Rule of 72 – Video Transcript

The Rule of 72 is a simple rule that you can use to estimate how long it will take for your money to double.

For example, if you have $5,000 today, how long will it take to reach $10,000?
You can use the Rule of 72 to find out.

Simply divide 72 by the annual rate of return you expect to earn. The result is the approximate number of years it will take for your money to double.

For example, if your estimated annual rate of return is 6 percent, divide 72 by 6. You can expect your money to double in about 12 years.

If your estimated annual return is 8 percent, divide 72 by 8. In this case, your money can be expected to double in about 9 years.

You can also use the Rule of 72 to determine the rate of return you would need to earn to double your money in a given period of years.

For example, if you want to double your money in 6 years, divide 72 by 6. You'll need to earn an average annual return of 12 percent.

The Rule of 72 also works with inflation, allowing you to estimate how long it will take for the cost of an item to double.

For example, if the average annual rate of inflation is 3 percent, divide 72 by 3. The cost of your item will double in about 24 years.

If the inflation rate averages 2 percent, it will take 36 years for the cost of your item to double.

So go ahead and try out the versatile Rule of 72.

These are hypothetical examples and are not intended to reflect the performance of a specific investment, nor are they an estimate or guarantee of any future value. Investment fees and expenses have not been deducted. If they had been, the results would have been lower. It is also important to note that these examples and illustrations assume a fixed annual rate of return: the rate of return on your actual investment portfolio will be different and will vary over time, according to actual market performance.