5 Ways To Double Your Investment

by Ken Clark (Contact Author | Biography)

There's something about the idea of doubling one's money on an investment that intrigues most investors. It's a badge of honor dragged out at cocktail parties, a promise made by over-zealous advisors, and a headline that frequents the cover of some of the most popular personal finance magazines. Where this fixation comes from is anyone's guess.

Perhaps it comes from deep in our investor psychology; that risk-taking part of us that loves the quick buck. Or maybe it's simply the aesthetic side of us that prefers round numbers - saying your "up 97%" doesn't quite roll off the tongue like "I doubled my money." Whatever the source though, it is both a realistic goal that investors should always be moving towards, as well as something that can lure many people into impulsive investing mistakes. Knowing some of the most trusted avenues to doubling your money is something that all investors should have in their toolboxes.

The Classic Way - Earn It Slowly

Investors who have been around for a while will remember the classic Smith Barney commercial from the 1980s, where British actor John Houseman informs viewers in his unmistakable accent that they "make money the old fashioned way – *they earn it*." When it comes to the most traditional way of doubling your money, that commercial's not too far from reality.

Perhaps the most tested way to double your money over a reasonable amount of time is too invest in a solid, non-speculative portfolio that's diversified between blue-chip stocks and investment grade bonds. While that portfolio won't double in a year, it almost surely will eventually, thanks to the old rule of 72.

The rule of 72 is a famous shortcut for calculating how long it will take for an investment to double, if its growth compounds on itself. According to the rule of 72, you divide your expected annual rate of return into 72, and that tells you how many years it takes you to double your money. (To learn more about the rule of 72, check out the answer to our frequently asked question, *What is the 'rule of 72'?*)

Considering that large blue-chip stocks have returned roughly 10% over the last 100 years, and investment grade bonds have returned roughly 6%, a portfolio that is divided evenly between the two should return about 8%. Dividing that expected return (8%) into 72, gives a portfolio that should double every nine years. That's not to shabby, when you consider that it will quadruple after eighteen years, and octuple (8 times) after 27.

The Contrarian Way – Blood in the Streets

Even straight-laced, even-keeled investors know that there comes a time where you've got to buy. Not because everyone is getting in on a good thing, but rather, because everyone is getting out. Just like great athletes go through slumps when many fans turn their backs, the stock prices of otherwise great

companies occasionally go through slumps because fickle investors head for the hills.

As Baron Rothschild (and Sir John Templeton) once said, smart investors "buy when there is blood in the streets, even if the blood is their own." Of course, these famous financiers weren't arguing that you buy garbage, at any price. Rather, they were arguing that there would most surely be times where good investments become oversold, which presents a buying opportunity for brave investors who have done their homework. (Read more on Sir John Templeton in our *Greatest Investors Tutorial*.)

Perhaps the most classic barometers used to gauge when a stock may be oversold, is the price-to-earnings ratio and the book value for a company. Both of these measures have fairly well established historical norms for both the broad markets and for specific industries. When companies slip well below these historical averages for superficial or systemic reasons, smart investors will smell an opportunity to double their money. (Read *Buy When There's Blood In The Streets* to learn more on contrarian investing.)

The Safe Way

Just like how the fast lane and the slow lane on the freeway eventually lead to the same place, there are both quick and slow ways to double one's money. So for those investors who are afraid of wrapping their portfolio around a telephone pole, bonds may provide a significantly less precarious journey to the same destination.

But investors taking less risk by using bonds don't have to give up their dreams of one day proudly bragging around the lunchroom about doubling their money. In fact, zero-coupon bonds (including classic U.S. Savings Bonds), can keep you in the "double your money" discussion.

For the uninitiated, zero-coupon bonds may sound intimidating. In reality, they're surprisingly simple to understand. Instead of purchasing a bond that rewards you with a regular interest payment, you buy a bond at a discount to its eventual maturity amount. For example, instead of paying $1,000 for a $1,000 bond that pays 5% per year, an investor might buy that same $1,000 for $500. As it moves closer and closer to maturity, its value slowly climbs until the bondholder is eventually repaid the face amount.

One hidden benefit that many zero-coupon bondholders love is the absence of reinvestment risk. With standard coupon bonds, there's the ongoing challenge of reinvesting the interest payments when they're received. With zero coupon bonds, which simply "accrete" or grow towards maturity, there's no hassle of trying to invest smaller interest rate payments or risk of falling interest rates. (Check out the *Importance of Reinvestment Income and Reinvestment Risk* section of our *CFA Level 1 Study Guide* to learn more about this concept.)

The Speculative Way

While slow and steady might work for some investors, others may find themselves falling asleep at the wheel. They crave more excitement in their portfolio and are willing to take bigger risks to earn bigger payoffs. For these folks, the fastest ways to super-size the nest egg may be the use of options, margin or penny stocks.

Stock options, such as simple puts and calls, can be used to speculate on any company's stock going up or down. For many investors, especially those who have their finger on the pulse of a specific industry, options can turbo-charge their performance. Considering that each stock option potentially represents 100 shares of stock, a company's price might only need to increase a small percentage for an investor to hit one out of the park. Be careful and be sure to do your homework; options can take away wealth just as quickly as they create it.

For those who want don't want to learn the ins and outs of options, but do want to leverage their faith (or doubt) about a certain stock, there's the option of buying on margin or selling a stock short. Both of these methods allow investors to essentially borrow money from a brokerage house to buy or sell more shares than they actually have, which in turn, can raise their potential profits substantially. Again, this method is not for the faint-hearted, since margin calls can back your available cash into a corner, and short-selling can theoretically can generate infinite losses. (Read our *Margin Trading Tutorial* to learn more about trading on leverage.)

Lastly, extreme bargain hunting can quickly turn your pennies into dollars. Whether you decide to roll the dice on the numerous former blue-chip companies that are now selling for less than a dollar, or you sink a few thousand dollars into the next big thing, penny stocks can double your money in a single trading day. Just remember, whether a company is selling for a dollar or a few pennies, its price reflects the fact that other investors don't see any value in paying more than that price. (For further reading on using penny stocks to double your money, read our related articles *The Lowdown On Penny Stocks*, *Spotting Sharks Among Penny Stocks* and *Spot Hotshot Penny Stocks*.)

The Best Way to Double Your Money
While it's not nearly as fun as watching your favorite stock on the evening news, the undisputed heavyweight champ of doubling your money is that matching contribution you receive in your employer's retirement plan. It's not sexy and won't wow the neighbors at your next block party, but getting an automatic 50 cents to $1 for every dollar you deposit is tough to beat.

Making it even better is the fact that the money going into your 401(k) or other employer-sponsored retirement plan comes right off the top of what your employer reports to the IRS. For most Americans, that means that each dollar invested really only costs them 65-75 cents out of their pockets. In other words, for every 75 cents, most Americans are willing to forgo out of their paychecks, they'll have $1.50 or more added to their retirement nest egg – *not too shabby!*

Before you start complaining about how your employer doesn't have a 401(k) or how your company has cut their contribution because of the economy, don't forget that the government also "matches" some portion of the retirement contributions of taxpayers earning less than a certain amount. The Credit for Qualified Retirement Savings Contribution reduces your tax bill by 10-50% of what ever you contribute to a variety of retirement accounts (from 401(k)s to Roth IRAs).

If It's Too Good to Be True…
There's an old saying that if "something is too good to be true, then it probably is." That's sage advice when it comes to doubling your money, considering that there are probably far more investment scams out there than sure things. While there certainly are other ways to approach doubling your

money than the ones mentioned so far, always be suspicious when you're promised results. Whether it's your broker, your brother-in-law or a late night infomercial, take the time to make sure that someone is not using *you* to double *their* money.

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Ken Clark is a Certified Financial Planner who divides his time between speaking to the employees of Fortune 500 companies on personal finance topics and writing for numerous publications and websites. Prior to focusing on writing and speaking, Clark co-managed over $100 million in client assets at a major Wall Street firm.

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