

Wealth Management Adviser

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The raw power of compounding

Even though our interest rates are low (and could go even lower), compounding provides real benefits for savers.

Many know that they can grow their savings with simple compounding and reinvesting. But by how much more... you might be surprised.

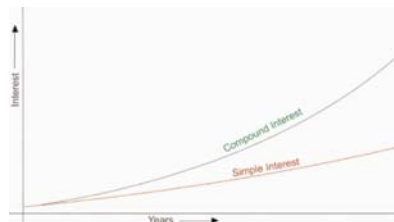
The amount of interest earned on a \$1,000 savings deposit over five years that compounds annually at a 5% rate is \$276. But if we compound it for another five years that same account grows at more than twice the amount earned after the first period. The total interest earned is \$629 instead of \$276.

Why the big difference? It's because of compounding.

Compound interest is literally interest on interest. So, after one year you earn \$50 in interest (5% x \$1,000); after two years you earn another \$50 in simple interest plus \$2.50 in compound interest (5% x \$50); after three years, you earn another \$50 in simple interest plus \$5 in compound interest (5% x \$100), and so on.

Simple interest is the amount of interest earned on the original principal, while compound interest is earned off the reinvested interest.

Over many years the impact of compounding is huge...



It doesn't sound like much but a husband and wife contributing \$5,000 each to a retirement or savings account would have \$50,000 in five years and \$100,000 in 10 years.

But with a return of just 5% it would grow to \$68,019.13 in five years, and \$142,067.87 in 10. That's \$42,067.87 of interest in just 10 years - and more than double their \$18,019.13 five-year interest earnings.

The more frequently interest is compounded the higher the effective rate. You end up making more interest!

Compounding your interest is an easy way to increase your savings return and should give you fewer excuses why you aren't saving.

And the sooner you start, the larger your returns will be.

While we're going through more than a rough patch in our economy, it doesn't mean we should stop good habits. Let compounding do the work for you.

Our track record

Despite a very challenging market, our portfolios have been performing strongly over the past 12 months, as a result of our active management approach.

Many typical 'balanced' fund manager portfolios have achieved performances in the range of negative 10% to negative 14%.

By contrast, many Grant Thornton Wealth Management Limited portfolios have achieved small positive results of up to 3%, or we have been able to minimise the impact of the current market at less than a negative 5% return, adding significant value for our clients.

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Why we think energy is a good long term proposition

With struggling world economies and low commodity prices the idea of establishing a long-term position in energy right now might seem like a move that will lower portfolio returns.

Now is precisely the time that investors should consider establishing an energy position or adding to existing holdings

(within usual asset allocation ranges).

History shows that commodities and energy, in particular, are less correlated to other assets. This means they tend to move in opposite directions to many other assets. Whilst this obviously hasn't been true in the past few months, that's more the exception than the rule over time.

We see falling demand based on the global credit crisis as a short-term issue only. The credit crisis will be worked through and there will be a recovery sometime. Longer-term we see significant upside, especially for countries such as China and India which are only just beginning to rise to consumption levels that the rest of the world takes for granted.



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Prices have been so low for so long that the industry is basically unsustainable at a time when governments worldwide are committing to significant stimulus packages.

Assuming these programmes take 2 – 4 years to work through the system, the stimulus programmes being implemented now will increase demand at a time when the entire industry hasn't been making the capital expenditure required to maintain assets, production and delivery capacity right now. This means prices are likely to rise significantly when demand resumes.

Foot notes

The information provided is of general nature only and is not intended to be relied upon as specific investment advice. Every investors circumstances are unique. Investors should consult their usual adviser, or contact us so that a specific recommendation relative to their situation can be prepared.

Could it happen here?

A Spanish bank is offering its customers cars free of charge in exchange for opening long-term, interest-free deposits. Banesto, a mid-sized lender controlled by Santander, Spain's largest bank, is offering savers Citroën cars or Piaggio motor scooters in lieu of interest payments under a promotion called *Sobre Ruedas*, which translates as "smooth running".

Banks routinely offer customers opening new deposits small gifts like pens, although Banesto has in the past given clients computers and flat-screen televisions. The latest offer, however, marks the bank's biggest product giveaway to date.

Banesto does not pay interest on depositors' capital during the lock-in period of the offer, but is offering to take care of details such as registration and transport to the nearest dealership. Those customers who do take it up pay tax as if the vehicle's value were interest.

Financial Times



A disclosure statement is available on request, free of charge.

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