

Finance: The Power of Compounding



Compound Interest A good way to build up your nest egg

The most important thing individual investors need to know about building wealth is the power of making regular investments and reinvesting earnings rather than spending the profits. Following this principle can earn you a decent return with very little effort.

Interest on Interest

What is "compounding"? Simply put, it is interest that earns interest. When you reinvest the income and dividends generated by your investments, you may get the added benefit of compounding. That means you not only earn money on your original investment, but earn money on your earnings. Reinvesting your investment earnings can make a big difference to your wealth over time.

Dangers

Compound interest is rewarding, but avoiding negative compounding is also important. Let's imagine that Mr Prudent invests US\$10,000 in a mutual fund and for three years the growth remains stable at 10% per year. Let's also say that Mr Risky invests US\$10,000 in a stock which goes down by 10% each of the first two years, but up 50% in the last year, an annual average gain of 10%, like Mr Prudent's

mutual fund. Who will have more money at the end? Although the annual average return is the same, Mr Prudent will have more money than Mr Risky. (See table)

Nest Egg

As we all know, income is used for two purposes: spending and saving. The benefit of consuming things today versus the benefit of consuming things later through saving depends upon an understanding of opportunity cost. For example, if you choose to buy new athletic shoes today, you give up the opportunity to save your income for use in the future. Financial success is rarely achieved unless individuals choose to postpone some current spending so that they can save that income. Individuals that save regularly and take advantage of the power of compounding can build their personal savings into a comfortable nest egg.

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	Mr Risky		Mr Prudent		
Investment	10,000	Return	Investment	10,000	Return
End Year 1	9,000	-10%	End Year 1	11,000	10%
End Year 2	8,100	-10%	End Year 2	12,100	10%
End Year 3	12,150	50%	End Year 3	13,310	10%
Average		10%	Average		10%

business listings

Accounting & Auditing

Bureau Veritas
e.town Building, #4.4B & 4.5A 364 Cong Hoa, Tan Binh Tel: 812 2196
Auditing, technical services and solutions firm working all the major industrial service sectors. Provides management system certification and related training for ISO 9001, ISO 14001, SA 8000, OSHAS 18001, HACCP, ISO 22000 and BRC. Has over 700 offices worldwide in 140 countries.

KPMG
10F Sun Wah Tower, 115 Nguyen Hue, Q1 Tel: 821 9266
www.kpmg.com
Worldwide firm specialising in auditing, accounting, tax and management consulting services. Also does executive search and selection.

PricewaterhouseCoopers
Saigon Tower, 29 Le Duan, Q1 Tel: 823 0796
www.pwc.com
Provides business services including auditing, business and technology solutions and tax and legal consulting. Has more than ten years' experience in Vietnam and works in all major industry sectors throughout the country. Through their affiliated law firm, PricewaterhouseCoopers Legal, they also provide the full range of legal services to investors in Vietnam.

Advertising & Marketing

Bates 141 Vietnam
#803, Harbour View Tower, 35 Nguyen Hue, Q1 Tel: 821 8632
www.batesasia.com
A full service marketing communications company that is part of the WPP Group. Focuses exclusively on the growing demands of Asian business, helping to build sustainable brands with global ambition.

Edge Marketing
31 Nguyen Dinh Chieu, Q1 Tel: 911 1190
www.edge-asia.com
A recently established creative marketing company that matches the results-driven requirements of modern business with the needs of the consumer. Embraces a wide range of modern technology and concepts to help provide a full-service marketing package to their clients.

Golden Communication Group
1 Ly Tu Trong, Q1 Tel: 910 1250
www.goldenadgroup.com
Vietnam's largest locally owned advertising agency provides a range of services including advertising, design, marketing and PR.

Grey Global
275B Pham Ngu Lao, 7/F, Q1 Tel: 920 7290
www.greyglobalgroup.com
A full-spectrum marketing communications company, Grey's work includes PR, retail management, events and database marketing. Has offices in nearly 100 countries and major clients include Procter & Gamble, SmithKline Beecham, BAT and Mars.

JWT
Metropolitan Building, 235 Dong Khoi, Q1
www.jwt.com
The world's largest advertising agency, JWT's network has more than 8,500 employees in 300-plus offices in 87 countries who serve over 1,200 clients.

Mccann Erickson
Green View, 27 Le Thanh Ton, Q1 Tel: 824 1903
A global advertising agency network, Mccann Erickson has offices in over 130 countries and almost eight decades of multinational experience.

Ogilvy & Mather
16F Sun Wah Tower, 115 Nguyen Hue, Q1 Tel: 821 9529
www.ogilvy.com
Well-known marketing communications company that leverages the brands of multinational clients by combining local know-how with a worldwide network. Works to create powerful campaigns that address local market needs while still reinforcing universal brand identity.

Purple Asia
10J Tran Nhat Duat, Q1 Tel: 848 4465
www.purpleasia.com
A leading independent creative communications company. Offers a wide range of services such as graphic design, branding, interactive media, video, photography and production.

Red
10 Phan Ngu, Q1 Tel: 820 0169
chris@red.vn
A full-service branding and marketing agency focused on brand building. Offers design and digital services. The team blends international expertise and local know-how.

Saatchi & Saatchi
3 Phan Van Dat, Q1 Tel: 824 1207
www.saatchi.com
60th place among the top 100 global advertising agencies, the company has worked with over a half of the 50 best-known brands in the world. Services include advertisement planning, direct marketing, marketing consulting, graphic design and advertising.

Song Huong Orchid
7-9 Nguyen Hien, Q3 Tel: 8181344
This boutique agency with world-class thinkers and highly competitive fees provides services including brand and communications strategies, graphic design and event management, along with free post-campaign evaluations.

Business Consulting

Concetti
33 Dinh Tien Hoang, Q1 Tel: 911 1480
www.concetti-vn.com
Consulting and research firm with a range of clients including the government, global U.S. consumer products companies, infrastructure developers, oil companies and the World Bank.

Ernst & Young
Floor 8, Saigon Riverside Office Center, 2A-4A Ton Duc Thang, Q1 Tel: 824 5252
www.ey.com
Provides a broad spectrum of services to help businesses capitalise on opportunities for growth, improve financial performance and manage risk. Works with a range of firms including private, state-owned and foreign.

Grant Thornton
15th Floor, Bitexco Building, 19-25 Nguyen Hue, Q1 Tel: 914 3747
www.gt.com.vn
Chartered accountants and management consultants working in a range of fields including audit, accounting, tax advice, corporate finance, business services, growth and strategic services, and project management. One of the world's leading accounting and consulting firms.

Phuong Nguyen Consulting
1st Floor, TPC Business Center, 92-96 Nguyen Hue, Q1 Tel: 829 2391
www.pnp-consulting.com
Consultant in investment promotion for international companies seeking to establish a presence in Vietnam. Conducts market-entry studies and organises investment conferences and PR events, as well as facilitating foreign investment and trade.