How Long Will It Take to Double My Money?

Before making any investment decision, one of the key elements you face is working out the real rate of return on your investment.

Compound interest is critical to investment growth. Whether your financial portfolio consists solely of a deposit account at your local bank or a series of highly leveraged investments, your rate of return is dramatically improved by the compounding factor.

With simple interest, interest is paid just on the principal. With compound interest, the return that you receive on your initial investment is automatically reinvested. In other words, you receive interest on the interest.

But just how quickly does your money grow? The easiest way to work that out is by using what's known as the “Rule of 72.”1 Quite simply, the “Rule of 72” enables you to determine how long it will take for the money you've invested on a compound interest basis to double. You divide 72 by the interest rate to get the answer.

For example, if you invest $10,000 at 10 percent compound interest, then the “Rule of 72” states that in 7.2 years you will have $20,000. You divide 72 by 10 percent to get the time it takes for your money to double. The “Rule of 72” is a rule of thumb that gives approximate results. It is most accurate for hypothetical rates between 5 and 20 percent.

While compound interest is a great ally to an investor, inflation is one of the greatest enemies. The “Rule of 72” can also highlight the damage that inflation can do to your money.

Let’s say you decide not to invest your $10,000 but hide it under your mattress instead. Assuming an inflation rate of 4.5 percent, in 16 years your $10,000 will have lost half of its value.

The real rate of return is the key to how quickly the value of your investment will grow. If you are receiving 10 percent interest on an investment but inflation is running at 4 percent, then your real rate of return is 6 percent. In such a scenario, it will take your money 12 years to double in value.

The “Rule of 72” is a quick and easy way to determine the value of compound interest over time. By taking the real rate of return into consideration (nominal interest less inflation), you can see how soon a particular investment will double the value of your money.

The Rule of 72 is a mathematical concept, and the hypothetical return illustrated is not representative of a specific investment. Also note that the principal and yield of securities will fluctuate with changes in market conditions so that the shares, when sold, may be worth more or less than their original cost.The Rule of 72 does not include adjustments for income or taxation. It assumes that interest is compounded annually. Actual results will vary.