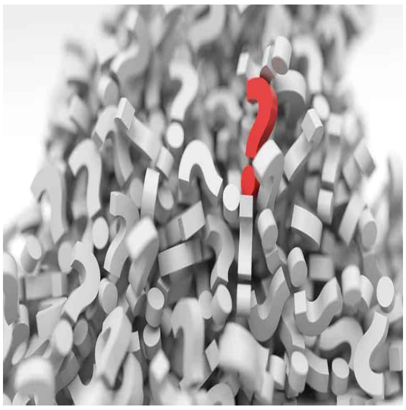

How Long Does it Take to Double Your Money?

Description

The Rule of 72 is a quick and easy way to approximate how long it takes for your investment to double. The higher the rate of return of your investment, the shorter the time it takes for that investment to double.

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Here's an example.

At its recent quotation of under $97 per share, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) offers a yield of 3.6%. Its earnings per share are expected to grow 4.5-6% per year for the next three to five years. So, we can estimate that the bank can deliver a rate of return of about 8%.

The Rule of 72 works like this:

72 ÷ rate of return = number of years to double your investment

So, according to the numbers from the Royal Bank example, it'll take about nine years for an investment in the bank today to double because 72 ÷ 8% = 9.

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money

Let's say we also invest in **Emera Inc.** (TSX:EMA) and **Facebook Inc.** (NASDAQ:FB) in our new portfolio today.

Emera yields 4.5%, and it's expected to grow its earnings per share by about 8.6% per year for the next three to five years. So, we can estimate that the utility can deliver a rate of return of about 13%. The Rule of 72 approximates that it'll take about 5.5 years for today's investment in Emera to double.

Facebook is a pure growth stock that doesn't pay a dividend. That's fine for investors who are looking for capital appreciation. In the last few years, Facebook has delivered annualized returns of more than 20%.

In the next three to five years, analysts estimate that the social media giant can grow its earnings per share by 23-27% per year. Let's be more conservative and say that the company can deliver a rate of return of 18%. According to the Rule of 72, an investment in Facebook today can double in four years.

Caveats

The rates of return used in the examples are based on the earnings-growth estimates stated and assume that there are no multiple changes in the stocks. In reality, there tends to be a difference between actual earnings and earnings estimates. As well, stocks experience multiple contractions or expansions for many reasons, and this affects the rate of return in any given time frame.

Investor takeaway

For simplicity, let's assume we invest an equal amount in each of the three stocks today and get an average rate of return of 13%. So, this portfolio will take about 5.5 years to double.

The higher the rate of return you get from your portfolio, the faster you can double your money. However, generally speaking, the higher the rate of return you target, the riskier your investments may be.

That's why it's not a bad idea to diversify your portfolio across stocks with different growth rates. Typically, there's a higher chance of meeting the estimated rate of return for safe dividend stocks, such as Royal Bank and Emera, because a part of their returns is from dividends, which are more predictable than price appreciation.

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CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:EMA (Emera Incorporated)
4. TSX:RY (Royal Bank of Canada)

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Date
2025/07/29
Date Created
2017/04/03

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