


the Power of Compound Interest

Discover how compound interest can work its magic for your financial future, especially in India.

 **by Himanshu Rajbhar**





The Magic of Time

1 Understanding Compound Interest
Learn how compound interest works and why starting early is crucial.

2 Indian Scenarios
Explore relatable examples to see the power of compounding.

Compound Interest: The Basics

The Power of Compounding

Earning interest on your original investment and all accumulated interest.

Early Investment is Key

Time is your ally, allowing compound interest to work its magic.

Compound Interest – Starting with principal P then the amount A in an account after t years, with an annual interest rate r compounded n times a year, is given by:

$$A = P \left(1 + \frac{r}{n} \right)^{nt}$$

Key Concepts: Compound Interest

What is Compound Interest?

Earning profits on both your initial investment and accumulated interest.

The Formula

$$A = P(1 + r/n)^{nt}$$

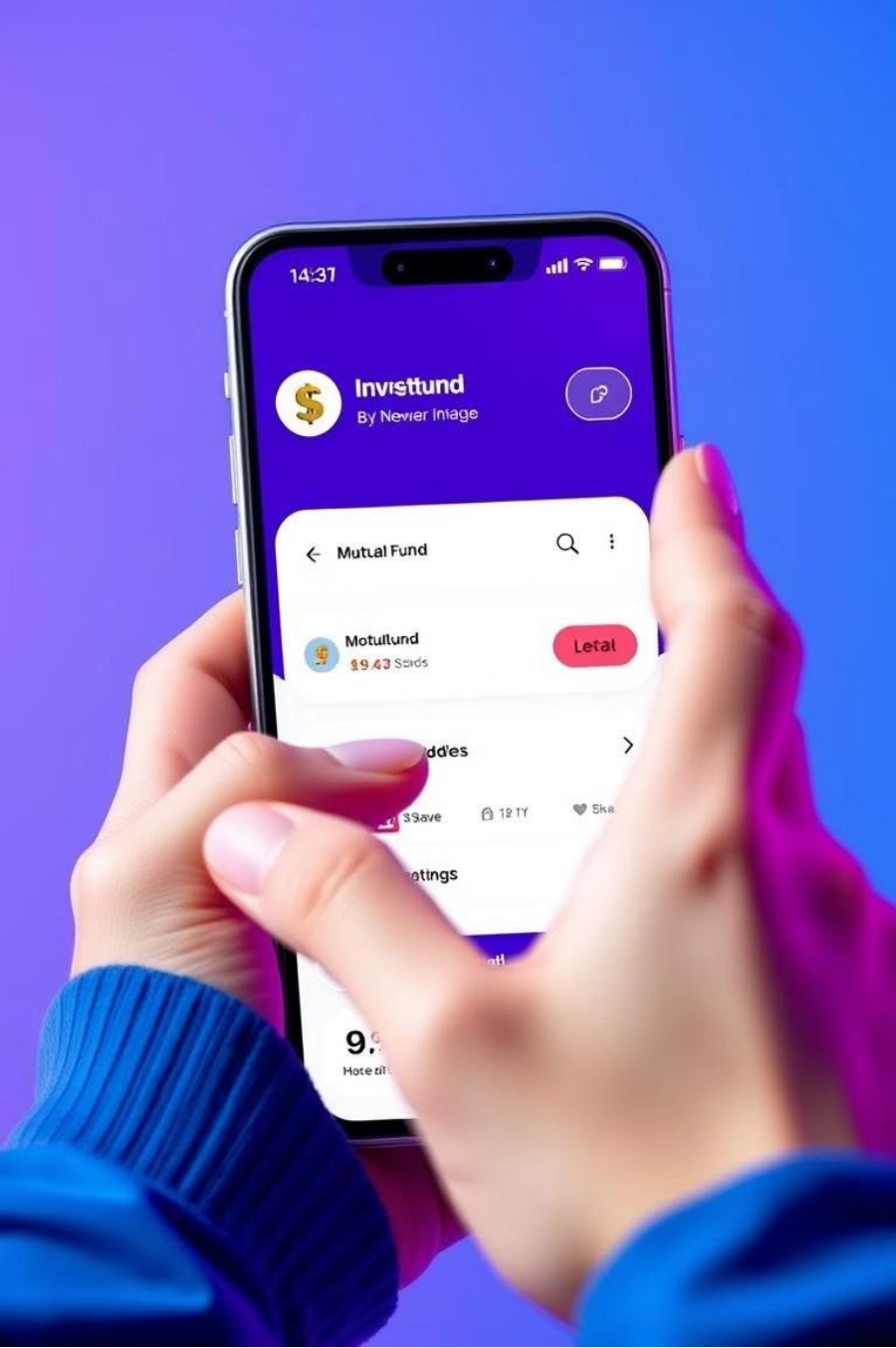
PPF

PPF Investment

₹1,00,000 invested in a PPF account earning 7.1% annual interest.

15 Years Later

Your investment grows to ₹2.81 lakhs (tax-free!) thanks to compounding.



Equity Mutual Funds

1

Starting at 25

Invest ₹5,000 monthly in an equity mutual fund with 12% returns.

2

25 Years Later

Your investment grows to ₹1.07 crores, demonstrating the power of long-term investing.

Fixed Deposits

FD Investment

₹10 lakhs invested in an FD with 6% annual interest for 20 years.

Compounding Effect

Your investment grows to ₹32.07 lakhs after 20 years.

Inflation Impact

However, inflation reduces the value to approx. ₹12 lakhs, highlighting the importance of beating inflation.



The Rule of 72



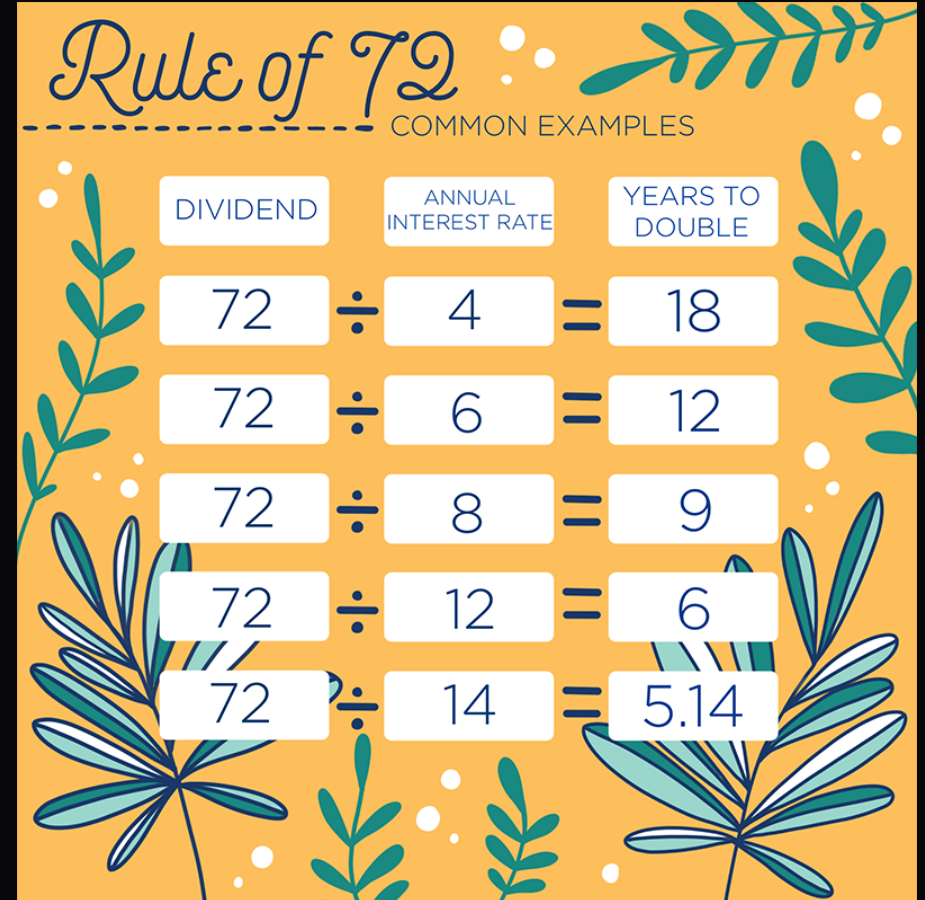
PPF

At 7.1% interest, your money doubles in 10.1 years.



Equity Mutual Funds

At 12% returns, your investment doubles in 6 years.



DIVIDEND		ANNUAL INTEREST RATE		YEARS TO DOUBLE
72	÷	4	=	18
72	÷	6	=	12
72	÷	8	=	9
72	÷	12	=	6
72	÷	14	=	5.14



Key Takeaways for Indian Investors

- **Early Investment**
Starting at 25, yields significantly more wealth than starting at 35.
- **Combating Inflation**
Invest in stocks, property, or PPF to outpace inflation.
- **Tax-Free Growth**
PPF and ELSS mutual funds offer tax-free income and compounding returns.

Common Indian Investor Questions

Is PPF Safe?

Yes, it's government-backed with tax benefits.

Are Mutual Funds Risky?

Over long periods, equity funds outperform fixed deposits and inflation.

