

Clear, simple, jargon-free investment information from IWIinvestor

INSIDE

Get a piece of compound pie

Tips to take advantage of the phenomenon that is compounding!

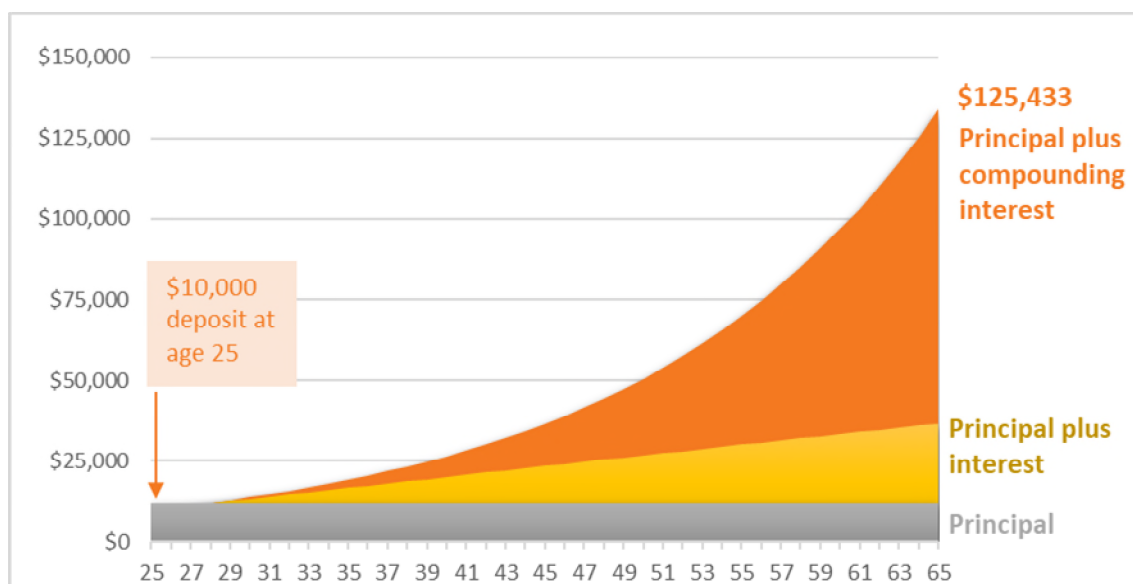
How compounding can affect your debt

The most powerful force in the universe is.... compound interest?

- By Sarah Delany

History's most famous scientist - Albert Einstein - is said to have once described compound interest as the most powerful force in the universe. He is also meant to have called compound interest the '8th wonder of the world'. Whether he said it or not (its all over the internet, so it must be true, right?) - the concept is an important one from which we can all benefit.

Compound interest simply means earning interest on interest in a bank account, or growth upon growth on shares. We can refer to this phenomenon as the compounding **effect**, as it doesn't just apply to "interest". Of course you have to work for your initial investment, but from then on, the compounding effect means your money works FOR YOU, while you sleep!. Take a look at the following example.



This is based upon a gross return of 6.7%, our expected long term return for our **Growth** portfolio.

“The Compound Effect is the principle of reaping huge rewards from a series of small, smart choices”

— Darren Hardy

If you reinvest your returns, you allow your wealth to grow at an accelerated rate.

However, be aware that the compound effect may also apply to your debt. The longer you take to pay off your debt, the more you'll owe on interest. Did you know most credit cards accumulate interest daily? Being aware of how compounding works can help you manage your debt (pay it off regularly) as well as take advantage of your savings (pay in regularly and reinvest).

Getting a piece of the compounding pie

- Start early - the longer you have to invest the more time you have to compound. This includes investing in a bank account, KiwiSaver or Managed Funds - the concept is the same, the earlier you start the better outcome you'll have
- Reinvest everything (interest or dividends)
- Invest over a long time
- Keep depositing as much as you can, even if it's a small amount

*Encourage your whānau to get into KiwiSaver as soon as they can - on an average salary, Kiwis can end up with over a \$1,000,000 for their retirement just by putting away a small amount over a long period of time and utilising the “compounding effect”. **

**Average salary of \$67,000, contributing 6% of salary plus employer contributions, invested in a Growth portfolio, starting at age 25*

Disclaimer: The information contained in this publication is general in nature. It may not be relevant to individual circumstances. Always seek regulated financial advice from a Financial Advice Provider operating under a FMA licence before making investment decisions.

Why is compounding the 8th wonder of the world?

- **Its an equalizer**

The compound effect doesn't care about where you come from, what gender you are, what age you are or the colour of your skin. It effects everyone the same, because it depends upon **time**. Time is what we *all* have in common, and it is time which makes the compounding effect a little bit magic.

- **It utilises momentum**

An avalanche is very powerful, but where does it start? Usually in a small place with a small piece of snow, with a small bit of momentum. That momentum is gravity and it is a powerful, unstoppable force. Imagine the compound effect the same way - a powerful force that starts small. You need to do a bit of work to start off, but your wealth starts to snowball with wealth attracting more wealth, growing for you over time.

- **Want to check out your own savings?**

For your own detailed calculations, we recommend you look at the calculators on:

- www.sorted.org.nz/tools/savings-calculator; or
- www.sorted.org.nz/tools/kiwisaver-calculator

Sorted.org.nz is one of NZ's most trusted brands and is run by Te Ara Ahunga Ora Retirement Commission, a government-funded independent agency dedicated to helping New Zealanders get ahead financially.