Wealth Accumulation

Successful investing is a long-term endeavor. You don't invest for next year. You invest over a lifetime. The dictionary definition of invest is "to commit money or capital in order to gain profit or interest." Investing involves committing a portion of your current income to your future benefit. You balance your current lifestyle with your future lifestyle. By dedicating a portion of your current income to building wealth, you are setting the stage for more choice in your later life.

Investment and savings needs to be done on a regular basis, preferably monthly. Accountants and financial types talk about a concept called the "time value of money." In a nutshell, the "time value of money" means that if you invest your money and get a reasonable rate of return, that simply letting your money continue to invest over a long enough period, will produce substantial amount of wealth. In other words, getting an 8% return on $1,000 invested every year for 30 years, will yield far more than getting 12% on $2,000 invested every year for 10 years. At the end of 30 years in the first example, you will have accumulated $122,000. At the end of 10 years in the second example, you will only accumulate $39,000. Even though, the amount saved is lower ($1,000 Vs. $2,000) and the return (8% Vs. 12%) is lower, the total accumulated over the 30 years is more than 3 times the amount accumulated over the 10 year period. The length of time of your investment program is the most important factor in determining the amount of wealth you are able to accumulate. This is why you need to save for investment every month over your lifetime.

Diversification of your investment wealth is important. The old proven advice, "don't put all your eggs in one basket" applies. Consider diversification in the types of investments you have. Diversify between pretax and post tax investments. Don't have all your wealth in retirement accounts. Long term capital gains at a maximum rate of 20% for post tax investing are a substantial benefit. Buy and hold your investments for the long term. Being greedy will lead you to constantly churning your investments. This will help your broker's wealth program but will likely result in substantial erosion to your wealth program. Again, by accepting a slightly lower return over a longer period of time, you are using the "time value of money". By trading, you will incur higher taxes on any capital gains which will reduce your after tax returns on your investments.

Investing over a lifetime is accompanied by gradually increasing choice in your life. Financial stress slowly dissipates. You are able to work when you want and play when you want. Having substantial wealth that is generating income won't guarantee you happiness. But it will give you more options in what you do with your life.