THE DISTELFINK – The Multipliers
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Why didn't somebody tell me sooner??? There are some simple formulas about growing money, and earning money, that I wish I had learned much earlier in my life. There's also a lesson about taxes that I probably could have done without, but it's important, and it came from my Dad, so I'm going to share it too.

It wasn't until I was well into my 20's (I am embarrassed to confess) that I learned, if you want an investment to double in ten years, it needs to compound at an average rate of 7% a year. Want a double in five years? Then the stock or mutual fund, or dare I say *hedge fund*, needs to grow at a 15% annual rate, often the target initially aspired to by many professional fund managers. And so, my kids know that if they can find a stock that pays a 3% dividend and appreciates at 7% a year, then their asset will be worth twice as much in 7 years. Of course all these examples leave out the share our friendly neighborhood IRS agent might procure if any of these assets were sold, but we'll come back to him later.

The other multiplier I wish I had known about much sooner is how a worker's hourly wage relates to his/her annual earnings. (Needless to say this example leaves out all the extra goodies one might earn in a pay package like healthcare benefits, life insurance or matched 401K contributions, but I know you'll see the value of this multiplier in a discussion with your children.) Because most jobs a teenager might get on a part-time basis are quoted in terms of hourly wages, our kids learn to think about what their time is worth. "If I babysit, or work at McDonald's, or lifeguard at the YMCA, I might earn something between $7.25 and $10 an hour." And then I ask them, "What do you think that would add up to if you worked at that job full-time, 40 hours a week, 50 weeks a year?" The shoulders shrug up and down at first, after which I say, "$14,500 to $20,000, or something in between, depending on the actual wage." "How did you know that so fast?" they chimed in. "Easy, it's just the hourly rate doubled."

And so here is how I keep my kids fired up at school. They know what things cost. They know (broadly speaking) what they want. And they know they would rather do something much more interesting than change diapers or flip burgers some day. My son's eyes practically bugged out when he did the math on hourly rates charged by successful lawyers. Thankfully he loves to read, his favorite question for years has been "What if" and he's pretty determined. So maybe's he's got some of the fundamental skills to get him there, but if not, he understands that education holds the keys to the castle. More education, and specialized learning that prepares you to do something better than most, usually lead to a higher hourly wage or annual salary, however you want to look at it.

Now, let's look at the role of taxes. When I first went to work in New York City after college, I couldn't believe how much of my miniscule paycheck was disappearing to pay taxes. And for what? I couldn't see the benefit. Of course, I was neglecting to appreciate the fun of Central Park, the convenience of the subway system, and the security of the police precinct right across the street from my second apartment, but no matter… By the time I had achieved my most successful year (at least as measured by earnings) the taxes I paid exceeded my annual earnings goal for 1997. It was crazy. And it was then that my Father said, "Consider yourself lucky to pay so much in taxes. It means you've done well." I accepted his wisdom, reluctantly, but it has grown on me over the years. Capital appreciation, interest, dividends, and salaries all eventually lead to taxes, but they mean we've earned our fair share first, hopefully doing something that makes a difference, because as a wise friend once said to me, "If you enjoy what you do, you'll never work a day in your life."