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# Harness the power of compounding and consistency to grow your wealth

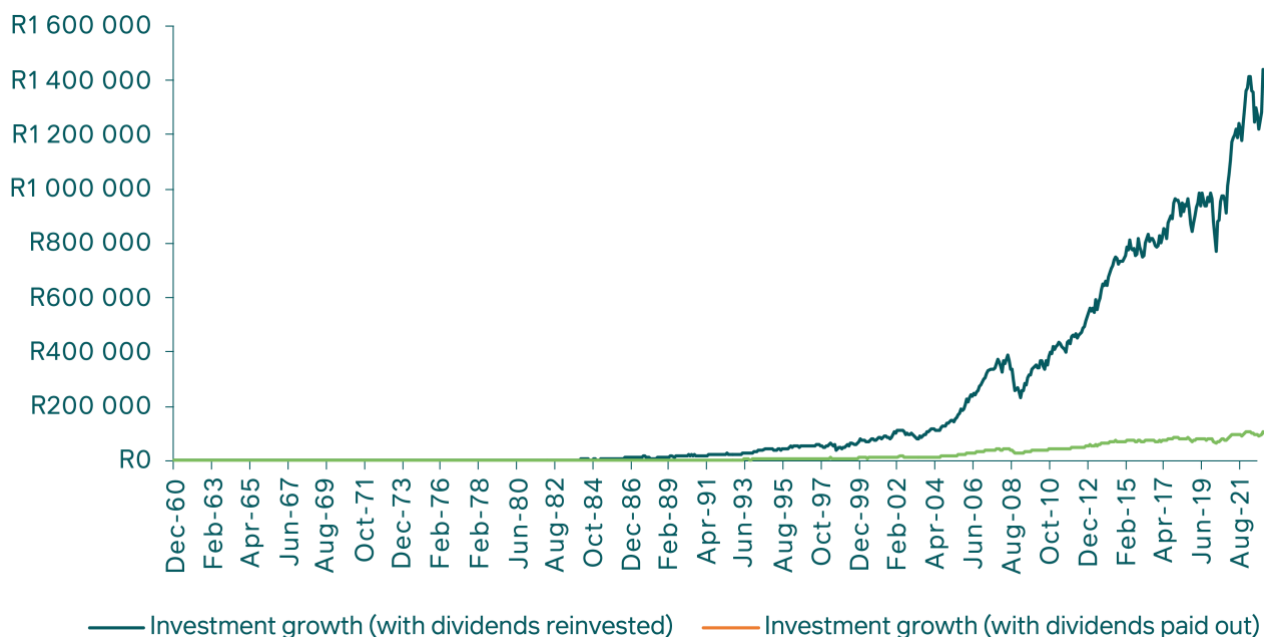
As the saying goes, “the whole is greater than the sum of its parts.” A building, for example, is made up of various materials, from cement to steel, and once it’s built, becomes something much more than these individual components, like an office park, retail space or a house.

It might be a bit esoteric, but the same concept applies to investing. Your portfolio is more than the sum of the individual investments that it comprises. For example, the combined assets create a diversified whole that improves the portfolio’s risk profile and, if left to grow on its own, will provide returns that multiply over time, particularly when you consistently reinvest those returns.

“Let your money work for you” is a well-known investing adage. This is achieved by taking advantage of the power of compounding, often touted as the “eighth wonder of the world”. Simply put, compounding is the process of receiving returns earned on an investment and reinvesting them (rather than having them paid out), thereby creating a larger base on which future returns (i.e., capital growth and income) can accumulate.

Let’s look at the long-term effect of compounding on a R100 investment made in the South African equity market (JSE All Share Index) on 30

December 1960. Note that due to the effects of inflation, the purchasing power of R100 in 1960 was the equivalent of approximately R10,650 in today’s money. The graph below shows a comparison of the investment’s growth with dividends paid out versus when dividends were reinvested.



Source: IRESS. Period: 01/12/1960 - 31/12/2022 Past performance is not indicative of future performance.

After 62 years of reinvesting dividends, the initial R100 investment would have grown to R1,408,533 – yielding an impressive return of 16.7% per year (at 31 December 2022). By comparison, had dividends been paid out, the investment would have grown to only R104,019 for a return of 11.9% per year. The additional return earned by reinvesting dividends, compounded over the years, results in an end value over *thirteen times the size* of the value achieved by having dividends paid out.

These results reveal the key to wealth accumulation: a consistent and patient investment approach. The table below shows the percentage split of the total investment value between the initial investment and the reinvested dividends, as at the end of the indicated years. You’ll notice that over time, reinvested dividends represent an ever-greater proportion of the total investment value. By December 2022, a substantial 93% of the investment value is attributable to reinvested dividends, whereas only 7% is attributable to the initial investment.

	1960	1970	1980	1990	2000	2010	2016	2022
Initial investment	100%	61%	33%	19%	15%	11%	9%	7%
Reinvested dividends	0%	39%	67%	81%	85%	89%	91%	93%

Source: IRESS

This analysis highlights that investing as early as possible and remaining invested consistently over the long-term ensures that you can truly harness the power of compounding.

Unit trust funds earn income in the form of interest and/or dividends received from the funds’ underlying holdings (e.g., bonds or shares). While virtually all the income earned by single asset class funds will be either dividends *or* interest, multi-asset class funds such as the [M&G Balanced Fund](#) earn a combination of both interest and dividends.

When you [complete an investment application for a unit trust](#), you are given the option of having the fund’s distributions either 1) paid out to you as cash, or 2) reinvested back into the fund. In the second option, additional units will be purchased at the prevailing unit price on the day of reinvestment. To take advantage of compounding, you need to choose the latter.

If you are ready to start investing with M&G Investments, contact your financial adviser or our Client Services Team on 0860 105 775 or at [info@mand.co.za](mailto:info@mand.co.za).

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