

# Growing in Godly Wealth

The Law of Compounding



# The Four Ways to Earn Income

## Employee

Income based on position,  
not the person.

## Business Owner

Owens a system. Has  
others working for them.  
Unlimited income via  
manufacturing, marketing  
etc.

## Self-Employed

Owens a job. Dentist,  
doctor, lawyer,  
hairstylist, estate agent,  
salesperson etc.

## Investor

Has money working for  
them. Enjoys complete  
freedom and lives the  
dream.

**Which two of ways have a multiplying effect?**

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# Wisdom: The Road To Wealth

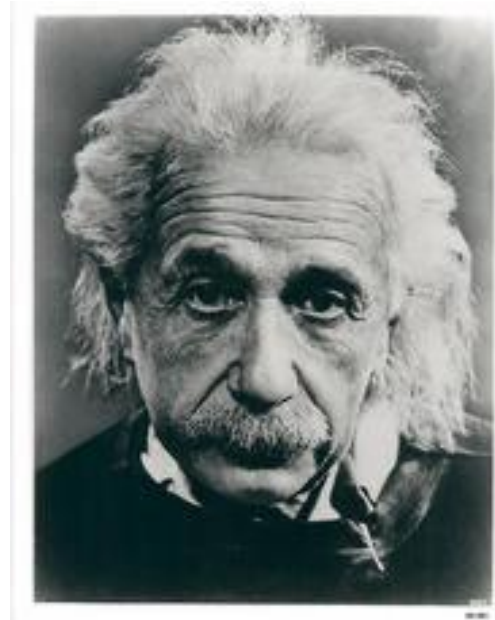
## The Law of Compounding



# Compound Interest

**“ The most powerful force in the universe is Compound Interest”**

**- Albert Einstein**



# Do You Know the Rule of 72?

- The Rule of 72 identifies the number of years it will take to double your money at a fixed rate of interest over the period.
- The Rule of 72 is calculated by dividing 72 by the rate of return that your investment earns.

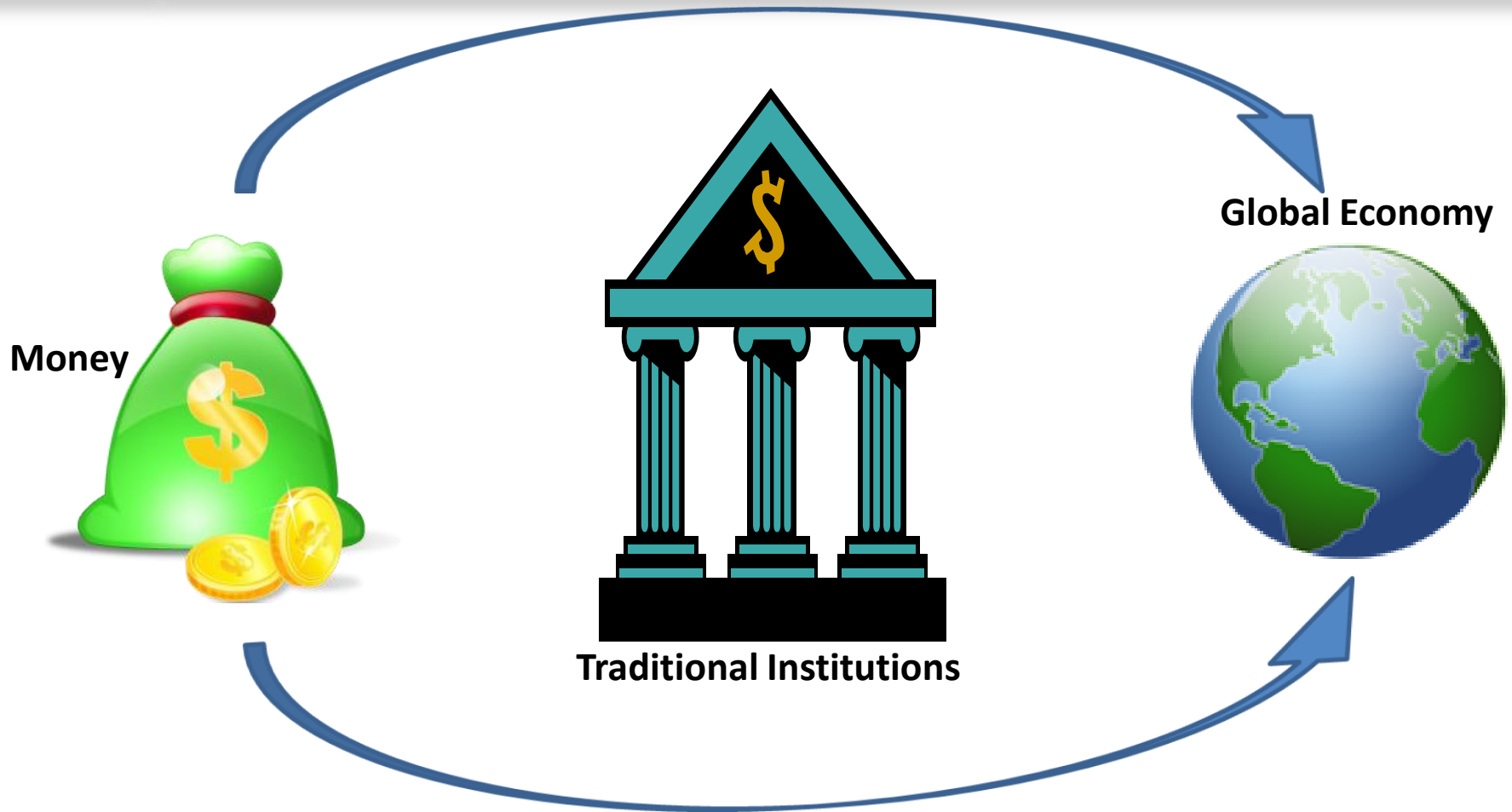
Number of Years	2%	4%	8%
0	N500,000	N500,000	N500,000
9			N1,000,000
18		N1,000,000	N2,000,000
27			N4,000,000
36	N1,000,000	N2,000,000	N8,000,000

Based on the Rule of 72, a one-time contribution of N500,000 doubles three more times at 8% than at 2%

**How many doubling periods do you have in your life?**



# Become an Owner, Not a Loaner



**Savings Accounts and Current Accounts = Historically Low Rates of Return**



# The Question Is: Can You Afford 'Safety'?

You invest N500,000  
at 2% in your local  
bank

You earn N10,000  
in interest for the  
year

But you pay tax  
on this lets say  
10%

So, your net  
earnings are N9000  
resulting in a  
balance of N509,000

$$\text{N500,000} + \text{N10,000} - \text{N1000} = \text{N509,000}$$

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But take a hypothetical inflation rate of 12% and see what happens to your "buying power"

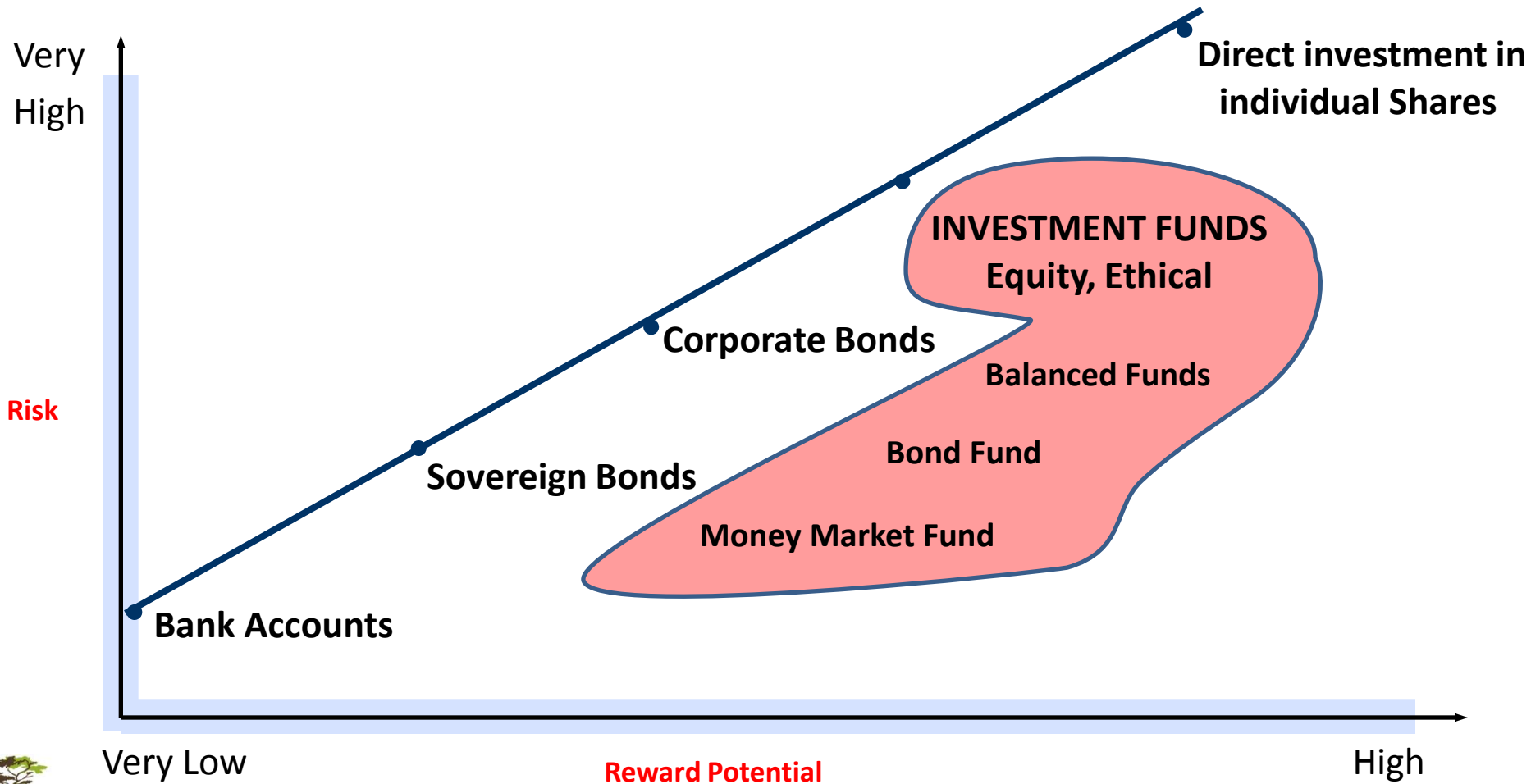
$$\text{N509,000} - 12\% (\text{N60,000}) = \text{N449,000}$$

**So you've really reduced your purchasing  
power by N51,000!**



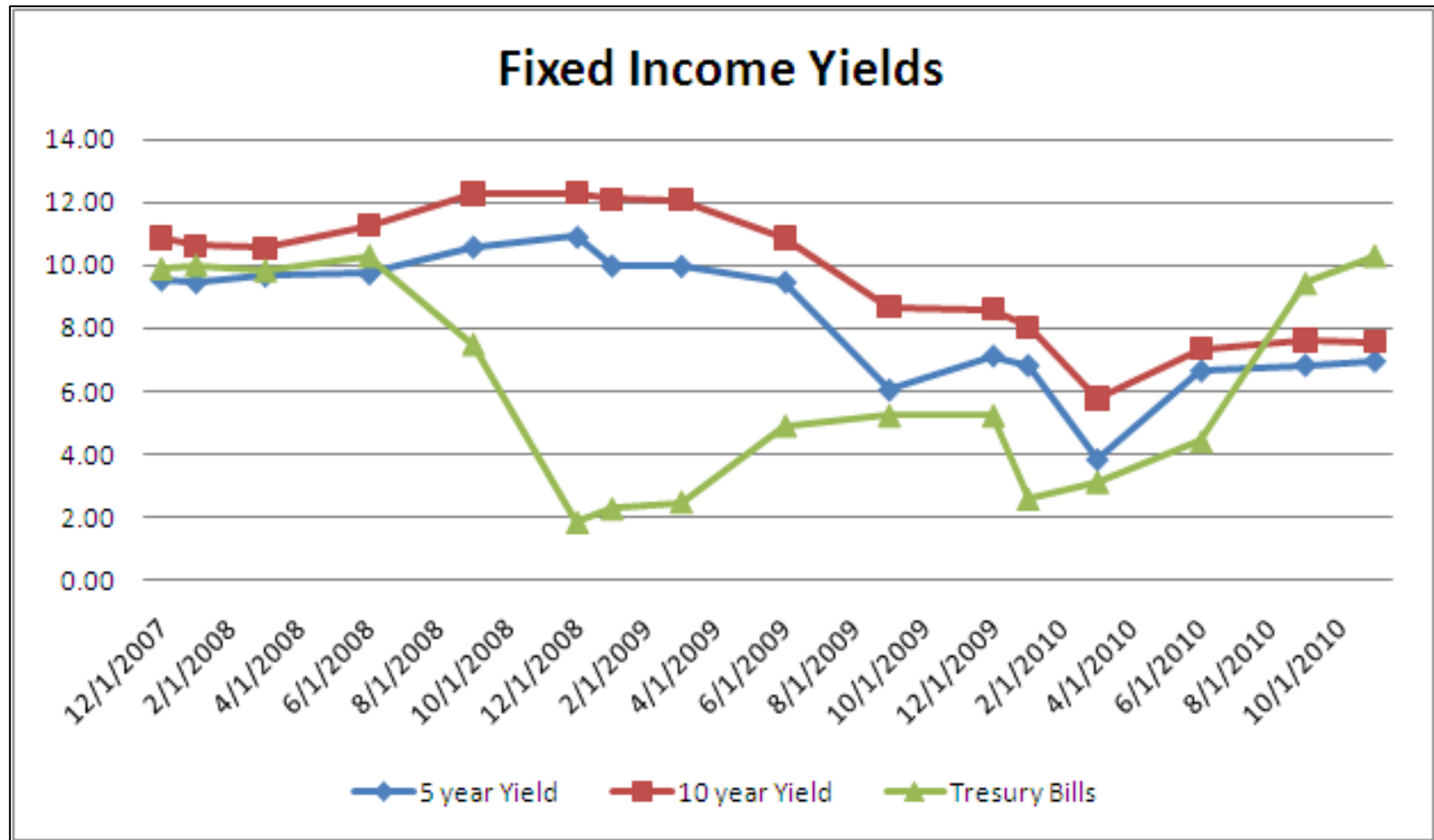
# What are Your Savings and Investment Objectives?

## Aggressive or Conservative Growth?





# What are Your Savings and Investment Objectives?



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S/N	Issue	Issue Date	Tenor	Maturity	Amount (N)	Yield (%)
1	GTBank	2009	5years	2014	13.2bn	13.5
2	UPDC	2010	5years	2015	15.0bn	10.0
3	UBA	2010	7years	2017	20.0bn	13.0



# What are Your Savings and Investment Objectives?

INDEX	AVERAGE ANNUAL RETURN (%)	PERIOD
Nigerian Equity Fund	23.31	1997 - 2010
All Share Index	21.79	2000 – 2009



# It Pays to Start Early!

## The High Cost of Waiting

N50,000 /Month at ~~23%~~ 18%/Year

Begin Investing:	Fund Total at 65:	Reduction in Fund Total at 65*:
Age 25	N 2,497,327,816	
Age 26	N 2,115,779,505	N 381,548,311
Age 30	N 1,089,390,967	N 1,407,936,849
Age 40	N204,962,091	N 2,292,365,725

Assumes a hypothetical 6% annual rate of return compounded on a yearly basis. The effects of charges, taxation and inflation have not been taken into account.



# Priorities: Honour the Lord, Pay Yourself

Put your family's future before the mortgage lender, the utility companies and other fixed demands on your money.

Save at least **10%** of your net income.

To have a complete savings programme, you need 3 accounts:

- An emergency fund (a reserve for unforeseen expenses)
- Short-term savings (such as a holiday or computer)
- Long-term investments (to build up capital for the future)



# What Happens When the Rule of 72 Works Against You ?

**Car Price: N7, 000, 000    Car Loan: N5, 000, 000    Deposit: N2, 000, 000**

**Repayment: N190,000/month for 36 months**

**Total Loan Repayment =  $N190,000 * 12 * 3 = N6, 840,000$**

**Total Cost of Car = N8, 840,000**

**Total Re-sale cost of car after 36months = N3,000,000 (if you are lucky)**

## **Opportunity Cost**

**Buy a car for N2,000,000 – not financed**

**Invest N190,000/month for 36 months @ 18% a year for 3 years = N 9,611, 184**

**Total Re-sale cost of car after 36 months = N800,000**

**Leave for another 20 years to compound = N264 Million**



# What Happens When the Rule of 72 Works Against You ?

Mortgage Amount:	N30,000,000
Monthly Payment:	N400,000
Interest Rate:	15%
Period:	20 years

## **Total Amount Paid:**

$$N400,000 \times 12 \times 20 = \quad \mathbf{N\ 96,000,000}$$

$$\mathbf{Interest Paid: \quad N66,000,000}$$



# What Happens When the Rule of 72 Works Against You ?

Month	Balance	Payment	Interest	Paid Principal
1	N 29, 975,000	N 400,000	N375,000	N25,000
2	N 29, 949,687	N 400,000	N374,687	N25,312
3	N 29, 924,058	N 400,000	N 374,371	N25,628
4	N 29, 898,109	N 400,000	N 374,050	N25,949
5	N 29, 871,835	N 400,000	N373,726	N26,273
12	N 29,678,490	N 400,000	N371,339	N28,660

**At the end of the first year after making N4.8 million in payments, you have only reduced your debt by **N322,510****





# Using the Rule of 72 in your favour

**Monthly Payment:** N400,000

**Pay this amount every 4 weeks instead; giving you an extra N400,000 payment every year**

## **Effect:**

- Mortgage will be paid off in 15 years instead of 20
- Interest Saved: **N24,000,000**



# What Have We Learnt

- Make sure the Rule of 72 is working for you and not against you
- Make Investing in yourself a high priority
- Start Now!

