



How You're Spending \$100k+ on Coffee

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We all understand that going out to eat or buying a daily cup of joe at our favorite coffee shop adds up over time. But when compounding interest is added to the equation, tucking that (seemingly insignificant) \$5 or \$7 food or coffee expenditure away into a wisely chosen investment vehicle can make a six-figure financial difference in the long run!

Vanguard Investment Strategy Group's Fran Kinniry, breaks down compounding, delayed gratification and the dangers of procrastinating to save, in a recent *USNews* article.

Cups of fancy coffee can cost upward of \$5 or more while a standard cup of home-brewed coffee costs about 10 cents. By pocketing the \$3.50 for coffee each day and investing it instead in a low-cost, diversified Roth IRA, you'd have an estimated \$106,000 after 30 years. So, in the long run, are you paying \$106,000 for coffee?!

A few bucks here, a few bucks there...can pay big over the long term

The bottom line is, small changes in financial behavior can have big consequences over time. Increasing your annual retirement savings contributions by as little as 1 percentage point can have a huge impact.

It's smart decisions like these that can make the difference down the road, so you can buy that sports car, take that trip to Europe you've long dreamed about, or even retire a few years earlier than you had planned. And it's not just about investing a little more early on. It's also about not waiting until the last minute during the course of a year to invest.

Procrastinating can be costly

A few years ago we looked into quantifying how high the procrastination penalty could be for an investor. The research looked at investors who waited until the tax deadline to make their IRA contribution for the previous year. The result? Simply by waiting 15 months to make your annual contribution, you could potentially lose \$15,500 over 30 years.

"Compound interest is the eighth wonder of the world"

Albert Einstein said, "He who understands it, earns it...he who doesn't...pays it." The phenomenon of exponential growth as your returns build upon themselves over time is something deeply comforting to long-term investors.

Study after study has found that Americans aren't saving enough for retirement. The median account balance among Vanguard retirement plan participants in 2015 was \$26,405, which was down 11% from 2014. We recommend retirees save enough to be able to spend at a

rate of 75% of their annual income while they were working.

The best way to change that trend is to continue to look at your spending through a compounding lens and calculate how much your regular purchases would equate to over time. Time is the biggest advantage young investors have.

[Click here to read the full article.](#)

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