



"Live on less than what you make, invest it reasonably and live a long time. It's a formula that can't not work."

Tom Gayner

"Life is like a snowball. The important thing is finding wet snow and a really long hill."

Warren Buffett

In January 1980 Jimmy Carter was the President of the United States, the Rubik's cube was released and the All Ordinaries Index was launched. The All Ordinaries tracks the share price of the largest 500 companies listed on the Australian Stock Exchange (ASX) and accounts for 95% of the value of all shares listed on the ASX. Over the subsequent 37 years the All Ordinaries has reported compound annual growth, including dividends, of 11.4%.

I am constantly impressed with the overwhelming power of compound returns. Albert Einstein allegedly described compound interest as the eighth wonder of the world and stated that, "He who understands it, earns it. He who doesn't pays it." Anyone who has ever paid off a mortgage will be familiar with compound returns in reverse, as a seemingly immovable load of debt miraculously melts as the loan is progressively paid down.

If a canny twenty five year old had started saving just \$200 a month from their salary at the launch of the All Ordinaries and achieved its market return their nest egg would now be worth \$1,132,838, sufficient to support a very comfortable retirement for this now sixty two year old. If they had deferred their regular savings by ten years (when presumably they would be earning a more generous salary) but compensated by instead saving \$300 a month towards their retirement, they would now have \$556,456 saved. Whilst this is still a comfortable nest egg, it falls well short of the early bird's return.

Throw in a tax-friendly environment, such as is enjoyed by our super funds or by deferring capital gains, and the advantages of early and regular savings are compelling. Whilst many of us are a little long in the tooth to reap the full benefits of future compounding, I think it an extremely valuable concept to communicate to our kids and grandkids.

March 2018