

Return on Investment

Return on your investment or ROI is a term everyone should know about before they get into investing into anything. You want to understand how this works because you will use this on all your investments you ever buy.

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

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.

$$\text{Return on Investment} = \frac{\$2,000}{\$10,000} = 20\%$$

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).

$$\text{Return on Investment} = \frac{\$12,000}{\$100,000} = 12\%$$

Note: This is only a simple formula on a rental property there is more involved with ROI with real estate. You have appreciation, etc.

The higher the ROI the better the investment is.

1% - 5% – Normal

5% - 10% – Good

10% - 20% – Super Good

20% and Higher – Financial Freedom here I come