

The Cost of Procrastination

Don't let procrastination keep you from pursuing your financial goals.

Provided by David Smith, CFP®, CRPC®, AIF®

Some of us share a common experience. You're driving along when a police cruiser pulls up behind you with its lights flashing. You pull over, the officer gets out, and your heart drops.

"Are you aware the registration on your car has expired?"

You'd been meaning to take care of it for some time. For weeks, you had told yourself that you'd go to renew your registration tomorrow, and then, when the morning comes, you repeat it again.

Procrastination is avoiding a task that needs to be done – postponing until tomorrow what could be done, today. Procrastinators can sabotage themselves. They often put obstacles in their own path. They may choose paths that hurt their performance.

Though Mark Twain famously quipped, "Never put off until tomorrow what you can do the day after tomorrow." We know that procrastination can be detrimental, both in our personal and professional lives. From the college paper that gets put off to the end of the semester to that important sales presentation that waits until the end of the week for the attention it deserves, we've all procrastinated on something.

Problems with procrastination in the business world have led to a sizable industry in books, articles, workshops, videos, and other products created to deal with the issue. There are a number of theories about why people procrastinate, but whatever the psychology behind it, procrastination may, potentially, cost money – particularly, when investments and financial decisions are put off.

As the example below shows, putting off investing may put off potential returns.

Early Bird. Let's look at the case of Cindy and Charlie, who each invest a hypothetical \$10,000 to start. One of them begins immediately, but the other puts investing off.

Charlie begins depositing \$10,000 a year in an account that earns a hypothetical 6% rate of return. Then, after 10 years, he stops making deposits. His invested assets, however, are free to keep growing and compounding.

While Charlie fills his account, Cindy waits 10 years before getting started. She then starts to invest a hypothetical \$10,000 a year for 10 years into an account that also earns a hypothetical 6% rate of return.

Cindy and Charlie have both invested the same \$100,000, but procrastination costs Cindy, as Charlie's balance is much higher at the end of 20 years. Over 20 years, his account has grown to \$237,863, while Cindy's account has only grown to \$132,822. Charlie's account has not only put the power of compound interest to work, it has also allowed the investment returns more time to compound.¹

This is a hypothetical example of mathematical compounding. It's used for comparison purposes only and is not intended to represent the past or future performance of any investment. Taxes and investment costs were not considered in this example. The results are not a guarantee of performance or specific investment advice. The rate of return on investments will vary over time, particularly for longer-term investments. Investments that offer the potential for high returns also carry a high degree of risk. Actual returns will fluctuate. The types of securities and strategies illustrated may not be suitable for everyone.

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Citations.

1 - nerdwallet.com/banking/calculator/compound-interest-calculator [12/13/18]