

The Magic of the Rule of 72

“The most powerful force in the universe is compound interest” – Albert Einstein.

Albert Einstein’s greatest discovery was not the theory of relativity, it was the Rule of 72. (Although some people say that the rule existed long before he was born, most would agree however that he has popularized it)

What has the Rule of 72 have to do with investing?

Basically knowledge of the Rule of 72 is the basic building block of learning that each budding investor should have.

Simply stated the Rule of 72 helps you determine the following:

- 1.) What interest rate you should avail of in order for your money to double quickly.
- 2.) How many years does it take for your money to double.

In a nutshell the Rule of 72 is stated as follows:

$72 \text{ divided by interest rate return} = \text{No. of years it takes for your money to double.}$

So, if you put P 100,000.00 in a bank account, it will take 72 years for your money to become P 200,000.00 since the bank only offers a 1 % percent interest rate. ($72 \text{ divided } 1 = 72$)

Let’s say you get a little wise and you put your P 100,000.00 in a time deposit account it will take 18 years in order for your money to become P 200,000.00 ($72 \text{ divided by } 4 = 18$)

Basically the higher the interest rate the less number of years your money will it take for your money to double.

So if you put your P 100,000.00 in an instrument that would give you a 12 % interest rate it will only take 6 years for your money to double ($72 \text{ divided by } 12 = 6$)

However take note that the Rule of 72 is more accurate with lower interest, the higher the interest rate rises the more inaccurate it becomes. (An example of this is that if you earn have P 100.00 an invest it in an instrument at 72 % interest rate per year according to the Rule of 72 your money will become P 200.00 in 1 year. However this is not entirely accurate since you will need a 100 % interest rate in order for it to become P 200.00 in 1 year time)

Interested in how many years would it take for your money to TRIPLE and what should be the interest rate that you should avail of? then you should use the Rule of 115. It works basically the same way as the Rule of 72, just substitute 72 with 115.

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