\$1,541
60	\$339	\$1,083	\$3,292	\$9,540

Not too shabby, eh? Remember -- if you think \$100 is a ridiculously small sum and you'd be more likely to invest \$1000, then just add a zero to each number. They can be easily adjusted like that.

Now, let's say that your 15-year-old also invests just \$100 once. How will that money grow? Well, it'll grow just like your money did, but after the 25 years shown above, it'll keep on growing. When you're 60, your child will be just 40, with probably at least another 20-25 years to leave the money to grow some more. Look at the chart below. (Table B)

growing at	5%	10%	15%	20%
age				
15	\$100	\$100	\$100	\$100
20	\$128	\$161	\$201	\$249
25	\$163	\$259	\$405	\$619
30	\$208	\$418	\$814	\$1,541
40	\$339	\$1,083	\$3,292	\$9,540
50	\$552	\$2,810	\$13,318	\$59,067
60	\$899	\$7,289	\$53,877	\$365,726
65	\$1,147	\$11,739	\$108,366	\$910,044

Mathematically speaking, when you leave money to compound year after year, the really big changes happen in the later years. Notice above that your little nest egg is growing by just hundreds of dollars per year in the earlier years, but in the later years, it's growing by hundreds of thousands of dollars. And remember how you started with just \$100? Well, imagine if it were \$200. Or \$500. Or \$2,000. Plus, if you added to it each year, you'd end up with a lot more.

It's easy to get excited about these numbers, but remember that we're talking about many years here. It's definitely amazing what the power of compounding can do. But for your children, it also means 50 years of not spending the money. 50 years of adding to it, if possible. And if you want to earn more than 10-20% per year, it means that your children will have to learn about investing and you will have to work on it with them. That's what the Motley Fool is here for -- to teach people how to invest and to do it in a fun and as-painless-as-possible way. Even if your family doesn't want to spend much time at all on investing, we can show you a few simple ways to have your investments match or beat the market.

For good measure, I offer one more example about the incredible magic of compounding. Go over it with your children and see what interest it sparks.

Let's say that your daughter plans for her future by saving part of her allowance and babysitting and flipping burgers in order to earn more. Let's imagine that she manages to save \$500 each year for 10 years while she's still young, socking it away in the stock market via and forgetting about it. Using a Dow Dividend Approach such as the Foolish Four, she can earn roughly 20% per year, so we'll have all funds in this example grow at that rate. Let's also imagine she has a friend named Pat, who is her same age. If Pat doesn't begin investing until age 40 and then saves \$40,000 each year for 26 years, Pat will not be able to catch up with your daughter. It's surprising, but it's true. Her \$500 per year beats \$40,000 per year. Her 10 years of savings beats 26 years. In her 10 years, she saved and invested \$5,000, while poor Pat saved and invested over \$1 million. How can she possibly have come out ahead? It's because of time! Her money grew for some 50 years, roughly twice as long as Pat's money. And you know, actually, she was ahead of Pat every year.

If you're skeptical of anyone's ability to earn 20% on average, over many years (even though the Dow Dividend Approach is well-documented), here's the same example, using the historical average for the stock market over the past seven decades, 11%:

Let's say that Tiffany saves about \$10 per week and invests \$500 each year for 11 years, from age 14 to 24. She socks it away in the stock market and forgets about it until age 65. Her friend Trevor, who's the same age, puts off investing until much later. Beginning at age 40, he invests \$5,000 each year for 25 years. As in the example above, Trevor won't be able to catch up with Tiffany. In her 11 years, she saved and invested a total of \$5,500, and poor Trevor saved and invested a whopping \$125,000. By the time they turn 65, Tiffany's money will have grown to \$705,688, beating Trevor's \$634,994.

These examples can be pretty eye-opening. I hope they'll help you and your kids to think about how it's never too early to start investing