Investing in Context

The power of compound returns

When is the right time to invest?

It's a question many people ask when thinking about investing for the first time. While there is no one-size fits all answer, many financial commentators highlight the potential benefits of starting early or not holding off investing.

Why investing early matters

Quite simply the earlier you invest, the more time your money has to grow. Trying to wait for the "perfect time" to invest, is almost impossible. Markets move daily, and while timing can matter in the short term, being in the market tends to deliver better long-term results than waiting on the sidelines. Starting early means giving your investment more time to grow and benefit from compound returns.

As with any investment, please note that the value of your investment may go down as well as up, and you may not get back what you invest.

What is compounding and why is it so important?

Compounding is when your investment not only grows from the returns you earn, but those returns themselves also generate further growth. Over time, this creates a snowball effect that can make a big difference to your financial future.

Let's look at a simple savings example:

- **Year 1:** You deposit £1,000 in a high street bank account and earned 5% interest annually. At the end of year 1, your balance becomes £1,050.
- **Year 2:** You earn 5% interest again. But this time you will earn interest not only on your original £1,000 deposited but also on the £50 interest from year 1. Your new balance becomes £1,102.50.

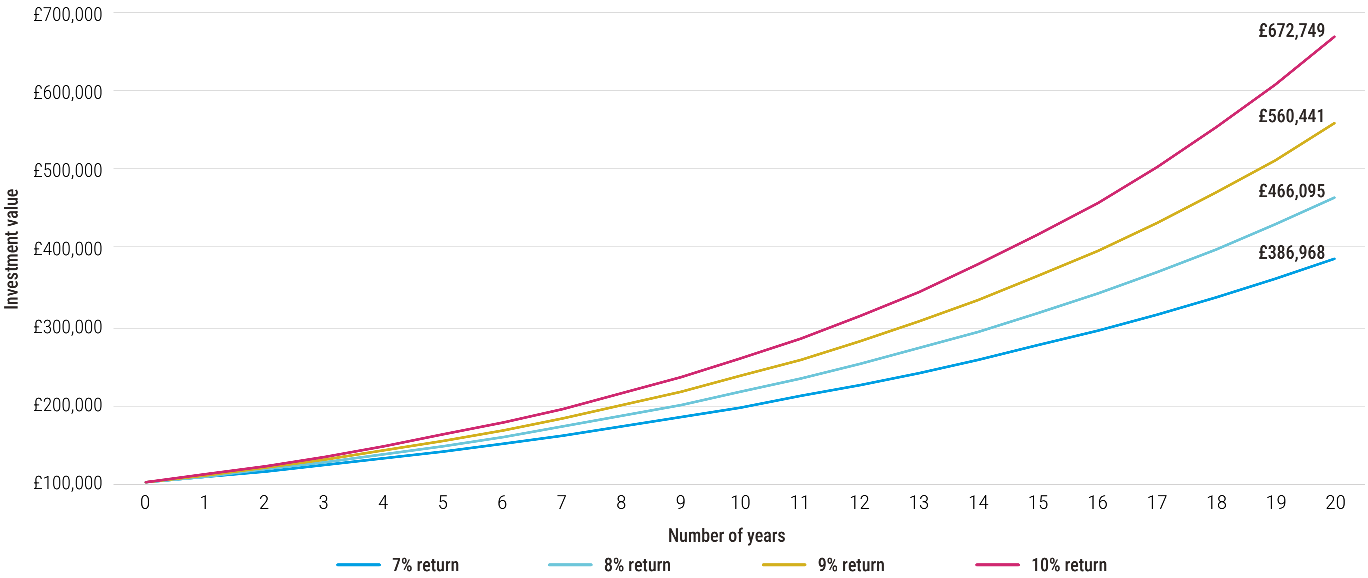
And so on, each year, you are earning interest **on a growing balance**. That is compounding in action.

Here is how it would look after 5 years:

Year	Balance at Year End	Interest Paid (Annual)	Cumulative Interest Earned
1	£1,050.00	£50.00	£50.00
2	£1,102.50	£52.50	£102.50
3	£1,157.63	£55.13	£157.63
4	£1,215.51	£57.88	£215.51
5	£1,276.28	£60.78	£276.28

This example refers to cash savings in a bank account. Interest rates, tax treatment depends on individual circumstances and fees may be applicable.

Figure 1: Compound returns of £100,000 invested over 20 years



These figures are for illustrative purposes only, based on consistent annual returns and no withdrawals. Returns are not guaranteed, and investments values can go down, as well as up.

The power of 1% – why small differences make a big impact

It might seem small, but even a 1% difference in returns can make a significant impact over time.

Figure 1 shows an example of what happens if you invest £100,000 over 20 years, with different rates of annual returns.

How can this help reach your financial goals?

Let's say you earn an average return of 7%, already a strong return. But if you can improve that by even 1%, **up to 8%**, through investing more efficiently (e.g. using an Individual Savings Account (ISA) that gives you tax free growth), reducing fees, or staying invested through markets ups and downs, the impact adds up. Returning over potentially £79,000 more the 20 year period, up from £386,968 to £466,096.

And if those returns rose to 9%?

That is an additional £173,000 on top of the 7% return over 20 years. Just from earning 2% more per year.

These small changes can lead to big results.

That extra growth could mean:

- Paying off the mortgage sooner
- Retiring earlier or more comfortably
- Support your children with education or property
- Gaining peace of mind and financial security

This is the **power of compounding**. Your money does not just grow, it grows on its growth. And the longer you stay invested, the greater the potential impact.

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