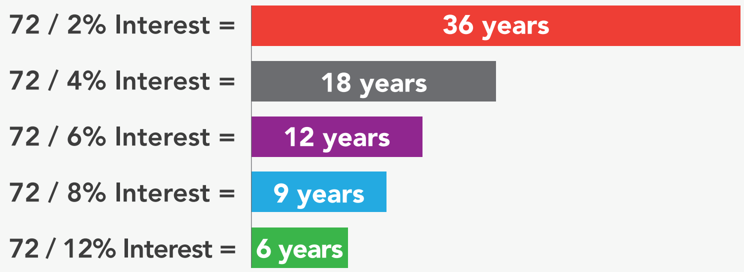
Back to School SERIES

The Rule of 72

We're pretty certain that this rule wasn't taught in school, at least not that we're aware of.

So, what is it and why should I be aware of it? **The Rule of 72** is a simple a rule of thumb; how long will it take me to double my money? *As a disclaimer, this is not an exact approximation, but it's pretty close.*

The table below illustrates the number of years required to double your money invested at a specific interest rate.



With a 12% rate of return, your money will double in six years

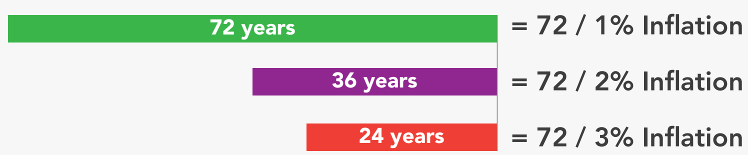
As of this writing our current 10 Year Treasury Rate is 0.64%.[1] For historical perspective, the 10-Year was:

- 3.19% on November 5, 2018 (highest nine years)
- 3.70% on January 1, 2010
- 5.15% on January 1, 2000

Why is this so important? Well for starters, many investors rely on their fixed income allocation to help sustain and steadily grow their portfolio. Today's current interest rate environment poses a tremendous challenge for investors. In the US and around the world, government bond yields are at extremely low levels, with some countries even dealing with yields that are zero or even negative!

Apply the Rule of 72 to inflation:

If inflation rates go from 2% to 3%, your money will **lose half its value** in 24 years instead of 36. As of this writing the projected inflation rate is 2.24%.[2] For historical perspective, our inflation rate in 2010 was 1.64%.



So Now What?
Well, we'd like to assume that your entire portfolio is not invested in 10 Year Treasuries. The solution to building and growing a potentially stable, strong, and enduring portfolio is through diversification.

Financial Planning Isn't a Do-It-Yourself Project

While there's risk that your fixed income portfolio will fail to keep up with the current inflation rate, there's also plenty of risk investing in the stock market.

What to do?
Work with an established firm like Sweetgum Labs to build a well-diversified portfolio composed of several asset classes, which may provide a smoother, steadier ride.

Prepare to Prepare

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Sources:

[1]© 2010-2020 Macrotrends LLC, August 11, 2020.

[2]© Statista 2020.

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