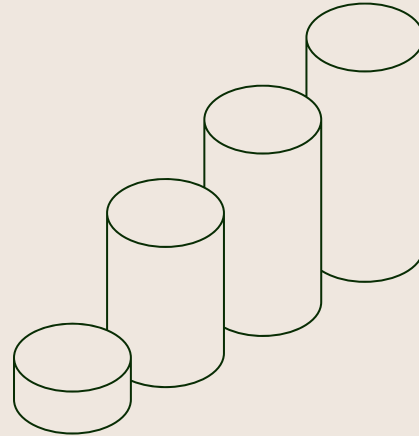




Magellan Explains

Compounding



In the world of investing, there is the potential to turn small investments into significant returns over time. This is known as compounding, and it can play a pivotal role in growing wealth for a comfortable financial future.

What is compounding?

Compounding is when an assets earnings are reinvested to generate additional earnings over time. This means earning returns not only on an initial investment but also on the accumulated returns received. By remaining invested and allowing the returns to compound, investors may achieve exponential growth over time. Even small contributions made consistently over the long term may lead to remarkable wealth accumulation due to compounding.

Start early

Time is one of the keys to unlocking the potential benefits of investment compounding. **The sooner an investor starts investing, the more time that money has to grow.** When dividends earned are regularly reinvested, those returns have the chance to compound significantly over time. Starting early and taking a long-term approach is key to realising the full impact of compounding.

Market volatility

Investing for compound returns requires a long-term perspective. Rather than trying to time the market, which can be risky, hard to do and unpredictable, compound investing relies on the power of time and can help smoothen the ride of market volatility. Over the long term the benefits of staying invested and allowing compounding to work can outweigh the short-term ups and downs of the market.



For example, the chart below shows the growth of an investment of \$10,000 with a 3% p.a. interest rate, compounded monthly over a period of 10 years. Without contributing any additional money into the investment and from compounding alone, the investment would increase by close to \$3500 within the 10 year period.

**Growth of 10,000 compounded at 3% pa
with interest added on a monthly basis over 10 years**



This chart is for illustrative purposes only

A long-term mindset

Investing for compound returns requires patience and a long-term mindset. In the early years, the growth may seem slow and immaterial, but as time goes on, the compounding effect becomes more pronounced, and the growth curve steepens. Staying committed to an investment plan and having the patience to weather market volatility is essential to realising the full potential of compounding.

Remember, investing for compound returns is a strategy that can turn small, consistent investments into significant wealth over time. Reinvesting earnings and maintaining a long-term mindset are essential elements in making the most of compounding. Every dollar invested today has the potential to grow exponentially in the future, making investment compounding an essential tool for building wealth and achieving financial goals.

Distribution reinvestment plans (DRP)

A DRP is a great way to increase your holdings of units in a fund. It is the process where investors can reinvest their distributions to obtain additional units in the fund. This allows investors to accumulate more units over time and potentially benefit from compounding returns.

At Magellan, we believe that successful investing is about finding, and owning for the long term, companies that can generate excess returns on capital for years to come. We scour the world for the best companies that we believe have a sustainable competitive advantage that will compound returns for our investors over the long term. We seek to own high-quality stocks and let compound returns work their magic over time.

We are dedicated partners, driven by a focus on understanding client needs and providing specialist investment solutions.



For more information, please visit

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