STARTING EARLY IS FULL BATTLE WON

The most important advantage of beginning to invest early in your career is to realise the full benefits of compounding.

POWER OF COMPOUNDING

SURESH

AGE: 25

TOTAL AMOUNT INVESTED: ₹ 4.2 lakh

AMOUNT INVESTED: ₹ 5000 pm

STAYS INVESTED TILL: 60 years

YEARS OF INVESTMENT: 7 years

ASSUMED RETURNS: 12%

TOTAL AMOUNT ACCUMULATED: ₹ 1.52 crore

RAMESH

AGE: 32

AMOUNT INVESTED: ₹ 5000 pm

TOTAL AMOUNT INVESTED: ₹ 16.8 lakh

YEARS OF INVESTMENT: 28 years

STAYS INVESTED TILL: 60 years

ASSUMED RETURNS: 12%

TOTAL AMOUNT ACCUMULATED: ₹ 1.2 crore

It's said the early bird gets the worm. This adage is best suited to the world of investing where — as with anything in life — the earlier you do your retirement planning, the greater will be your return on investment. When you start your career, your salary may be lower and hence you may have lesser disposable cash with you. This means your saving capacity may not be much in absolute terms. However, do not get fazed by this because the first few years of your earning life has a huge impact on how much you end up saving for your retirement.

Thus, the most important advantage of beginning to invest early in your career is to realise the full benefits of compounding. Making compound interest work for you is the sign of a prudent investor and it is put to work when you allow your money to grow exponentially over a long period of time. Financial experts advise that a sum invested early in life, even for a shorter period will end up getting the investor more money at the time of retirement as compared to an investor who starts investing later and continues to invest till his retirement.

Take the case of Suresh and Ramesh, both of the same age. Suresh starts investing ₹ 5,000 per month from his 25th birthday, and continues to invest the same amount till he turns 32. He stops further investment, but continues to remain invested in the fund till he retires at 60. At 12% expected rate of interest (Compounded Annualised Growth Rate), he would accumulate ₹ 1.52 crore at the age of 60. Ramesh however, takes some time to begin his journey. He begins at the age of 32 and invests the same amount i.e. ₹ 5,000 per month. However, he knows that he has begun late. So he keeps investing till he turns 60 in the fund. His expected rate of return is also 12%. Despite doing so, he would accumulate only ₹ 1.20 crore i.e.32 lakh less than Suresh! If you notice, Suresh invests only ₹ 4.2 lakh over a period of seven years and gets back ₹ 1.52 crore when he turns 60, whereas Ramesh invests ₹ 16.8 lakh for 28 years and gets back only ₹ 1.20 crore!

This example shows that the power of compounding ensured that Suresh, the early riser, makes more money. If Ramesh invests for longer, he could beat Suresh. But rarely can we postpone the time lines of our financial goals. In such circumstances, it makes a lot of sense to begin early and stay invested. The habit of investing early also helps mitigate volatility risk, when it comes to investing in relatively risky assets such as equity. The longer the time frame, lower is the volatility.

MONTHLY SIPs (SYSTEMATIC INVESTMENT PLANS) OF MUTUAL FUNDS ARE AN IDEAL WAY TO INVEST REGULARLY AND EARLY