Your Hartford Financial Services Group

Financial News

Compounding: The Eighth Wonder of the World

"Compounding of interest is the greatest mathematical discovery of all time." — Albert Einstein.

Would you rather have a million dollars or a penny that doubled in value every day? The wise choice would be to take the penny, because after thirty days, it would be worth over ten million dollars!

How could that be? It's the spectacular results of 100 percent earnings compounded daily! In real life, compounded earnings are more modest, but the outcome is still pretty amazing.

Similar to what happens when you save using your employer's retirement savings plan, you earn a return not only on the money you contribute, but also on the earnings your contributions generate (and on the earnings those contributions generate). So, the more money you save and the earlier you save it, the more quickly compounded earnings can accumulate.

Let's assume that you invest $100.

Your $100 earns 8%, so you now have a total of $108.

Your $8 in earnings, as well as your original $100 savings, earns 8% interest. You now have $116,64.

Then those earnings, along with your original $100 savings, earns 8% interest. You now have $125.97.

And if you continue to earn 8% compounded interest, your money continues to grow...

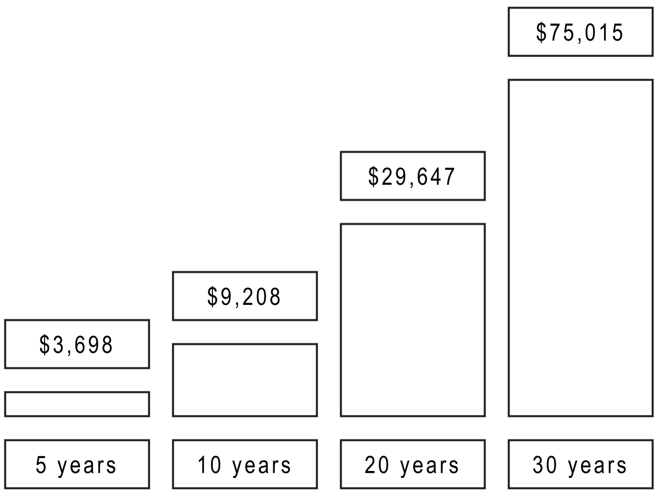
At an 8% annual rate of return, your $100 would double in less than ten years. You would have $215.88.

The results of making regular contributions to your plan, combined with compounded earnings, can be impressive. See how much a monthly contribution of just $50 a month could grow over time.

8% rate of earnings is based on the historical long-term average returns on a 50/50 mix of bond and stock investments. Investors sometimes use that figure to estimate future earnings on a similar mix of investments.

Impressive Results

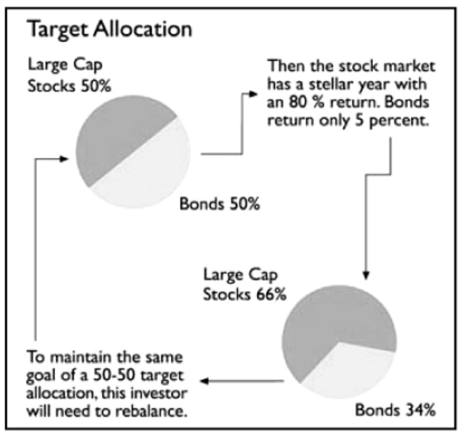
If you saved $50 a month for thirty years, earning an annual return of 8%, you would end up with over $75,000! Your contributions would have totaled $18,000. The other $57,000 would be compounded earnings.



Staying On Track: How to Rebalance Your Account

Rebalancing helps protect gains you have earned, reduces the effects of market volatility, and reallocates your investments back to your intended investment mix.

You may have noticed that retirement savings accounts tend to drift away from their original targets over time. That's why after you decide on a mix of investments that is appropriate for you, it is important to evaluate your account periodically to determine whether or not you need to rebalance your account. (Rebalancing simply means adjusting account balances so they reflect your target investment mix.) As an example, let's say that you are a moderate risk investor and have decided to keep half of your savings in bonds and half in stocks. So you have been allocating half of your payroll deductions to a bond fund, and half to one or more stock funds. Depending on the returns you earn, your actual investment mix may be quite different than the 50/50 mix you originally intended. If the stock market had a great year, or bonds were down, for example, it wouldn't take long before two-thirds, or 66 percent, of your portfolio could be invested in stocks.



Without you realizing it, your investment mix would have become more aggressive than you had intended it to be — and more vulnerable to market volatility. If the stock market took a downturn, the gains you had accumulated while the market was up would be eroded by the declining market. You could even end up with a net wash, or a loss.

Rebalancing might not feel like the right thing to do. At first glance, it may even appear to be contrary to what would seem to make sense: to take money out of investments with strong returns and put it into investments that are not performing as well. But in the long run it pays off.

Rebalancing helps protect gains you have earned in a better performing investment. It also helps reposition your investments to buy low in an underperforming investment.

1) There are two ways to rebalance your account. You can change the allocation of existing balances. This technique redistributes the current balances in your account, and can be used to accomplish your rebalancing all at once.
2) Or, if you want to readjust balances more gradually, you can change how your future contributions are allocated until the account once again reflects your target mix.

A generally accepted guideline is to let your investments range plus or minus 5 to 10 percent of your target allocation. If they stray more than that, it's a good idea to rebalance your account.

By rebalancing your account, you help ensure that your portfolio is invested appropriately for your risk tolerance and that it is optimally diversified to weather a variety of market conditions.

The Top Ten Reasons to Buy A New Car

10. Your passenger seat is on the National Register of Historic Places.
9. Instead of an air bag, there's a whoopee cushion taped to your steering wheel.
8. You lose the stoplight challenge to a 14-year-old on a moped.
7. 15 minute JiffyLube needs to keep your car for three days.
6. When you gas up, the attendant asks, "Can I re-duct tape that windshield for you?"
5. Thieves repeatedly break in your car just to steal "The Club."
4. While sitting at a stop light, people keep running up to you and asking if anyone was hurt.
3. For the last five years, you've had to settle for making "vroom, vroom" noises while in the driveway.
2. You keep losing dates on left turns.
1. Traffic reporters start referring to you by name when discussing morning tie-ups.