

Cash on Cash Return

Cash on Cash Return is another term you want to keep in mind when investing. This term refers to the relationship between cash that you put into the investment and how long will it take to get your cash back into your pocket.

$$\text{Cash on Cash Return} = \frac{\text{Cost of Investment}}{\text{Gain from Investment}}$$

Stock Market Example – You buy Google stock and you put \$10,000 into it and it buys you ‘X’ amount of shares. One year down the road you sell the stock and you get \$12,000 back. So you made \$2,000 in that year.

$$\text{Cash on Cash Return} = \frac{\$10,000}{\$2,000} = 5 \text{ years}$$

Real Estate Example – You buy a rental property for \$100,000 in cash and you receive rental income from it. In one years time you receive \$12,000 in rent (\$1,000 per month).

$$\text{Cash on Cash Return} = \frac{\$100,000}{\$12,000} = 8 \text{ years and couple months}$$

The examples are based on if you keep getting the same return year after year. The faster you get your initial cash investment back the richer you become.

You can use this formula to compare investments to see which one would be a better buy. For example, your looking at 2 investment properties to buy but don’t know which one is better try this formula. If house “A” gets your initial cash investment back in 10 years and house “B” gets your cash investment back in 14 years. Definitely in this situation house “A” would be a better investment.