Why the First $100,000 in Savings Is the Hardest to Reach

It's an all too familiar saying when it comes to investment advice or guidance regarding saving money: "The first $100,000 is always the hardest to save."

Anyone who has already accomplished this (or is in the process of trying to) likely agrees. So why is it that saving your first $100,000 is so much harder than boosting it up to $300,000? Or $500,000? Or even more?

The answer is quite simple, actually.

Any savvy investor understands that you can't accumulate wealth overnight. It takes time and patience. The younger you are when you begin saving, and the less you have to begin with, the more difficult it's going to be to get that principal to start generating a considerable return. The positive side is you have plenty of time, the key ingredient to a significant future gain.

Young Investors Have Less Income

According to a recent MSN Money article, the average net worth (excluding any home equity value) of an individual between the ages of 20 and 29 is only $6,400, the top 25 percent faring a bit better with $35,000.

Investors in their 20s are just starting careers and not pulling in sizable paychecks yet. This, combined with things like student loan debt, a dismal job market and the economic downturn, gives them less extra cash to start putting away.

That's not to say you can't start saving money with this level of wealth–every single person should save a portion of their income, no matter how big or small. It's just that these numbers seem pretty bleak compared to someone over forty. Middle age (in theory) equals a larger salary and greater assets, the mean net worth being $133,100 for age 40-49 and escalating from there.

Consider the difference in earning potential between a young adult and someone closer to traditional retirement age. Obviously, proper investment strategy requires more than simply dumping what you have into an account and letting it go. However, for simplicity's sake, we'll use the following example:

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1. Read over this article.
2. Summarize the main points in **10 Bullet Points**.
3. Send this in an email.

At age 21, you put $6,000 into a portfolio that earns 6% APY per year. Your older, wealthier counterpart already has the $100,000 to invest similarly. After one year, you earned $360 while they pulled in an easy $6,000.

As you can see, beginning the endeavor to reach $100k territory will no doubt be a struggle. Fortunately, you have decades left for the interest to compound while you continue to make contributions.

How to Save 100k: Compounding Interest Grows Exponentially

Most investments and accounts compound interest. This means that the interest earned is reinvested and collects the same rate as the principal. It really is a wonderful scenario — you earn interest on your interest.

So, consider again the above investor with the measly $6,000. If the 6 percent interest is compounded quarterly for 10 years, the earnings equal an additional $4,884.11 in interest if no money is ever added to the account.

Let's say the investor deposits an additional and very reasonable $1,000 per year over the 10 year period. Then he/she ends up with a total of $24,654.59, including the original principal of $6,000. The older investor with $100,000, however, earned $81,401.84 in interest alone over 10 years, with no contributions.

You can see that the more money you have, the more money you make. That's why it's important to begin saving early and contributing as much as possible.

Once you reach the glorified $100,000 landmark, the earnings will come much easier and you'll see your savings amass at a much quicker rate.