Paying Cash: What every child coming out of college should know.

You have been told that paying interest on borrowed money can be too costly, so you are going to save the money and pay cash for your next car purchase. This means that you are willing to delay the purchase until you have saved up the money. You decide to start saving $500 a month at 4.5% interest for the next six years. You will have about $40,000 in your account. You decide to buy a car for $30,000 and pay cash using this reserve account. Do you have a car payment? Yes, if you want to pay cash for your next car, you need to refill the reserve account with $500 a month every 5 years just as you had been doing to be ready when you need to purchase the next one. You expect to buy a car every 6 years at a cost of about $30,000 (for purposes of illustration we are not counting trade-in and increased costs).

Since you have emptied your account and are no longer earning interest on this money, what does paying cash really cost you? Let's say you did this for the next 45 years (age 25 thru 70). Well, you have interrupted the compounding in the account, and compounding needs time to be effective. As a 25 year old, you have time on your side (over 45 to 65 years compounding can do wonders for your future wealth).

If you could keep this money compounding over the next 45 years – how much would you have? Your account would have $876,589 (assuming no taxes). If you paid cash for a car every 6 years (7 cars), and removed $30,000 each time, over that period of time your account would have only $83,047. That is $793,542 less than if you had <u>NOT INTERRUPTED</u> the compounding in this account (see attached chart). Being a saver and paying cash is good but being a saver and a wealth accumulator is better.

What people don't realize is that you finance everything you buy. If you borrow you must pay interest for the use of the money. If you pay cash you lose the interest on the money you have 'borrowed' from yourself. Both negatively affect your ability to create wealth for the future.

If there were a strategy that would allow you to save for retirement and make major purchases (cars for example) without draining the account (interrupting compounding) would you want to hear about it?

It is called the *'Private Reserve Strategy.'* We believe every young person coming out of college (and most parents) should understand the importance of <u>'uninterrupted compounding'</u>. Give us a call and we can set up a meeting to explain it further. We also have a couple of short videos you could watch and a white paper that will start your education.

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