



GIVING THE GIFT OF COMPOUND INTEREST

The first lesson most children learn about money is what they can spend it on – lollies, video games, the latest fad - but it's our obligation as parents to also teach them about managing their money. And the earlier we can teach them about the power of compounding, the more they will appreciate you.

Compounding is the road to riches. It is safe and sure and anyone can do it. All you need is perseverance to stay on the savings path and the intelligence to understand what is happening. Compounding is earning interest on your interest. The more money you accumulate the larger the return each year.

Sadly there are two catches. First, it involves sacrifice. You can't spend it and still save it. And second, it sounds boring. At least it is until the money starts pouring in and then it becomes downright fascinating!

Let's look at an example.

David starts a savings program at age 17 and for eight years he puts away \$2,500 each year into a fund that earns 9% a year. After that he doesn't add any more to his savings fund. Jenny is also 17 but she puts off starting her savings program until she gets to age 25 – just when David stops saving. Jenny starts saving \$2,500 a year and keeps it up every year until she is aged 65. She has \$844,706. Amazingly through the power of compounding David who hasn't saved anything for the last 40 years has \$865,995 - \$21,289 more! The eight years that David saved were worth more than all of the 40 years that Jenny saved.

You're probably saying, "Where will the average 17 year old find \$2,500?" We have a suggestion. If your adult child is working – even for a few dollars a week – they will probably qualify for the federal government's co-contribution scheme. As well as teaching your children about compounding, you could gift them a \$1,000 superannuation contribution and the government would add another \$1,500 to their account. You could invest \$1,000 over eight years and your child could end up with \$865,995 at age 65, based on an average return of 9% pa.

It's worth sitting down and showing them the figures and relating them to the bigger and better things they can buy once they've let their money sit for a while. There are some aggressive investment strategies available for young people who are not as risk conscious. Contact us if you are interested in finding out more information.

Helping you build yours.

