



Experience Wealth Enhancement – Experience Us

## *Client Information Summary*

### **Power of Compounding**

The power of compounding is an amazing thing. Ben Franklin liked it so much that he left \$4,550 each to Boston and Philadelphia on the condition that the bequest had to gather interest for 200 years. Boston did a better job of managing the money and ended up with \$5,000,000, but this should have been more like \$20,000,000. Of course the politicians had control of the funds and I will say no more.

My favourite example of this power is looking at the island of Manhattan. The story goes that it was purchased for the equivalent of \$24 in 1626 (it was actually trade goods worth 60 guilders) by the Dutch. We don't need to get into myth breaking here, but if we work with these numbers, let's see what we get. We have \$24 invested for 383 years at say 4%. What would it be worth today? The answer is \$80,164,150! At 6% it would be worth \$118,129,302,081! That reminds me of a little story. I once opened a new account at a downtown bank branch. They looked me up and told me that I had a dormant account there. I then recalled that many years previously I had had an account there that I used to buy gold during the last hot gold market. The account was a US dollar savings account getting the usual low savings account rate. It had started at about \$24 and had grown to \$172 over 13 years. What a pleasant surprise. I promptly removed the money and spent it. Now that was around 1991. If I had let it ride, and got 6%, that \$172 would be worth \$348 now (at 6% it'd be worth \$491).

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