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Understanding the Rule of 72

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KEY TAKEAWAYS

- **The Rule of 72 helps financial consumers understand how long it might take for the returns of their investment portfolio to double.**
- **The more time you have to save for retirement and the longer you allow your money to compound, the greater your retirement savings.**
- **Discuss this concept with your Comerica Wealth Advisor to compare your financial picture with the Rule of 72.**

We have always wondered who coined the phrase "numbers don't lie." It is a mantra we live by and preach to our clients. Often, the thought of looking at and understanding numbers relevant to your financial situation can seem daunting.

To help ease your fear of numbers, let us review a simple math formula that you can use to help determine your financial success: the Rule of 72. This rule states that to find the number of years required to double your money at a given interest rate, you divide the average rate of return by 72.

For example, if your investment portfolio returns an average of 5%, your money might roughly double in just under 15 years (72/5). However, if your investment portfolio returns an average of 7%, your money is likely to double in just over 10 years (72/7). These figures assume that you have not made any withdrawals or additions in the intervening period.

EXAMPLE:		
Rate of return	5%	7%
Initial investment	$1,000,000	$1,000,000
Year 10	$1,628,895	$1,967,151
Year 15	$2,078,928	$2,759,032
Year 20	$2,653,298	$3,869,684

What a difference two percentage points make. The above chart underscores the importance of being attentive to your investment portfolio.

Understanding your tolerance for risk could help drive your asset allocation, which in turn drives your rate of return. Be aware of the cost of your investments, including management fees and taxes, because these costs can erode your return and could cause you to lose valuable years of compounding.

You can apply the Rule of 72 to your living expenses as well. If we assume an inflation rate of 3%, the formula tells us that your amount might double in approximately 24 years. If you spend $125,000 per year in 2022, by 2046, your annual expenses could approach $250,000. Another argument in favor of being attentive to your investment portfolio is that an appropriate allocation to stocks could help you outpace inflation.

Albert Einstein described compounding interest as "the most powerful force in the universe," and the most important factor in the equation is time. The more time you have to save for retirement and the longer you allow your money to compound, the greater your retirement savings.

Will you be ready to reach your retirement goals? Investing properly, watching expenses and knowing how to do simple math all might help you plan for a successful retirement.

Want to know more about this topic or any other, contact your Comerica Relationship Manager or a Comerica Wealth Advisor near you.