Double Your Investment in 7 Years Using the Rule of 72

Description

“Double your money” is a familiar phrase in the investing world. That is the goal of nearly all investors and the sales pitch of people presenting an investment option. Although doubling your investment is sometimes impossible, there’s a way to determine how long it would take for your investment to double.

Before investing in a high-paying dividend stock like **Transalta Renewables** (TSX:RNW), you can use the Rule of 72 to crunch the numbers. You need not be a finance wizard to come up with a rough estimate of the time it will take to reach your goal.

Simple math

The Rule of 72 is simple and straightforward. The first step is to set a fixed annual rate of return. You don’t even need the investment amount. You just divide 72 by the annual rate of return. This will give you the estimated number of years within which your investment could double.

Let’s assume the annual rate of return of your potential $10,000 investment is 10%. If you divide 72 by 10, you will get an answer of 7.2. This means it would take 7.2 years for your investment to grow to $20,000. And the amount would double every 7.2 years. So, if the rate is of return is 20%, it would take only 3.6 years for the $10,000 to double.

The Rule of 72 can also apply in reverse. Suppose you wanted to figure out the annual rate of return you’d need if you wanted to double your investment within a specified period. Use 72 again and divide it by the desired number of years. The quotient, or the answer, is the annual rate of return you would need.

Divide 72 by six, and you will get an answer of 12. Thus, your potential investment should deliver a 12% annual rate of return, if you want your $10,000 to double in six years. You don’t need the investment amount in the Rule of 72, but always keep the annual rate of return fixed or constant.

Outstanding stock

TransAlta is a developer, owner, and operator of facilities to generate renewable power. As an investment option, the $3.47 billion company is an income generator. The stock's current dividend yield is 6.83% with a payout ratio below 100%.

This independent power producer boasts of renewable power-generation facilities like wind, hydro, and gas. TransAlta has been creating stable cash flows for years, because its assets are fully contracted for the long term. There is recurring revenue for the company and consistent returns for investors.

The comparable EBITDA as of June 30, 2019, rose by 9% to $227 million. This indicates that TransAlta is on track to deliver positive growth this year. Under the growth plan, the company will be adding more renewable energy projects.

If you're considering investing $10,000 in TransAlta, let us apply the Rule of 72 and discover that your investment will double in 10.5 years. That is assuming the company can maintain the 6.83% dividend yield.

Handy formula

The Rule of 72 will come in handy when you're faced with an investment decision. You can use it to forecast the future value of a potential investment.

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1. Dividend Stocks
2. Investing

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1. TSX:RNW (TransAlta Renewables)

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