



American Foundry Society

Central Ohio Chapter

www.afscentralohio.org

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The Secret of the Numbers

2006/2007

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In 1792 two dozens New York merchants got together and decided to start a stock exchange similar to the one Philadelphia merchants started two years earlier. And if one of your ancestors would have invested just one dollar in stocks throughout the 216 year history of the U.S. stock market, that one dollar would have grown into **\$560,000** in today's dollars.

But hold on for a minute. We did not take taxes into account and if we do, we find that the very same dollar would have grown into only a measly **\$24,000**. The difference is incredible and shows that taxes not only take money out of your pocket right now but also rob you of the power of compounding your wealth. In this example taxes would have eaten up almost 97 percent of your profits.

The law of compounding is one of the most powerful principles of finance, in fact, Mayer Amschel Rothschild, one of the early European bankers, called it the eight wonder of the world.

Here's another example:

Having won a prize and given the opportunity to choose for a thirty-day period, which option would you pick?

Option "A": Get paid \$1000.00 each day or

Option "B": On the first day you get one single penny and for every day thereafter, double the amount you got the day before.

Well?

Let's do a little math and see. Option "A" would be 30 days times \$1000.00 per day, equal to \$30,000.00. Not a bad sum to win.

Day	Amount (\$)	Day	Amount (\$)	Day	Amount (\$)
1	0.01	11	10.24	21	10,485.76
2	0.02	12	20.48	22	20,971.52
3	0.04	13	40.96	23	41,943.04
4	0.08	14	81.92	24	83,886.08
5	0.16	15	163.84	25	167,772.16
6	0.32	16	327.68	26	335,544.32
7	0.64	17	655.36	27	671,088.64
8	1.28	18	1,310.72	28	1,342,177.28
9	2.56	19	2,621.44	29	2,684,354.56
10	5.12	20	5,242.88	30	5,368,709.12

But now, let's take a look at Option "B" and follow the numbers shown in the table on the left..

Isn't it incredible?

By noon on the 23rd day you would have already earned the \$30,000.00 but in the next 7 days your winnings would be out of this world. The next 7

days would bring you over 99 percent of your total winnings.

Hogwash you say? Yes, it probably is very unlikely that you ever run across a case like this but what better way to demonstrate the power of compounding. It also proves the fact that every dollar you take out during the process of compounding has a big effect on what you could have ended up with. And this holds true for any financial transaction - your own as well as your entire family. Have you ever talked

to your kids about this?

Every teenager wants to buy a car and they probably want a new car. But if they can be convinced to first buy a used car and invest the difference, they would have compounding work in their favor and then would be able to afford any car they wanted.

How about your investments?

Taking taxes into consideration - since they are a fact of life - you would want to investigate or get help to find those "deals" where you can defer taxes - to let compounding work for you - or even better, using smart financial planning to reduce the tax burden. Just for comparison if you can invest with a compounding interest rate of 7 percent it would take 10-1/2 years to double your money and if you could do it at 15 percent it would take only 5 years to double your money.

There are a number of investment plans available today where you can invest with "before tax" dollars and the earnings accumulate tax-free - until you cash out. But in the meantime compounding has shortened the time to increased wealth accumulation.

Taking money out during the life of an investment can reduce your end sum considerably but the opposite is also true. If you add money during the life of an investment, compounding helps to grow your nest egg proportionately faster. So it just makes sense to keep adding a portion of your take-home pay on a consistent basis.

To be able to do that, however, you need to make sure that you protect your source of income and pay attention of what goes on around you in the workplace. If you get hurt on the job all bets are off and all the tax planning won't help you. Make a special effort to learn all you can about safety on the job and if you want to get some good pointers make plans to attend our AFS meeting this Thursday September 21, 2006. Read the newsletter sent to you or check our website at <http://www.afscentralohio.org> for more details and make your reservations by Tuesday (tomorrow) September 19, 2006.

Do it now!



AFS Central Ohio Chapter

PS: You surely know that everything in our lives can be reduced to numbers and the better you understand and know what they mean the better you can take advantage of them. Numbers are neutral they have no allegiance and they take no sides. They will work for you as much as against you - it's all up to you.

PPS: And one more thing, when Ben Franklin supposedly said "...a penny saved is a penny earned..." he surely meant to add "...and let your saved pennies compound and they will multiply".

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