THE POWER TO save & you

ATOM CAPITAL

Saving money consistently can seem like an impossible task, especially if you feel like you don't have enough disposable income to make a significant difference. However, the power of compounding can turn even the smallest savings into a substantial amount over time. A little really can go a long way.

Compounding is a simple concept, but it can have a massive impact on your finances. It's the process of earning returns on returns, which means that over time your money grows more and more. As an example, let's say you invest R1 000 and earn 10% interest per year. In the first year, you will earn R100 in interest, which brings your total investment value to R1 100. In the second year, you will earn 10% interest on R1 100, which is R110, bringing your total to R1210. As you can see, your money is growing more and more each year, and it is all thanks to the power of compounding. Similarly, capital gains can be earned on prior years' capital gains.

You can start small

Now, imagine you invest just R100 per month into a savings account that earns 8% interest per year. After one year, you will have saved R1 351.39, including the interest earned of R51.39. After five years, you will have saved R7 441.40 (including R1 341.40 in interest), and after ten years, you'll have saved R18 228.32 – R12 100 in deposits plus R6 128.32 in interest earned.

This may not seem like a lot, but when you factor in compounding, the numbers become much more impressive.

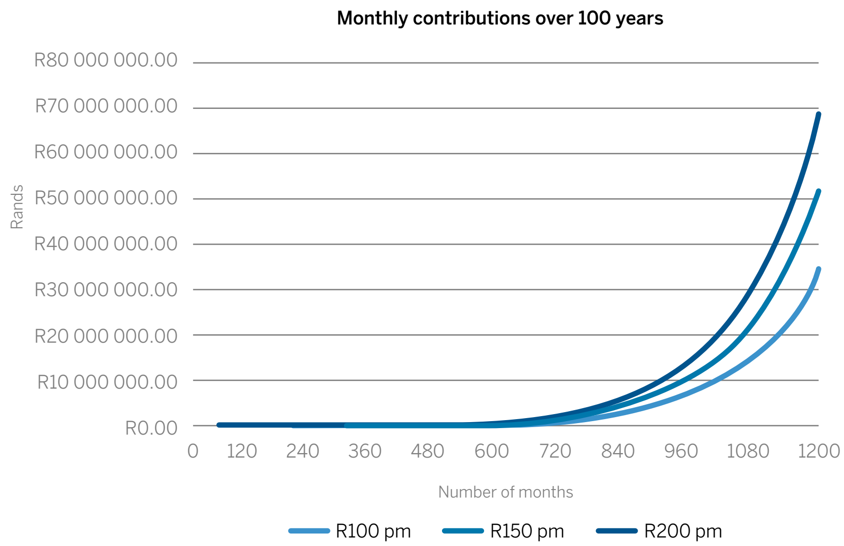
After 20 years, your R100 per month savings will have grown to R57 336, and after 30 years, it will have grown to R141 861. That's a significant investment resulting from a relatively small monthly-contribution.

Assumptions: Investing R100, R150 or R200 per month over 30 years. Annual CPI assumed at 5% and annual return assumed 8%.

Contributing consistently over time

The effects of compounding are truly powerful and evident over long periods of time as the returns are exponential in nature.

The below graph extends the first example to make it span a 100-year period.

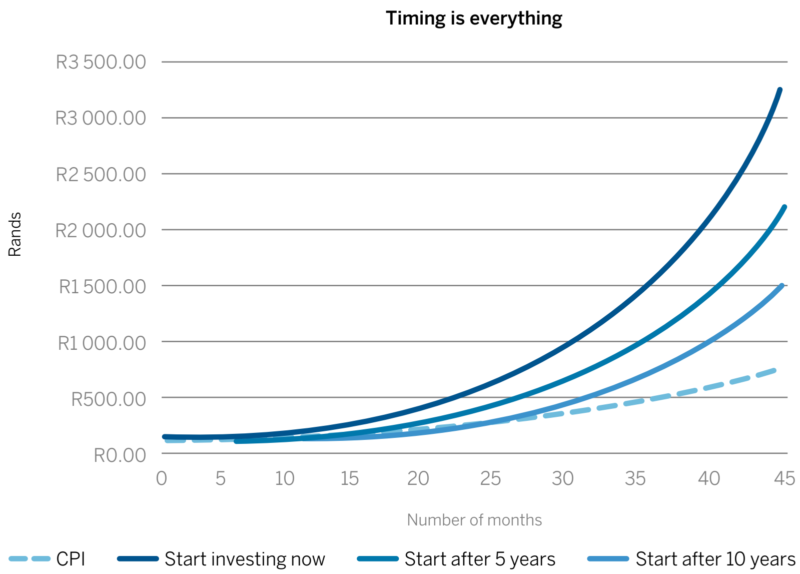


Timing is everything

The key to making the most of the power of compounding is to start early and be consistent.

The longer your money has to grow, the more powerful the compounding effect will be. Even small amounts of money saved consistently can add up to a substantial sum over time. By starting early, you may not need to make drastic lifestyle changes or sacrifice your current quality of life to save money. Instead, focus on making small changes that will help you save a little each week or month. As can be seen below, the benefits of starting to invest today will add to your wealth substantially in the future.

Assumptions: Investing R100 once off starting at year 0, 5 and 10. Annual CPI assumed at 5% and annual return assumed 8%.



In conclusion, the power of compounding is a fantastic tool for growing your wealth over the long term. By saving a small amount consistently, you can harness the power of compounding and watch your money grow more and more each year. Remember, it's never too late to start saving, but the earlier you start, the more time your money has to work for you, i.e. to compound. So, take a small step today, and you'll be amazed at how far your savings will take you in the future.

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