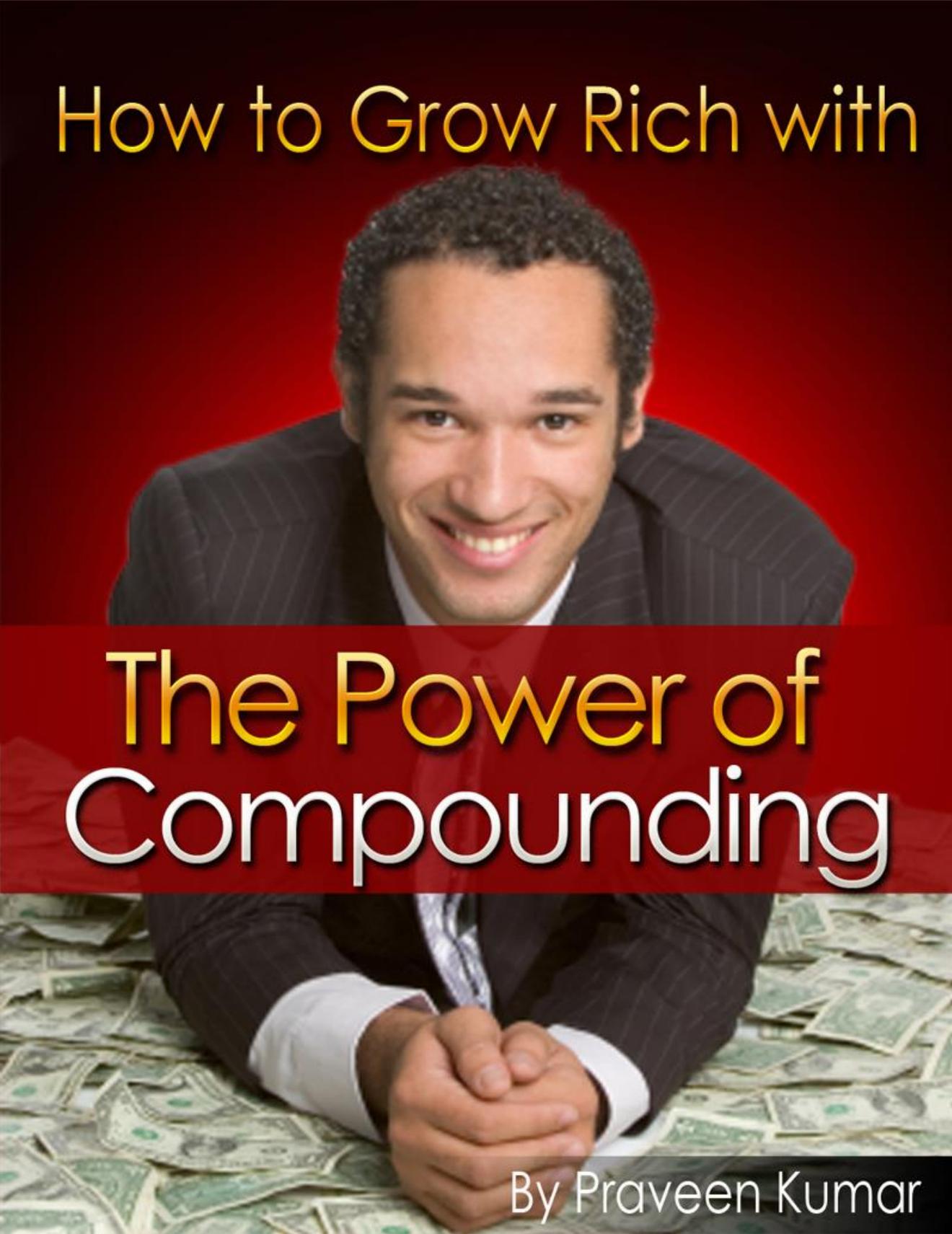


How to Grow Rich with

A man with short dark hair, wearing a dark pinstriped suit jacket, a white shirt, and a red tie, is smiling broadly. He is sitting on a large pile of US dollar bills. His hands are clasped together in front of him. The background behind him is a solid red color.

# The Power of Compounding

By Praveen Kumar

**How to Grow Rich with**

# **The Power of Compounding**

*By*

**Praveen Kumar**

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Smashwords Edition

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## **Other Books by the Author**

The 30 Minute Workweek

How to Grow Rich with The Millionaire Mind Script

How to Overcome Fear and Become Rich

How to Grow Rich with The Power of Leverage

How to Become a Millionaire: Master the Mind Game

How to Profit From Social Media Trends

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## Introduction

Albert Einstein once remarked “*One of the most amazing phenomenon of our universe is the power of compounding interest*”. Undoubtedly the greatest mathematical discover of all times is the compound interest. He called it the “*Eight Wonder of the World*”. It is equally amazing that so few fully understand either its power or application.

When I started investing I had no knowledge of ‘The Power of Compounding’. I did a few things right when I started out. I always spent a bit less than what I earned and invested the balance. I grew rich as a result. But I also made a lot of mistakes and did not follow the rules of compounding because there was no one to explain them to me. My net worth would have been ten times of what it is today if I knew about the fundamentals of compounding as I do today.

I was a ‘street smart’ investor when I started out and became a ‘sophisticated investor’ once I had improved my financial intelligence through education.

We were taught how to solve compounding problems at school. All of us did maths problems without realizing its awesome power. Our teachers would be millionaires if they fully understood its power. Unfortunately they too like us only knew how to do the sums without fully comprehending what it meant. If they had understood its power then they would have transmitted this knowledge to us and made us rich.

The purpose of this book is to share my experiences and explain to you the fundamentals of ‘The power of Compounding’ so that you don’t make the same mistakes as I did. After you have read this book you will be armed with information and skills that will virtually guarantee increase in your net worth over the years.

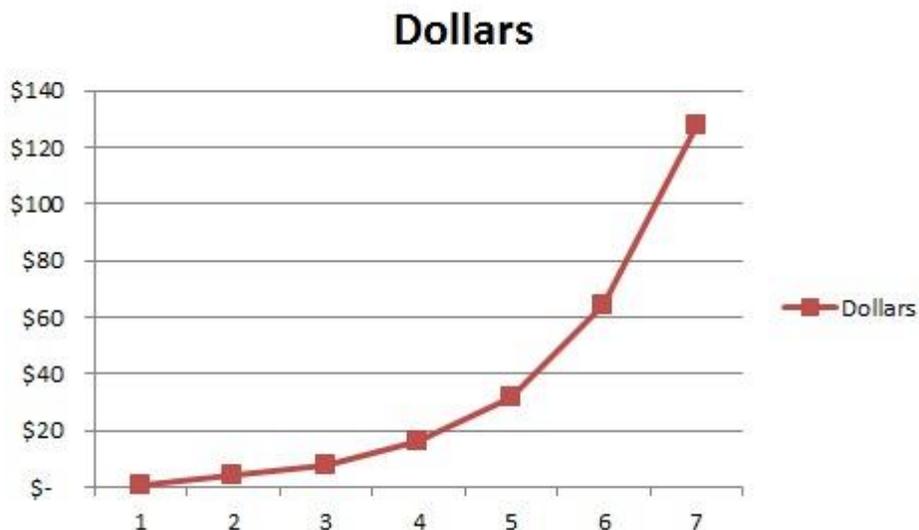
## Understanding the Power of Compounding

For ease of understanding let us take an example. Imagine you could start an investment with one dollar at the beginning of the month. Imagine too that this investment could double each and every day until the end of the month.

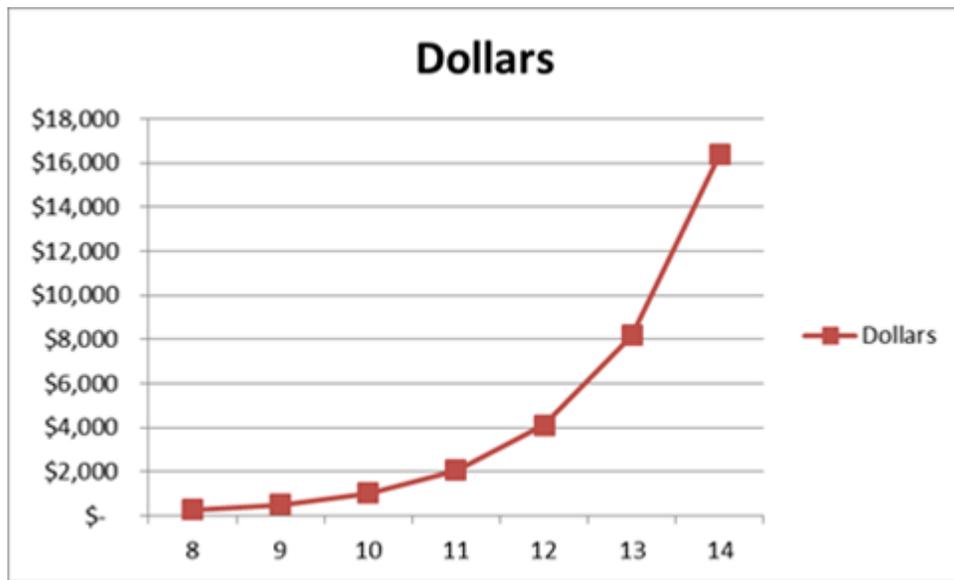
On day two your investment will be \$2, on day three it will be \$4 and day four it will double to \$8 and so on. I have plotted weekly graphs below to show you how your investment will grow. Please imprint these graphs in your mind, heart and soul because it holds the fundamental principle for you to become rich.

### First Week Graph

If you observe the graph above you will find that on day seven your investment will be worth \$128. Nothing very exciting.

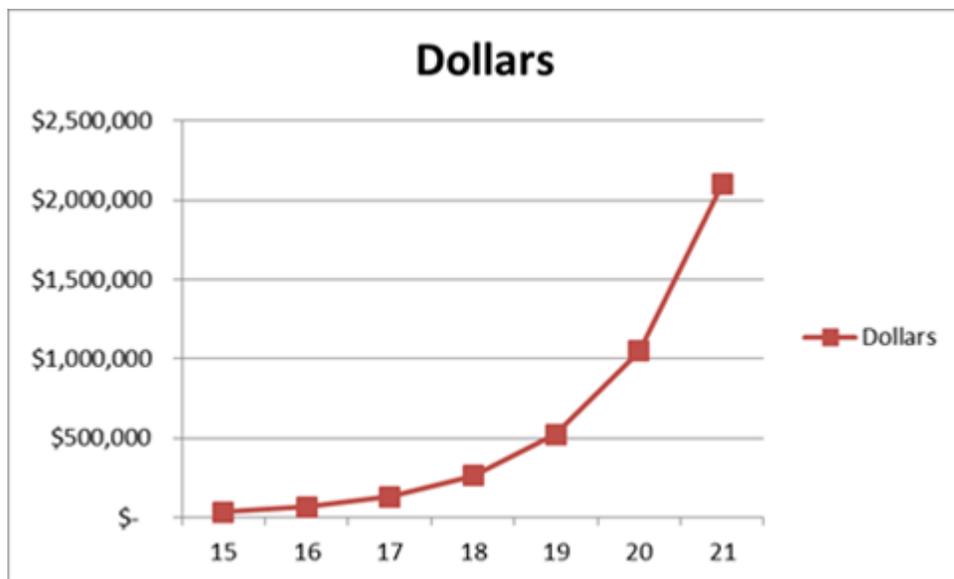


But wait.....on day fourteen (after two weeks) your investment will be \$16,384. Still not exciting.



**Second Week Graph**

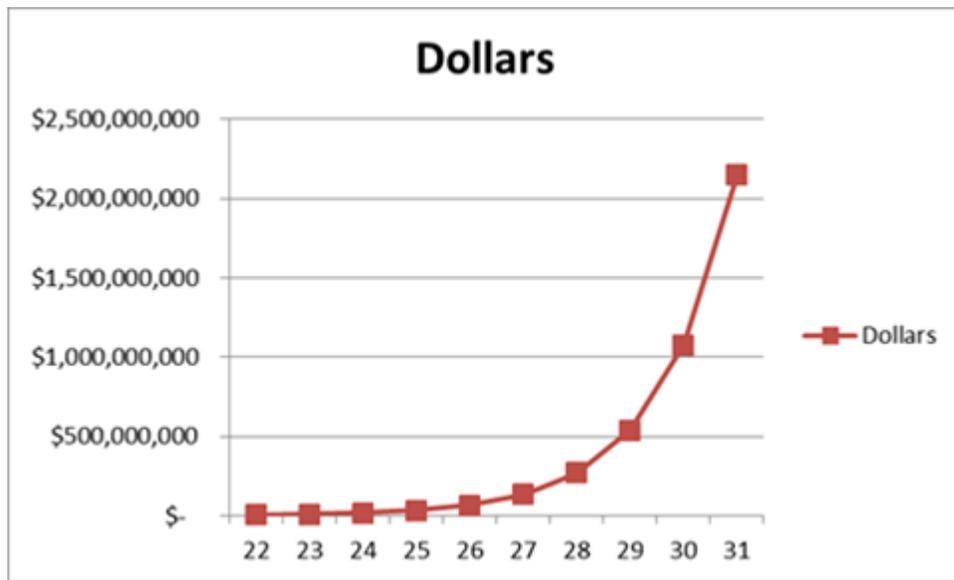
On completion of three weeks or twenty one days your investment would have grown to over two million as depicted on graph below. Now things are starting to get interesting.



**Third Week Graph**

At the end of four weeks your one dollar investment will now be worth over two hundred and sixty eight million dollars.

The fun is not over. In next three days 29<sup>th</sup>, 30<sup>th</sup> and 31<sup>st</sup> day of the month you will be worth over two billion dollars (\$2,147,483,648 to be exact). During the last three days your investment multiplies nearly 10 fold. See how your money grows from day 28<sup>th</sup> to 31<sup>st</sup> on the chart below.



**Last 10 Days Graph**

To put your investment in perspective see below the 31 day period graph that depicts how your investment will grow during the month. You will find that during the initial period (up to day 25 to be precise) your growth is not even visible on the chart. This is called the '*Tunnelling Effect*' that I will describe in the succeeding paragraph.



**31 Days Graph**

# With compounding your money multiplies exponentially if you give it time

## The Tunnelling Effect

When you first start out investing using compound interest, all the hard work takes place upfront, at the beginning. You have nothing to show for your effort. This is called the 'Tunnelling Effect'.

There is darkness all around and little hope. This is where most people give up because they do not see any results for their sacrifice, hard work and effort.

If there is little patience and perseverance at this stage then there is not only light at the end of the tunnel but full glory of the sun. Anyone who has become rich has passed through this dark tunnel. There is no escaping it.

Warren Buffet, one of the richest men in the world, remarked about his wife when he was building his wealth "*Susie didn't get very excited when I told her we were going to get rich. She either didn't care or didn't believe me - probably both, in fact.*" You can read the biography of any wealth creator and you will find in it the universal truth of the 'tunnelling effect' and how they wanted to quit but didn't.

## Critical Mass

If you persist and as the time goes on the critical mass kicks in and things get better. Your investment becomes self-perpetuating. It starts growing under its own steam. The challenge at this stage is not to change course.

The problem with the human mind is that it loses focus very quickly. It gets attracted to other thought and ideas. It will start looking at other options. The key here is to maintain focus. Compounding is boring -- b-o-r-i-n-g. It is boring until the money starts to pour in. Then compounding becomes very interesting. In fact, it becomes downright fascinating! Compounding if allowed to continue will take your wealth to unlimited levels.

The principle of compounding is also applicable to other forms of investment like real estate investments and network marketing. Ninety per cent of the people drop out from network marketing because they do not fully appreciate the power of compounding. They get discouraged when facing the tunnelling effect and quit. They don't understand that light is just around the corner. Dogged persistence is a great quality to have if you want to succeed.

## Compounding Only Works through Time

The great thing about compounding is that anyone can do it. Compounding is the royal road to riches. Compounding is the safe road and the sure road. To compound successfully you need the following: **perseverance** in order to keep you firmly on the savings path. And you need **time**, time to allow the power of compounding to work for you. Remember, compounding *only works through time*. **Time in fact is the most powerful element in the process of compounding. Nothing comes close to it.**

There is a paragraph in '*The Richest Man in Babylon, The Power of Time*' that explains this perfectly.

***“Wealth, like a tree, grows from a tiny seed. The first copper you save is the seed from which your tree of wealth shall grow. The sooner you plant that seed the sooner shall the tree grow. And the more faithfully you nourish and water that tree with consistent savings, the sooner may you bask in contentment beneath its shade.”***

## **Study Done by Market Logic**

In order to emphasize the importance of time in the power of compounding, I am including this extraordinary study done by *Market Logic*, of Ft. Lauderdale, FL 33306.

In this study we assume that investor (B) opens an IRA at age 19. For seven consecutive periods he puts \$2,000 in his IRA at an average growth rate of 10% (7% interest plus growth). After seven years this fellow makes NO MORE contributions -- he's finished.

A second investor (A) makes no contributions until age 26 (this is the age when investor B was finished with his contributions). Then A continues faithfully to contribute \$2,000 every year until he's 65 (at the same theoretical 10% rate).

Now study the incredible results. B, who made his contributions earlier and who made only seven contributions, ends up with MORE money than A, who made 40 contributions but at a LATER TIME. The difference in the two is that *B had seven more early years of compounding than A*. Those seven early years were worth more than all of A's 33 additional contributions.

I suggest you show this study to your kids. It emphasizes the fact that earlier you start the richer you will be.

| Age                  | INVESTOR A        |                   | INVESTOR B        |                   |
|----------------------|-------------------|-------------------|-------------------|-------------------|
|                      | Contri-<br>bution | Year-End<br>Value | Contri-<br>bution | Year-End<br>Value |
| 8                    | -0-               | -0-               | -0-               | -0-               |
| 9                    | -0-               | -0-               | -0-               | -0-               |
| 10                   | -0-               | -0-               | -0-               | -0-               |
| 11                   | -0-               | -0-               | -0-               | -0-               |
| 12                   | -0-               | -0-               | -0-               | -0-               |
| 13                   | -0-               | -0-               | -0-               | -0-               |
| 14                   | -0-               | -0-               | -0-               | -0-               |
| 15                   | -0-               | -0-               | -0-               | -0-               |
| 16                   | -0-               | -0-               | -0-               | -0-               |
| 17                   | -0-               | -0-               | -0-               | -0-               |
| 18                   | -0-               | -0-               | -0-               | -0-               |
| 19                   | -0-               | -0-               | 2,000             | 2,200             |
| 20                   | -0-               | -0-               | 2,000             | 4,620             |
| 21                   | -0-               | -0-               | 2,000             | 7,282             |
| 22                   | -0-               | -0-               | 2,000             | 10,210            |
| 23                   | -0-               | -0-               | 2,000             | 13,431            |
| 24                   | -0-               | -0-               | 2,000             | 16,974            |
| 25                   | -0-               | -0-               | 2,000             | 20,872            |
| 26                   | 2,000             | 2,200             | -0-               | 22,959            |
| 27                   | 2,000             | 4,620             | -0-               | 25,255            |
| 28                   | 2,000             | 7,282             | -0-               | 27,780            |
| 29                   | 2,000             | 10,210            | -0-               | 30,558            |
| 30                   | 2,000             | 13,431            | -0-               | 33,614            |
| 31                   | 2,000             | 16,974            | -0-               | 36,976            |
| 32                   | 2,000             | 20,872            | -0-               | 40,673            |
| 33                   | 2,000             | 25,159            | -0-               | 44,741            |
| 34                   | 2,000             | 29,875            | -0-               | 49,215            |
| 35                   | 2,000             | 35,062            | -0-               | 54,136            |
| 36                   | 2,000             | 40,769            | -0-               | 59,550            |
| 37                   | 2,000             | 47,045            | -0-               | 65,505            |
| 38                   | 2,000             | 53,950            | -0-               | 72,055            |
| 39                   | 2,000             | 61,545            | -0-               | 79,261            |
| 40                   | 2,000             | 69,899            | -0-               | 87,187            |
| 41                   | 2,000             | 79,089            | -0-               | 95,905            |
| 42                   | 2,000             | 89,198            | -0-               | 105,496           |
| 43                   | 2,000             | 100,318           | -0-               | 116,045           |
| 44                   | 2,000             | 112,550           | -0-               | 127,650           |
| 45                   | 2,000             | 126,005           | -0-               | 140,415           |
| 46                   | 2,000             | 140,805           | -0-               | 154,456           |
| 47                   | 2,000             | 157,086           | -0-               | 169,902           |
| 48                   | 2,000             | 174,995           | -0-               | 186,892           |
| 49                   | 2,000             | 194,694           | -0-               | 205,581           |
| 50                   | 2,000             | 216,364           | -0-               | 226,140           |
| 51                   | 2,000             | 240,200           | -0-               | 248,754           |
| 52                   | 2,000             | 266,420           | -0-               | 273,629           |
| 53                   | 2,000             | 295,262           | -0-               | 300,992           |
| 54                   | 2,000             | 326,988           | -0-               | 331,091           |
| 55                   | 2,000             | 361,887           | -0-               | 364,200           |
| 56                   | 2,000             | 400,276           | -0-               | 400,620           |
| 57                   | 2,000             | 442,503           | -0-               | 440,682           |
| 58                   | 2,000             | 488,953           | -0-               | 484,750           |
| 59                   | 2,000             | 540,049           | -0-               | 533,225           |
| 60                   | 2,000             | 596,254           | -0-               | 586,548           |
| 61                   | 2,000             | 658,079           | -0-               | 645,203           |
| 62                   | 2,000             | 726,087           | -0-               | 709,723           |
| 63                   | 2,000             | 800,896           | -0-               | 780,695           |
| 64                   | 2,000             | 883,185           | -0-               | 858,765           |
| 65                   | 2,000             | 973,704           | -0-               | 944,641           |
| Less Total Invested: |                   | (80,000)          |                   | (14,000)          |
| Equals Net Earnings: |                   | 893,704           |                   | 930,641           |
| Money Grew:          |                   | 11-fold           |                   | 66-fold           |

**Remember that as time passes, the power of compounding accelerates dramatically. If you're a young person, all you need to know is that you must start early to stay ahead in the game of compounding and wealth creation. The best time to plant a tree was twenty years ago. The second best time is now. Do not waste a day.**

### **Some More Fun Maths**

Let us take an example of 'Kid A' who gets a 'great' paying job for a 20 year old at 45k per annum. He actually lives on the same 15k a year that the 'Kid B' going to med school survived on...and let's say the 20 year old that skipped med school for the 'great' paying job invested the remaining 30k of his salary into stocks.

Here are the facts...

The med-school student (Kid B) graduates 'on time' at the age of 28; secures a job paying 75k a year and pays all of his debts off by the age of 33---so theoretically he's 33 before he actually has an effective salary of 75k.

Kid A that skipped med-school and invested in stocks earned the historical average of 10.1% annually on his money (10.1% since 1926...but if you skip the Great Depression years the average is actually closer to 13%). So where is this same kid at the age of 33? He has \$920,180 dollars in compounding assets. Coupled with his 45k annual salary he will earn 135k at age 33 while the doctor earns 75k.

The doctor cannot mathematically catch up to the scrub ( Kid A) who's still at his 45k year salary (may be more) because after 13 years he has about 122k to reinvest in the market that year while the doctor can never match that investment. The doctor will always play the catch up game no matter what his salary.

But none of this really happens, does it? The kid A doesn't invest and the doctor stay in debt. The above-maths is just to explain a point. It does not mean that education does not pay. There are more chances of a financially educated person investing than a college drop out.

What's the lesson? Understanding compounding and starting out early makes you wealthy. It's amazing they don't teach real-life economics in school.

The Golden Rule of Accumulation is – START EARLY. Time without doubt is the most important powerful weapon in an investor's arsenal. There is nothing that comes close to it.

**“When you're young, you have an asset money can't buy: TIME. Start saving now and turn pocket change into riches.”**

**Erin Burt, Contributing Editor, Kiplinger.com**

The power of compounding accelerates most dramatically as time passes. It creates a snowball of money. At first your returns may appear small, but if you're patient, as the time rolls on the size of your money will become enormous.

### **Effect of Small Increase in Interest Rate**

Another important fact about compounding is that a small change in the rate of return can produce a huge impact over time. For instance if you gift to your newborn son \$10,000, and if his portfolio returns 10% annually, then your original gift of \$10,000 will grows to \$4.5 million by the time he is 65. But if his portfolio returns 8%, then it grows to only \$1.4 million. On the other hand if it returns only 5%, the portfolio will grow to a mere \$227,000. In other words if the rate of return is halved then the portfolio will be less than 1/20 the size.

This is a very important fact to remember. A very small percentage change in interest rate can have a huge impact in the final outcome. So when you are investing or borrowing money for real estate/ business negotiate interest to the second decimal point. Banks and financial institutions understand this because it is their bread and butter. So should you because if you do not negotiate hard no one will give you an inch. In the game of money he wins who understands money the best.

## **A Single Dollar - Has the Power to Grow into a Million Dollars**

Every dollar bill is a money seed. Like any seed if it is planted and allowed to grow it becomes a money tree. This tree once grown up will give you fruits year after year. It will also give seeds to plant further trees. If you destroy the seed it will never grow to be a tree and will never bear fruits for you. Now let us see how the one dollar seed grows into a million dollar tree.

If you invest one dollar at 5% rate of interest it will grow into a million dollar tree in 284 years. If the same dollar is invested at 10% interest rate the time is cut short to 145 years. It will take only 75 years for a dollar to become a million if you invested at 20%. Not planning to live that long? Then plant a few more dollar bills. It is that simple. Let us see what happens if you start planting one dollar every day i.e. \$30 in a month.

### **A Dollar a Day will make you a Millionaire in your Lifetime**

It is easy if you want to become a millionaire in your lifetime then save one dollar a day and invest it sensibly. Please study the following statements carefully:

A dollar a day invested at 5% will take 100 years to become a million.

A dollar a day invested at 10% will take 56 years to become a million.

A dollar a day invested at 20% will make you a millionaire in only 32 years.

**Want to be a billionaire?** A dollar a day when compounded at 20% interest will make you a billionaire in 66 years.

You will say that earning 20% return is not possible. Later in this book I will show you how you can earn not only 20% but as high as 60% to 70% or even 100% return on your investment.

This magic happens if you plant one dollar bills every day. I am reasonably sure that most of us can do better than \$30 a month. We can dramatically cut short the period and become millionaires much faster if we can plant let us say \$10 seeds every day.

If you understand this simple mathematics then that one dollar bill in your hands will never feel the same again. It holds the seed for your financial future and wellbeing. If you lose it or spend it foolishly then the dollar seed is destroyed forever. If you save it and invest it wisely it has the potential to make you and your family rich forever. Once it grows into a million dollar tree it will bear fruits for you and your family year after year.

You will ask if making a million dollars is so simple then why is not everyone a millionaire. The simple answer to that is lack of discipline. Most people lack the discipline and perseverance required over a long period of time.

Becoming a millionaire can be a very boring and repetitive exercise over a period of time. Most people want excitement and thrill and in the process they gamble away their financial future.

There will be skeptics who will say sustained 20% growth is not possible. Well, Warren Buffet, the investment guru, has done it consecutively for the past 40 years for his investors.

Later in this book you will see strategies that can help you grow at a much faster rate than 20%. You don't need to be a financial genius to achieve this. All you need are a few financial skills and discipline. Simply put all you need to do is funnel some of your ill spent dollars into financially sound investments.

## **Compounding in Reverse - Can Make You Go Broke**

The power of compounding works both ways. It can also make you bankrupt. For compounding to work in your favour you must always spend less than what you earn and invest the difference. When you invest the difference money starts working for you. It works day and night, twenty four hours seven day a week, whether you sleep or holiday. As time goes by and as you have more and more money working for you a day comes when you stop working for money.

On the other hand moment you start spending more than you earn, you are forced to borrow money and that normally comes at an interest. The reverse power of compounding then kicks in. Unfortunately most people fail to fully understand this reverse power of compound interest. They max out their credit cards. The effective cost of borrowings in most cases is in excess of 20% and at times over 30%. The result is that they go into a tail spin and go bust.

There is an old saying "*He who understands interest -- earns it. He who doesn't understand interest - - pays it.*" Be the one who earns interest than the one who pays interest.

## How to find Dollars to Invest and Compound?

The only way you can find dollars to invest is either by increasing your earning power or simplifying your life to reduce your spending. In the beginning it is far simpler to understand and make changes to their spending habits.

For those living on subsistence level it may not be possible to change their spending habits by very much because most of their purchases are for necessities of life.

There are however leaks that occur in our spending of which we are sometimes not even aware of. If we can stop the leaks and save a few dollars each day then we can generate funds for investing and be on our way to become millionaires. Please find below some suggestions that can generate instant cash flow for investing.

- 1. Think before you buy** – Every time you make a purchase take an extra minute to think if you really need to buy that item. Rich take that extra one minute and poor don't. Most of the time we buy on impulse and get saddled with unnecessary items that we don't need in our lives. Think also if you can rent an item or borrow it from somewhere if you don't need it for long. These can include renting a DVD or getting a book from library instead of buying it.
- 2. Delayed Gratification** – This is true for luxury items. Simply delay the purchase by a couple of months. If you want to buy a new car delay it. If you want to buy a new house just delay it by a year. This simple act of delaying purchases will add thousands of dollars to your pocket.
- 3. Increase your Planning Horizon** – By simply increasing your planning horizon you can save hundreds of dollars. As with airline tickets, the longer the planning horizon, the cheaper the purchase.
- 4. Ask for a discount** – If you don't ask for a discount you will never get one. Always ask for a discount. You will be surprised how many times you will get one. Remember every dollar saved is a potential million dollar tree.
- 5. Examine the Receipt for Errors** – Always ask for a receipt and examine it for errors. This simple act will save you hundreds of dollars every year for planting seeds for the money tree.
- 6. File your Receipts** – You must file your receipts as soon as you get back home. This serves two purposes. Firstly you can change or replace an item if it does not work or becomes faulty. Secondly you can claim a tax rebate if you are self-employed or running a business. Most people throw the receipt, misplace it or dump it into a cardboard box from where it is difficult to retrieve at the time of filing tax return. If you are in 30% tax bracket you lose 30% money on each and every receipt you misplace. It may look minor but is a huge loss when you look at it from the point of destroying seeds that would have made you millions of dollars in potential income.
- 7. Plug in Tax Leaks** - What most people do not realize is that the biggest chunk of cash out flow from their pocket is the taxes. These can range anywhere from 20% to 55% of the income. This is huge in terms of dollars. Most people hesitate in employing the services of a competent tax consultant thinking that it costs money. Nothing can be further from truth. A good tax

consultant through his advice on tax planning will not only pay for his services but also save you thousands of dollars that can be used for planting money trees. Another suggestion is that even if you are a salaried person you should think in terms of starting a home business or property investments to save the tax dollars. Please speak with your local tax consultant before you embark on this course because tax laws are different in each country.

**8. Buy Whole Sale** – Avoid paying retail price for your purchases. Try and buy at whole sale price or discount stores. Use coupons, shop online and compare prices. Make this a habit. It will save you thousands of dollars every year on your basic purchases.

**9. Carryout Plastic Surgery** – Want to save 20% to 30% in your expenses? Take out all the credit cards from your wallet or purse. Cut all the cards except one. Make it a habit to pay off your credit card balance as and when the payment becomes due. Never ever pay the minimum balance. It is the most expensive money you will ever borrow. With the use of plastic credit cards we have lost the feel of money. It does not hurt us to spend money because we don't see it coming out of our wallet. Buy now and pay later creates a debt. Instead we should save now and invest for future. These simple actions will set you free and save you massive 30 percent over the next year.

**10. Check your Automatic Payments** – These days for the sake of convenience we set up automatic payments for all our regular expenses. We set payments for our electricity bills, insurances, water bills, rates, hire purchases, mortgage payment, telephone bills, credit card payments etc on monthly or weekly basis. If counted this is a huge financial outflow from our pocket. The danger here is that once we set up the automatic payment we tend to forget about it and fail to regularly take audit of our cash out flow. We do not analyze our bills. We become complacent and never shop around for new mortgages or insurances even when there are cheaper products available. Regular audit of your automatic payments is an absolute must if you have desire to save dollars for investment seeds.

**11. Energy Audit** – Energy costs are soaring. They are likely to increase further in the coming years. Our energy bills whether it is the cost of heating, cooling, and lighting, cooking or driving a car will form a major part of our expense basket. It is imperative that we take a hard look at this major source of out flow of our hard earned money. Most energy companies will carry out an energy audit of your home for free. You must take advantage of these audits and take technological measures to reduce your long term energy bills and make changes to your house, living style and type of car you drive. This will not only save you hundreds of dollars every year but also save the environment.

**12. Buy Second Hand** – You can save thousands of dollars by buying second hand. For instance a new car out of showroom drops in price by around 20 percent. It is prudent to buy a second hand car that is one to three year old that can be purchased at a discount of 20 percent to 50 percent below that of the original purchase price. A dollar saved is a dollar earned and you are on your way to planting the money seeds.

**13. Do a Garage Sale** – Look around your house and storage. You will find hundreds of items that have out lived their utility for you. Be it a piece of furniture, book or baby clothes you no longer need. These may be very useful items for someone who needs them. Carry out a garage sale or list them on an internet site that specializes on such sales. You will not only clear your house of unnecessary junk but will also generate invaluable dollar seeds that can get you started on the path to become a millionaire.

**14. Barter Your Skills** – You can save hundreds of dollars by bartering your skills by becoming a member of barter exchanges that are springing up in most towns and countries. This was the oldest form of trading before money was invented and is again gaining in popularity. This can be a source of considerable savings in your travel, entertainment and repair bills if you are willing to trade your skills.

**15. Hundreds of Other Creative Ways** – There are hundreds of other ways to save money. You are only limited by your imagination. Dine out? Eat in. Use car pool to work. Take a bus instead of a cab. Email instead of using phone. Go to for a swim in the sea or for a picnic in the park – it is free entertainment. Never buy extra service contracts or extended warranties – manufacturing guarantees are in most cases adequate. Only run a full dish washer. Put on warm clothing instead of room heating. Take shower instead of bath. Don't play lottery, casino or go to races – law of probability says that you will always be a big loser. The list is as big as your imagination. If you take action on even few of the suggestions you will have more than enough dollar seeds to plant and become a millionaire.

## **Saving is the Key to Compounding**

You can never build the wealth you desire if you do not spend less than what you earn and learn to invest the difference. In majority of the cases the rich are not rich because they earn a lot of money. The rich are rich because they save a lot of money.

It is the ability to save and invest is the key to growing rich. Obviously high income helps. The only proven method is to let your investments compound. Higher the return faster your wealth will grow. Even modest savings will produce a golden nest egg that you can hatch later in life.

Miracle of compounding which wise men refer to as the Eight Wonder is the sure and slow path to great wealth. It magically turns a small amount of money, invested wisely, into a whole lot of cash.

**Always remember that every dollar that you earn or save is a seed that has the potential to make a Million Dollars for you. So look after each dollar seed and plant them carefully and make them grow into trees. They will give fruits for your family for generations to come and set you free.**

## **What is the Right Philosophy?**

There are many who will say why I must plant dollar seeds for the future. Let me live for the present and make merry. Who has seen the future? It is the present that matters.

The problem with this philosophy is that you will always continue to work for money. There will be no respite for you even in your old age when you want to slow down and be looked after. Your money problems will continue to haunt you. The 'pleasure now' philosophy is full of ugly pot holes.

On the other hand if you take the trouble of making some changes as suggested in the above paragraphs and start planting dollar seeds then your life will change as the compounding kicks in and the dollar tree becomes big and powerful. It will also start giving more seeds and as a result start multiplying further. The money then starts working for you and you will find financial freedom.

How much to spend or how much to save and invest for the future is a philosophical question. Each one of us has to find the right balance that is correct for us and our family at a particular point of life. But whatever the situation in life we have to find dollar seeds to plant or our lives will never change for the better.

The time it takes to compound is a function of the amount of money (dollar seeds) you invest and at what interest rate. We have seen that a small change in interest rate can make a huge change to the final outcome. Common sense tells us that 10 percent growth rate is achievable as this is backed by the historical data of stock exchanges around the world and property prices increases recorded during the past 300 years. I will now show you that with a little bit of leveraging you can earn 60% to 70% or even higher returns.

## Leveraging For Higher Returns

Archimedes used to say “**Give me a place to stand and with a lever I will move the whole world.**” This illustrates the awesome power of leverage. Big doors swing on little hinges. Leverage is the power to achieve a lot with little or no effort.

To create wealth in large amount in quick time one has to understand and master the principle of leverage. Correct application of leverage breaks through the barrier of 10% growth/ yield. With leverage we can grow at 50% or 60% and even 100% or more.

Leverage when combined with the principle of compounding can create accelerated wealth. No great wealth has ever been created without using either leverage or compounding. The two when combined together can explode your wealth. Let us examine how leverage works in the financial world.

### Other People’s Money

Whether you are in business or an investor funds are needed to grow. Everyone starts with personal funds but these run out sooner than later. To create wealth one has to borrow from relatives, friends, banks, financial institutions or public. In other words we have to work with ‘**Other People’s Money**’ or **OPM**.

The borrowed funds have to be productively employed so as to earn higher return than the interest payable. Banks do this all the time. They borrow money from us at a lower interest rate and then give out loans to businesses and property mortgages at a much higher interest rate. They pocket the difference and create millions of dollars in profit. To create wealth we have to think like a bank. We have to use Other People’s Money to grow.

To explain this point let us see how leverage works in real estate. Let us say you buy an investment property for \$100,000 with 10% down payment. This means that you make a down payment of \$10,000 and borrow \$90,000 from the bank. Let us assume that the rent from the property covers the interest and expenses on the property. If the value of the property increases by 7% in the year then the property would be worth \$107,000. This would mean that your investment of \$10,000 has earned whopping return of \$7000 or 70% yield. This happens because you get to leverage not only on your investment of \$10,000 but also on the borrowed amount of \$90,000.

There are sophisticated property investors who buy property with ‘no money down’ or very little of their own money i.e. they work on 100% borrowed funds. In this case the return on investment will be infinity.

You can use leverage in share, forex or commodity trading. You can also apply leveraging in your business if you have one. Network marketing works on the principle of leveraging.

Borrowing money and creating debt is good if the funds are utilized intelligently to create wealth through business and investment. The profits need to exceed the cost of borrowing.

A debt created for consumption purposes for buying luxury items are bad debts. These debts take money out of our pockets and have to be treated with great caution. Good debts make us rich. Poor

debts make us go broke. The power of leverage in finance when applied correctly can make us grow rich exponentially.

## **Caution about Leveraging**

Leveraging is a great way of creating accelerated wealth but it comes with a warning. If leveraging is applied incorrectly it can destroy your wealth equally fast. Leverage works both ways. It is a double edged sword.

The financial crisis of 2008 was caused when excessive greed led people to use leverage without proper understanding of risks involved. **The most important factor for using leverage correctly is your state of knowledge.** For instance if you lack knowledge about finances or the business/investment you wish to start there is no point in rushing to get a 100% finance in order to do a no money down deal. Stay away from leveraging if you do not have knowledge about the product or service you are investing in.

Before applying leverage you have to assess your risk appetite. This is because if things go wrong then people with less risk appetite will start to panic and make wrong financial decisions that can set them back by years in their financial growth and planning.

If you are using leverage for accelerated financial return then you have to be very alert towards changing market conditions. If the market conditions deteriorate then you have to take measures to reduce your leverage in time. People go bankrupt when they hesitate to act or foresee a developing situation. Reducing your leverage by selling some of your assets is no shame. You can always buy assets and increase your leverage when favorable market conditions return.

You should make a correct assessment of your financial, emotional and spiritual intelligence in any given situation before applying leverage as an instrument for accelerated wealth creation. Greed is a product of lack of emotional and spiritual intelligence. Leverage driven by greed is the worst enemy of wealth creation.

Leverage is like a power tool that can make your job of wealth creation very easy but its improper use without adequate knowledge or precautions can cause you tremendous hurt.

The above arguments should not dissuade you from using leverage with prudence and intelligence. This is the most important and powerful tool in the armory of wealth creators. However, it is of paramount importance to understand its correct usage before applying it in a fit of excitement. Initially start applying small forms of leverage and as your confidence grows you can increase the amount of leverage you are comfortable with.

Remember without applying some kind of leverage there is no possibility of creating accelerated wealth.

## The Rule of 72

An easy method to calculate compound interest problems in your head is by applying the Rule of 72.

By applying this rule you can find the number of years that are needed to double your money at a given interest rate. You simply divide 72 by the interest rate.

For example, if you wish to find out how long it will take to double your money at 8% interest then divide 72 by 8 and the answer is that it will take 9 years to double your money.

The rule of 72 is very accurate, as long as the rate of interest is less than 20%

You can also run the problem backwards. If you want to find out at what rate of interest you will double your money in let us say 6 years. To get the answer all you need to do is dividing 72 by 6. The answer in this case is 12% interest.

## Procrastination

You must stop fretting and procrastinating in case you have lost a lot of investing time. There is nothing you can do about it. It is water under the bridge. There is no point in thinking or complaining about the past. Think about the future. You need to start today, right now, this very second! There is no time to waste. You can make a difference to your finances by making an investment today. Twenty years from now you'll be glad you did.

Procrastination is the natural assassin of opportunity. Every day you delay in investing makes your ultimate goal of financial freedom at risk.

*“Every gold piece you save is a slave to work for you. Every copper it earns is its child that also can earn for you. If you would become wealthy, then what you save must earn, and its children must earn, that all may help to give to you the abundance you crave.” - The Richest Man in Babylon*

### The Cost of Waiting One Year

It's human nature to procrastinate and waste valuable time. Most people do not have a plan of savings. Even if they have one they will say, “I will start saving next year” or “I'll do it later.” Little do they realize that the costs of delaying are enormous? Even one year can make a huge difference.

Let me illustrate this with an example. Let us say Tom makes \$5,000 annual contributions to an retirement fund that earns him an 8% return. He'll have \$1,932,528.09 saved at retirement. In case he waits let us say by five years, her annual contributions would have to increase to nearly \$7,500 to save that same amount by age 65.

## Four Steps to Harness the Power of Compounding

There are four steps you need to take to harness the power of compound interest to work for you.

•**Spend Less than What You Earn.** This is the starting point. Whatever your income level, at any point in life, you have to spend less than what you earn and invest the difference to apply the power and enjoy the benefits of compounding. If you spend more than you earn then you will get into tail spin of reverse compounding with disastrous financial results.

•**Start Young.** The earlier you start, the more time compounding will have to work in your favour. As seen from examples earlier the wealthier you will become. *The next best thing to starting young is start now.*

•**Make Regular Investments.** Remember that even a little investment goes a long way. You have to remain disciplined, and make saving a priority. Do whatever it takes to maximize your contributions.

•**Be Patient.** Do not touch the money. You will be tempted several times. Resist. Compounding only works through time and if you allow your investment to grow. The results will seem slow at first, but persevere. The magic of compounding returns comes at the very end. You have to be patient for compounding to work its awesome power.

### What about inflation?

Most people will argue that \$1 million will not have the same purchasing power in 40 years as it has today. This is perfectly true. This is more the reason for you to start saving now! Over the years your income will also rise. With each increase in your income if you will increase your investment then you will add more fuel to the fire of compounding and be on path of becoming really rich.

Having couple of million bucks in 40 years is better than not having any money at all. Start as soon as possible and invest what you can to let the power of compounding work its magic.

### Final Thoughts

So let us recoup. The power of compounding can make any disciplined and prudent man into a millionaire. There is no extra ordinary skill or genius required. Any ordinary man or woman can achieve the desired result.

The only action required is to find dollar seeds and continue planting them. If you take the simple initial steps, remain focused and persist whilst facing the 'Tunneling Effect' then one day the power of compounding will take over and become self-perpetuating to take you to the destination of untold riches.

You don't need to be a genius to harness the Power of Compounding to grow rich. This is no rocket science. It is the simplest and most B-O-R-I-N-G way of getting Excitingly Rich.

The Power of Compounding is akin to Snowball.....roll it down a snowy hill and it'll build on itself to get Bigger and Bigger. Before you know it will be an avalanche of Money.

***SO GET THE BALL ROLLING! DON'T WASTE A SINGLE MINUTE!***

## **Grab other Books by the Author**

- The 30 Minute Workweek
- How to Grow Rich with The Millionaire Mind Script
- How to Overcome Fear and Become Rich
- How to Grow Rich with The Power of Leverage
- How to Become a Millionaire: Master the Mind Game

## About The Author



Praveen Kumar was abandoned by his father at the age of fourteen and joined the Navy at tender age of fifteen where education and free rations were guaranteed.

In order to understand the root cause of suffering he turned towards philosophy and religion. His intense spiritual quest lasted for over fifteen years. During this period he totally neglected the material side of life.

Then one fine day he understood that 'life is 'and material and spiritual world are closely interwoven. You cannot live in one without the other. There is a saying that '***Once your mind expands it never goes back to its original state***'. Something of the sorts happened to him and the transition happened within a very short period of time. His doubts and sufferings vanished and his mind became balanced and steady.

One of the reasons he identified as root cause of his suffering was his deep seated financial insecurity resulting from his childhood deprivation. He took pre-mature retirement from the Navy after having successfully commanded submarines and set about building his financial future.

Within short span of a decade starting out with virtually no capital he built his financial empire that has allowed him to retire and work from home.

Praveen strongly feels that it is only through increasing ones spiritual, emotional and financial intelligence can someone transform not only ones own life but also of his loved ones. He now writes books and articles on financial and spiritual matters to empower people to improve their lives.

It was education that changed Praveen's life or how could a boy who was abandoned in a non-descript town in India earn millions and send his children to best schools in USA and New Zealand. It is his

mission in life to help educate people in wealth creation as according to him poverty is greatest curse in life that even restricts your emotional and spiritual growth.

Praveen is a **best-selling author** who has helped hundreds of people to get started on their journey to create sustainable wealth with minimum risk. You can visit his [website](#) for more information on accelerated wealth creation strategies that will help you obtain financial freedom within a very short time frame.

You can skype Praveen Kumar on '**praveenkumar444**'