DEKKO INVESTMENT SERVICES
DREAM. PLAN. GROW.

January 2015

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Investing 101 – the Power of Compounding

Compounding is “the greatest mathematical discovery of all time.” –Albert Einstein

In our first installment of Investing 101, we learned that everyone can win by investing. Because of capitalism, there is always a positive expected return on capital. Last quarter, we discussed the power of effective diversification. Effective diversification is a result of allocating capital across multiple asset classes (stocks, bonds, and cash) as well as around the globe.

In this installment of Investing 101, we will discuss the power of compounding. Compounding is the process of generating earnings on an asset’s reinvested earnings. For the greatest benefit you need two things: the reinvestment of earnings and time. The more time you give your investments, the more you amplify the growth potential of your money!

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2014 in Review

2014 marks the sixth consecutive year of positive returns for the US equity market, as measured by the S&P 500. In fact, five of the last six years finished in the double digits! 2014 was one of those years, ending with a total return of 13.69%.

While the US equity market finished the year strong, international equities underperformed as a whole. International developed stocks ended the year down 4.90% while emerging market stocks ended the year down 2.19%, as measured by the MSCI EAFE Index and MSCI EM Index, respectively. While emerging market stocks outperformed during the 2001 – 2010 decade, they have trailed the US in three of the last 4 years.

The bond market posted a 5.97% return, as measured by the Barclay’s Aggregate Bond Index. However, the future for bonds is uncertain as the Federal Reserve is expected to begin raising interest rates around the middle of 2015 for the first time in more than a decade.

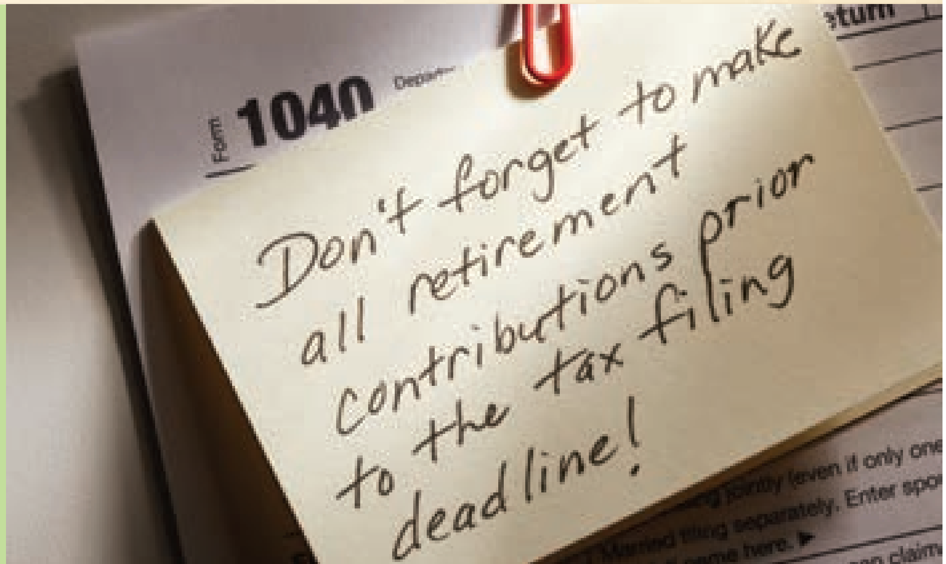
Index	2014 Return	Index Description
S&P 500	13.69%	Tracks 500 leading large cap companies in the U.S.
MSCI EAFE	-4.90%	Tracks 23 developed international equity markets including Canada, Germany, Spain, the U.K. & Japan
MSCI EM	-2.19%	Tracks 23 emerging market counties including China, India, Brazil, Mexico, Russia, Turkey & Greece
Barclays Aggregate Bond	5.97%	Tracks investment grade bonds trading in the U.S.

Investing 101 – The Power of Compounding

continued

Let's look at an example to illustrate the power of compounding. Jane and John are both saving for retirement. Jane invested $1,000 into an IRA at the age of 25 while John invested $1,000 into an IRA at the age of 45. Assuming they both earn a 7% annual return each year, at the age of 65 Jane's account value will be $14,974 while John's account value will only be $3,869. That is a difference of $11,105!

Let's break it down a little further. If a $1,000 investment earns 7% in its first year, the value will be $1,070 at the end of the year. Thus, we have earned $70. If the investment earns 7% in the second year, the account will then be worth $1,144 which means we have earned an additional $74. The additional $4 is due to compounding. *This is proof that it pays to start saving as early as possible!*

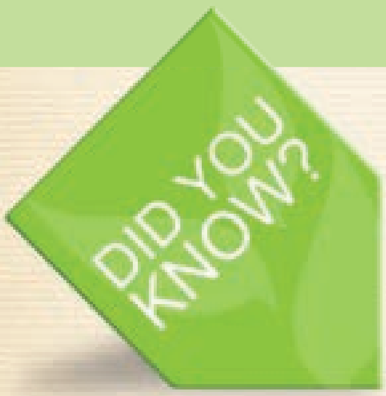


IRA Contribution Reminder!

The deadline for Traditional and Roth IRA contributions for the 2014 tax year is Wednesday, April 15, 2015.

Age	2014 Contribution Limits
49 and under	100% of compensation, up to $5,500
50 and older	Additional $1,000

*Please consult your tax accountant for suitability and tax related questions.



The S&P 500 peaked on October 9, 2007 at 1,656.15. Shortly after, in December of 2007, the Great Recession officially began due to the bursting of an 8 trillion dollar housing bubble. The trough was reached on March 9, 2009 when the S&P 500 stood at 676.53, marking a 56.6% decline. After 19 months, the recession officially ended in June of 2009.

Jump ahead to 2014. The S&P 500 closed on 12/31/2014 at 2,058.90. This corresponds to more than a 217% cumulative return since the trough in March of 2009 and a 58% cumulative return from the peak in October of 2007, according to Morningstar.

INVESTMENT GROWTH

Item(s) from 3/1/2009 to 12/31/2014

NAME	SECURITY TYPE	CUMULATIVE RETURN %	ANNUALIZED RETURN %
S&P 500 TR USD	IDX	217.07	21.86

INVESTMENT GROWTH

Item(s) from 10/1/2007 to 12/31/2014

NAME	SECURITY TYPE	CUMULATIVE RETURN %	ANNUALIZED RETURN %
S&P 500 TR USD	IDX	58.00	6.51

If you are reading this in print and would like to receive an emailed version of the newsletter in the future, please email Alisha.Norris@lpl.com and we can add you to the email list.

Wishing you a Happy & Healthy 2015,

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