CBL WEALTH MANAGEMENT

REGISTERED INVESTMENT ADVISOR LIC. # 289564

Financial Literacy

Part 2

Market Snapshot

Closing Values as of 04/02/2019

Dow	26,179
S&P 500	2,867
Nasdaq	7,849
Gold	$1,295

Compounding

Compound interest is one of the most important concepts to understand if you want to manage your finances. It can help you earn a higher return on your savings and investments, but it can also make things worse when you have interest compounding on money you've borrowed. In other words, it can work for you or against you.

Compounding is when the interest or dividend you earn are used to purchase more of an investment. Compounding increases the number of shares paying interest/dividends, making future payments larger than the previous ones. This type of growth is known as exponential growth. The more frequently the interest or dividend it paid the faster shares will accumulate. Of course, being charged compound interest means you are being charged interest on the principal amount you borrowed AND the interest owed but not yet paid.

In addition to providing an increasing income stream, compounding interest and dividends allow you to take advantage of another important investment strategy …Dollar cost averaging.

> Compound interest is the eighth wonder of the world. He who understands it, earns it …he who doesn't …pays it.
> **– Albert Einstein**

Dollar-Cost Averaging

Dollar-cost averaging (DCA) is a strategy an investor can use to build savings and wealth over a long period. It is also a way for an investor to lessen the impact short-term market volatility has on their portfolio. Dollar-cost averaging requires and investor to buy the same dollar amount of an investment on a pre-establish schedule. DCA is pretty much the opposite of market timing because NO attempt to time purchases is involved. Dollar-cost averaging embraces the idea that markets will fluctuate in value and turns that fluctuation into an opportunity. By purchasing a fixed dollar amount on a fixed schedule it is possible to reduce the average purchase price of an investment.

The best example of Dollar-Cost averaging is the 401(k). When you participate in a 401(k) you choose to allocate a fixed percentage of your paycheck to your 401(k), resulting in bi-weekly or monthly purchases in a pre-establish investment allocation. Some of your purchases will occur when the markets have declined, others when the markets have increased. When the markets have declined your fixed dollar investment will purchase more shares, when the markets have increased your fixed dollar investment will buy fewer shares. Over time your average purchase price will be higher than the market lows but also lower than the market highs.

Why are compounding interest and Dollar-cost averaging so important?

Whether by compounding interest/dividend payments or by Dollar-cost averaging, your goal should be to increase the number of shares you own over time. Holding few shares and hoping prices will appreciate high enough to produce the growth you need/want is a fool's errand. Doing so limits your potential wealth and places too much emphasis on the need for constantly increasing market value. When you focus on accumulating shares through compounding and dollar-cost averaging, you reduce your portfolio's reliance on capital appreciation to achieve your financial goals and turn time into a powerful growth tool –and quite frankly, you turn the volatility we KNOW will occur into a tool for positive growth over time.