

# UNDERSTANDING COMPOUND INTEREST

Compounding occurs when the returns on an investment are not spent but reinvested to generate even better returns.

Compounding can be a very powerful tool to create wealth over time. All you need is **PATIENCE** and **DISCIPLINE**. The example below (adapted from bankrate.com) shows the amount of money you could possibly save for retirement.

*As you might notice; the younger you start saving = the more time your money can grow = the more you would have saved at retirement.*

## ASSUMPTIONS:

Returns of **5%** per year

Retire at age **65**

Initial investment of R0

SAVE PER MONTH	R500	R1 000	R1 500	R2 000
ANNUAL SAVINGS	R6 000	R12 000	R18 000	R24 000
Start saving	Amount at retirement	Amount at retirement	Amount at retirement	Amount at retirement
 <b>AGE 25</b>	 <b>R741 000</b>	 <b>R1 483 000</b>	 <b>R2 224 000</b>	 <b>R2 965 000</b>
 <b>AGE 35</b>	 <b>R408 000</b>	 <b>R815 000</b>	 <b>R1 223 000</b>	 <b>R1 631 000</b>
 <b>AGE 45</b>	 <b>R203 000</b>	 <b>R406 000</b>	 <b>R609 000</b>	 <b>R812 000</b>
 <b>AGE 55</b>	 <b>R77 000</b>	 <b>R154 000</b>	 <b>R232 000</b>	 <b>R309 000</b>

**“Money makes money. And the money that makes money makes more money.” – Benjamin Franklin**

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