The Time Value of Money

Tim Mullooly: On episode 66, we're going to talk about the time value of money. Welcome back to the Mullooly Asset Show.

I'm your host for today, Tim Mullooly, filling in for Tom Mullooly once again. Let's get right into it.

Brendan, what are we going to be talking about today?

Brendan: People say that getting a dollar today is worth more than getting a dollar a year from now. Is that true?

Tim Mullooly: You know, that's a great question. It can be easily explained by the concept of the time value of money. What that means is, generally speaking, the question that was asked would be true. A dollar today is worth more than a dollar a year from now because that dollar that you get today has the ability to be invested and compound and grow over time.

You can put it into an ETF or a stock you like or a bond. It doesn't really matter what you put it into, but it just has the ability to be invested and has that potential to grow and compound over time.

Compounding is one of the most powerful forces in investing and saving money. Having that ability to have that dollar grow over time is definitely something that you want to have on your side.

When you're making a decision if you want to take money now or defer it for a year, obviously there are other factors that are going to factor in, like your personal situation and other things like that, but keep that time value of money concept in the back of your mind when thinking about a dollar today is going to be worth more than a dollar a year from now.

Along the same lines of when we're talking about compounding, there's a rule called the rule of 72. That means if you take a number and that's the rate that you're compounding at, divide that into 72, that's how many years it's going to take for you to double your money.

An example. If you're compounding at 6%. Divide 72 by 6% is 12, so it's going to take you 12 years to double your money.

Compounding, again, like I said, is a very powerful thing when it comes to saving money and investing money and seeing returns over time.

I'm not saying a dollar today is, 365 days later, 100% going to be worth more. It depends on what you put it into, but it's just the ability to invest that money and have the potential for it to grow is where the value comes in, in terms of the time value of money.

Pretty short and sweet answer to that question. A relatively easy concept, but an important one to understand.

We get these questions all the time from the people that watch these videos and our clients. They write in and ask us these questions.

If you've got a question, always feel free to get in touch with us and we'll try our best to either answer it on a podcast or a video. Thanks for watching episode 66. We'll see you next time on episode 67.