The Light

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The Power of Compound Interest

By Chris Bevington, CPA, MTAX, CFP®, Investment Advisor Rep.

Current chairman and CEO of Berkshire Hathaway, Warren Buffett, has a current net worth that's thought to exceed $100 billion. Countless books and articles have been written dedicated to how Mr. Buffett built his wealth. But few pay enough attention to the simplest of details: Buffett's fortune isn't just due to being a good investor, but being a good investor for the better part of three quarters of a century. Buffett began serious investing when he was just 10 years old, and had accumulated a net worth of $1 million by the time he had reached age 30. (Close to $10 million adjusted for inflation.) But what if we assume he was closer to the "norm," and by age 30 his net worth was, say, $25,000? Let's further assume he still went on to earn the 22% average annual returns he's been able to generate, but instead of continuing to work into his 90s, as he has, Warren retired at age 60 to travel and spend time with grandkids. Under such a scenario, he'd still have accumulated a net worth approaching $12 million. A tidy sum, for sure, but far short of his current net worth of $100 billion.

The Warren Buffett example is certainly one of extremes, but it very effectively illustrates a valuable point. His skill may be investing, but the often missed detail is time. That's the power of compounding. Compound interest takes the interest you earn on savings or an investment and reinvests it back into your principal balance. This new higher balance then earns you even more interest, compounding your returns. "Money makes money. And the money that money makes, makes money."

As an example, let's say you invest $10,000 into a mutual fund that earns 8% compounded annually. In year one, you earn $800, which you reinvest, giving you a new balance of $10,800. In year two, you earn 8%,

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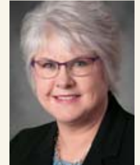
Retirement of Cheri Smeltzer



It is with very mixed feelings that we want to share the news that Cheri Smeltzer, our long time Office Manager and Compliance Specialist, will be retiring on December 31, 2021. Cheri has been here since the founding of Lighthouse over 10 years ago. Her influence has been significant from the very beginning of the firm. She helped design the office layout, picked colors, and decorated the office. Her knowledge of Schwab forms and procedures has been invaluable. She has been the smiling face and voice on the phone to our clients since our first day. In addition to her wonderful people and design skills, Cheri has also brought great structure and organization to our firm. She has served as our compliance specialist and has generally kept things running smoothly for the rest of us. Her wealth and depth of knowledge will be greatly missed.

One of the benefits of working for a firm like Lighthouse is that we have helped Cheri with her investments and retirement planning through many years. She would credit planning and great returns to her ability to retire at this time.

Cheri plans to spend time with her family, especially her three grandchildren, as well as enjoying her artistic hobbies. We wish Cheri the best as she moves on to a new stage of life. Thank you, Cheri, for your many years of valuable service. If you are in our office or call in before December 31,st be sure to congratulate Cheri.

Congratulations

Helping individuals navigate their financial lives.

The Power of Compound Interest (continued from page 1)

but now on the larger balance of $10,800, making year two earnings $864. This $864 is also reinvested, making the new balance $11,664. 8% earned in year three is $933, and so on, and so on. Obviously, the more time goes by, the higher the principal becomes, and the more that is earned year-after-year. In this example, your investment would be worth $12,597 after three years. In contrast, without compounding you'd have earned a flat $800 per year, leaving you with a three year balance of $12,400, a difference of $197. But let's take a look at a more in depth example that shows the true power of compounding over time.

Jack, Janet, and Chrissy are three fictional investors, each of whom saved the same amount of money over a 10-year term. Through an incredible stroke of coincidence, (and to more easily illustrate the point being made), each earned the same 7% average annual return through age 65. The only difference among these three investors is the year in which they started saving their funds.

Jack began saving $1,000 per month from the time he turned 25 and did so through age 35. He stopped saving at that point, but left his money invested where it continued to accrue at a 7% rate until he retired at age 65. Total invested…. $12,000 a year for ten years, or $120,000. Janet held off and didn't begin investing until age 35. She too invested $1,000 per month, but did so from age 35 to 45. Like Jack, she left her money invested where it continued to earn 7% through age 65. Chrissy got an even later start, and didn't begin investing until she had reached age 45. Like Jack and Janet, she invested $1,000 per month for ten years for a total of $120,000. At age 55, Chrissy halted her savings, but also left her money to accrue at 7% through age 65.

Jack, Janet, and Chrissy each invested the same $120,000 over a 10 year period. For illustration purposes, all three averaged the same 7% annual returns. But the difference in their ending balances is staggering. Jack, who began saving at age 25 ends up with a balance of $2,040,360 at age 65. Janet, who didn't begin investing until age 35, ends up with savings of $945,081. And Chrissy, who decided against investing until she reached age 45, ends up with a balance of $437,756. Because Jack had the ability and foresight to start investing early, he ends up with more than double at retirement than Janet, and over 4.5 times as much as Chrissy. That's the power of what Albert Einstein referred to as the "8th wonder of the world…." Compound Interest!!

So what's the moral of the story? Wouldn't we all like to go back in time and know then what we know now. "Coulda!!" "Woulda!!" "Shoulda!!" And although we all know that's not possible, there's still a valuable lesson to be learned based on a fairly simple concept that can so easily be missed. If it's feasible, having time on our side can be a HUGE advantage!! Now I know we all come from different financial situations and different opportunities, but if you have the financial means, investing a "little" sooner, can mean having a "lot more" later! ■

Using Subtraction to Simplify

By Greg Emmons, CFP® Investment Advisor Rep.

Marie Kondo is a well known Japanese organizing consultant and author. In her most popular book, "The Life-Changing Magic of Tidying Up," she illustrates her methods for decluttering and organizing items in the house. Take clothes, for example. The first step is to empty the dresser and closet and put it all into a pile. Then go through item-by-item and discard anything that doesn't "spark joy" for you. If you find you still have "too much," rather than face the issue of running out of space for our clothes, the default reaction may be the purchase of an extra dresser or building a bigger closet. However, trying to solve the problem with additional space is really more like treating a symptom than actually dealing with the real issue of needing to discard unnecessary items. It may seem the simpler solution, but removing items doesn't necessarily mean any less work. Who actually wants to spend time sorting through a heaping pile of clothes for what can be removed? The same can be true in other areas of our lives where subtraction may require significant time and energy. We all could look at our weekly routines and eliminate things or activities that don't serve us well anymore. But despite the effort, most who adopt this process will find it quite therapeutic. We are ultimately reducing complexity and choosing to instead engage in fewer things that we enjoy most.

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Using Subtraction to Simplify (continued)

As a financial planner, I'm probably not looking at this concept as you might think. I'm not saying "Don't spend money and live the rest of your years like a monk" and "Save, save, save." Like all things, I believe a healthy balance between saving and spending is best. Be aware of what things give you joy so that you can eliminate the non-essential 'stuff.' This allows more time and energy for the things from which you get the most fulfillment and meaning. Goals are often a big part of the conversations we have with our clients. Those with a clear understanding of their goals have an advantage over those who do not. Their journey will typically have much more purpose and meaning because they have a sense of what they want and a true understanding of *why* they are working and saving. Saving for the sake of saving is okay, but knowing why you are saving and having more intentionality around it, is considerably better.

The use of subtraction can be difficult for a lot of people, but it can be especially true for financial planning clients. They tend to be maximizers - best characterized as always striving for more. Maximizers tend to always be accumulating more even when having more may not be the most important element in achieving their ultimate goals. This can make investment clients great candidates for implementing a subtraction mindset. I'm not saying that more is bad; the quest for more is what maximizers enjoy. But finding ways to reorganize their desire to accumulate in unique ways, more in alignment with their life goals and priorities, can have much more substance. Retail therapy has its time and place, but the high gained quickly fades. Most of us realize that using our money on experiences rather than 'stuff' can often make us happier. A vacation with family or friends, and the memories created, can provide us much more value than a new pair of shoes. So the next time you're at a crossroads on a bigger financial decision, considering a subtraction mindset may just give you the most bang for your buck. ■

Market Recap

How the major indices performed in the 3rd Quarter 2021

DOW JONES INDUSTRIAL AVERAGE		
3rd Quarter return	-2.3%	YTD return 10.6%
S & P 500 COMPOSITE		
3rd Quarter return	-0.3%	YTD return 14.4%
RUSSELL 2000		
3rd Quarter return	-5.4%	YTD return 11.6%
BARCLAYS AGGREGATE BOND		
3rd Quarter return	-0.2%	YTD return -2.8%
NASDAQ COMPOSITE		
3rd Quarter return	0.9%	YTD return 13.9%

*All indices are reported Total Return which includes Dividends

Market Update

By Greg Emmons, CFP® Investment Advisor Rep.

Stocks Mostly Flat

The stock market was relatively flat for the 3rd quarter with the S&P 500 finishing down -0.3% while the NASDAQ was up 0.9%. While the broader indices were generally muted there were some pockets of better performance in other sectors. Financials was one sector that outperformed and was up 2.8%. Communication services and information technology each posted gains of 1.1% and 1% respectively. The bond market was relatively quiet but did end up finishing down for the quarter. The US Aggregate Bond Index was down -0.2%.

Federal Reserve Outlook

From the most recent Fed meeting in September, the committee has forecasted this year's GDP to be just under 6%. They also adjusted their expectations for 2022's GDP figure to 3.8% from 3.3%, indicating a brighter outlook. Regarding unemployment, the average projection by the committee members was 4.8% by year end and heading lower to 3.5% in 2023/2024. The current unemployment rate stands at 5.2%. With these estimations the Fed has laid the groundwork for not being as accommodating in the following 18 months. Most FOMC members have interest rates being raised by the tail end of 2022 and into 2023. ■

Lighthouse Wealth Management
1078 Commerce Parkway
Ashland, Ohio 44805

Tim Rowsey, CPA, Founder
Investment Advisor Representative
Cell: 567-215-3015
trowsey@lightwealth.com

Aaron Rowsey, Vice President
Investment Advisor Representative
Cell: 419-606-5239
arowsey@lightwealth.com

Greg Emmons, CFP®, President
Investment Advisor Representative
Cell: 419-651-1507
gemmons@lightwealth.com

Chris Bevington, CPA, MTAX, CFP®
Investment Advisor Representative
Cell: 419-569-2139
cbevington@lightwealth.com

Cheri Smeltzer, Office Manager/
Compliance Specialist
csmeltzer@lightwealth.com

Main office phone: 419-496-0016
Fax: 419-496-0054
www.lightwealth.com

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To learn more about the benefits of working with an independent advisor go to http://www.findyourindependentadvisor.com.

Lighthouse Wealth Management believes in giving back. We give 10% of our profits to charities, including several local charities and CURE, International. www.cure.org

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