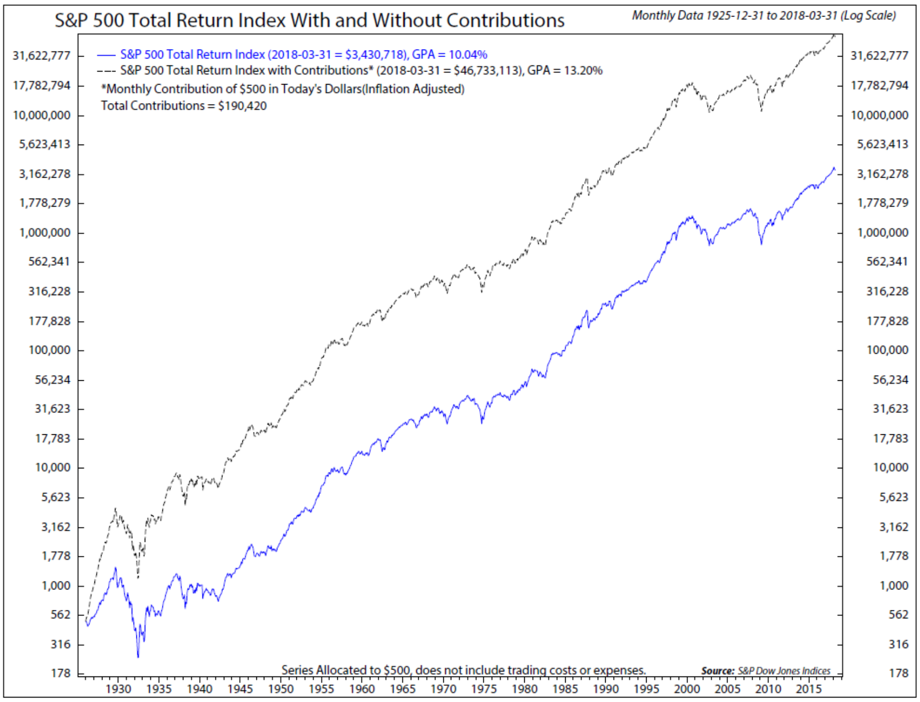
"Understanding both the power of compound interest and the difficulty of getting it is the heart and soul of understanding a lot of things."
-Charlie Munger



Source: Ned Davis Research

What's Your Compounding Vehicle?

Albert Einstein has been cited as saying the power of compound interest is the most powerful force in the universe. In a world where not much is free, the magic of compounding returns has the ability for any investor regardless of their background to create wealth. One of the best examples of the power of compounding is the story of the Native Americans who sold the island of Manhattan. As the story goes, the selling party received $20 worth of beads and trinkets in 1626. If the sellers had invested and remained invested in "Tribal Mutual Fund" that generated a 9% annual return for 380 years, their $20 investment would be worth $3.35 quadrillion. While an extreme example, it's a reminder that smart investing through sustained uninterrupted compounding is a powerful force.

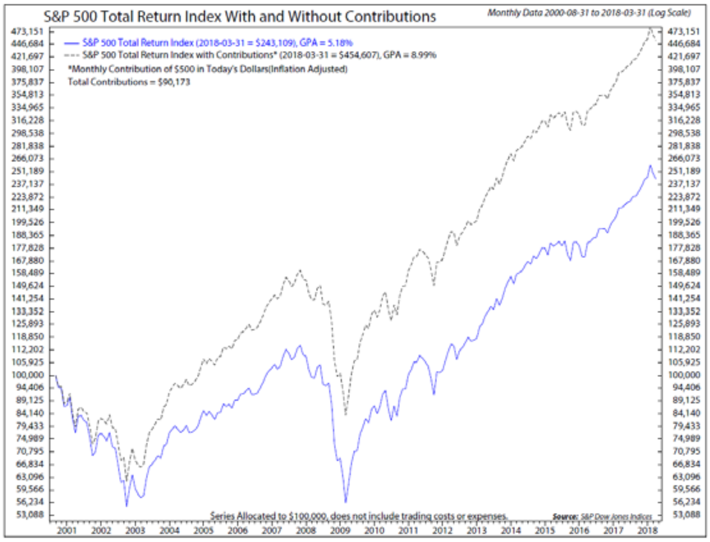
The value of compounding is a function of time and the rate of return. What Warren Buffett loves to point out is that even small differences in the rate of return equate to sizable differences in the end result. In the Manhattan example, a slight increase to a 9.5% rate of return would yield a result over 5 ½ times the original value.

Unfortunately, many investors did not appear to be taking full advantage of their opportunities in 2017. The Federal Reserve recently announced that the growth in American household net worth last year was 6.4%. While positive, there seems ample room to help investors grow their wealth by providing investment strategies that can provide higher rates of return over time.

A second factor that can help multiply the end result is dollar cost averaging. By making consistent contributions to principal, investors magnify the snowball effect of compound interest. Ned Davis Research provides a good example of this dynamic in the chart above. They start with $500 in 1926 and added an inflation adjusted $500 per month ($37 in 1926). The end result was the 10% return became 13.2% and the nest egg was multiplied roughly 14 fold.

One inhibitor to compounding returns and dollar cost averaging is the desire of investors to time the market.

S&P 500 Total Return Contribution Analysis from the Year 2000



Source: Ned Davis Research

Concerns about "getting in at the top" weigh on investor behaviors and the fear of losing hard earned savings. Ned Davis highlights in the chart on the second page that even if investors get in at "the worst" time of the market cycle, in this case the highs of 2000, the results remain impressive. In this case, roughly $90,000 in contributions grow close to 9% per year and the end result is almost double the total return for the market.

Our mission at Sterling is to provide investors and intermediaries with investment strategies that enable investors to grow wealth faster than the 6.4% generated by the American public. In 2017, the Equity Opportunities Group's products provided returns in line with this mission and throughout the years ahead it remains our ambition to provide clients with "above average returns with below average risk." Better returns to take full advantage of compounding and below average risk to enable investors to remain invested through market cycles. As always, we thank you for your interest and trust managing your investments.

Chip Wittmann, CFA®
Executive Director
(757) 417-4901
cwittmann@sterling-capital.com

*The **Chartered Financial Analyst® (CFA)** charter is a graduate-level investment credential awarded by CFA Institute — the largest global association of investment professionals. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.*