Time (in the Market) Is of the Essence

How long you're invested matters much more than how much you've invested.

As a young professional, you're faced with conflicting financial priorities. Retirement is farthest away, so it's tempting to delay saving for it until you feel more established. However, this goes against a main tenet of investing: Time in the market matters more than how much you invest.

Consider this: Growing your retirement nest egg isn't unlike growing a veggie garden. You plant small seeds and in a few months have healthy plants and produce. If you plant them late, you can't just make up that lost time with extra water—they need time to mature.

Time Is (Literally) Money

The power of compounding—a concept Albert Einstein once dubbed "the eighth wonder of the world"[1]—has a similar effect on your investments. Compound interest can help grow money faster because it's the interest earned on your initial principal *and* any previously accumulated gains and interest. That's why starting early, even with a smaller initial amount, can be far more beneficial than investing more later in life.

For example, as the left side of **FIGURE 1** on page 2 shows, a 23-year-old professional (Investor A) who starts by consistently investing $12,000 for 10 consecutive years, then allows the accumulated balance to earn interest for each of the following 22 years without making any additional contributions, could be a millionaire by age 54. This hypothetical example assumes an annual return of 8%.

By contrast, the right side of **FIGURE 1** shows a 33-year-old professional (Investor B) who also wants to become a millionaire by age 54 but must play catch-up by socking away $20,000 a year for 17 years. This investor would grow wealth significantly, too, but would have to invest about 3x the principal of the early starter ($340,000 vs. $120,000).

Key Points

- Compound interest is a powerful investment concept that can help grow your money faster.
- With the power of compounding, investing even a small initial principal can be far more beneficial than investing a larger amount later.
- How long you stay invested also plays an important role in investing success.

[1] According to Einstein, "Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't, pays it."

FIGURE 1

Investor A Starts Early and Grows $120,000 into $1 Million by Age 54

But Investor B starts late and must save $340,000 for 17 years to get to a million

	Investor A		Investor B	
Age	Contribution	Balance	Contribution	Balance
23	$12,000	$12,960		
24	$12,000	$26,957		
25	$12,000	$42,073		
26	$12,000	$58,399		
27	$12,000	$76,031		
28	$12,000	$95,074		
29	$12,000	$115,640		
30	$12,000	$137,851		
31	$12,000	$161,839		
32	$12,000	$187,746		
33		$202,766	$20,000	$21,600
34		$218,987	$20,000	$44,928
35		$236,506	$20,000	$70,122
36		$255,426	$20,000	$97,332
37		$275,860	$20,000	$126,719
38		$297,929	$20,000	$158,456
39		$321,763	$20,000	$192,733
40		$347,504	$20,000	$229,751
41		$375,305	$20,000	$269,731
42		$405,329	$20,000	$312,910
43		$437,756	$20,000	$359,543
44		$472,776	$20,000	$409,906
45		$510,598	$20,000	$464,298
46		$551,446	$20,000	$523,042
47		$595,562	$20,000	$586,486
48		$643,207	$20,000	$655,005
49		$694,663	$20,000	$729,005
50		$750,236		$787,325
51		$810,255		$850,311
52		$875,075		$918,336
53		$945,081		$991,803
54		$1,020,688		$1,071,147

For illustrative purposes only. Investor A uses a $12,000 initial investment; Investor B uses a $20,000 initial investment. Both scenarios use a hypothetical 8% return and do not take into account taxes, transaction costs, or market declines, and use a combination of IRA and company-sponsored 401(k) contributions. The illustration doesn't represent any particular investment, nor does it account for inflation.

The amount you invest can be less important than when you start investing.

It's important to note that investing early doesn't guarantee success, and that starting late doesn't mean you've failed. Both investors in these hypothetical scenarios reach the million-dollar mark, they just do so at different times and with different outlays. The main takeaway is that *the amount* you invest can be less important than *when* you start investing.

A financial professional can help you get your retirement savings on track whether you're starting early or late.