THE EIGHTH WONDER

Power of Compounding

Why the best time to start investing was yesterday — and the next best time is today

Prepared by SubbuS, Retired Banker

"Compound interest is the eighth wonder of the world. He who understands it, earns it; he who doesn't, pays it."

Most of us understand simple ideas like saving money in a piggy bank. Compounding is that same idea, but with a magical twist: your money earns returns, and then those returns themselves start earning returns. Over a long period this snowball grows far bigger than most people imagine. The single most important ingredient in this magic is not how much you invest — it is how early you start. This short article explains why, with a simple comparison between two friends.

Meet the Two Friends: Mr. X and Mr. Y

Both invest the very same amount — Rs. 10,000 every month — through a Mutual Fund SIP (Systematic Investment Plan). Both stop at the age of 60. We assume the fund grows at 12% per year throughout. The only difference between them is the starting age.

- Mr. X is the early bird. He starts at age 25 and invests for 35 years (420 months).
- Mr. Y is the late starter. He starts at age 35 and invests for 25 years (300 months).

Mr. Y delays by just 10 years. Let us see what that small delay costs him.

The Result — Side by Side

Particulars	Mr. X (Early Bird)	Mr. Y (Late Starter)
Age started investing	25 years	35 years
Age stopped investing	60 years	60 years
Monthly SIP amount	Rs. 10,000	Rs. 10,000
Total years invested	35 years	25 years
Total months invested	420	300
Assumed annual return	12%	12%
Total amount invested	Rs. 42,00,000	Rs. 30,00,000
Corpus at age 60	**Rs. 6,49,52,691**	**Rs. 1,89,76,351**
Corpus (approx.)	Rs. 6.50 crore	Rs. 1.90 crore

Mr. X invests only Rs. 12,00,000 more than Mr. Y (10 extra years of Rs. 10,000), yet ends up with about Rs. 4.60 crore more. **That entire extra fortune is created by compounding — not by extra savings.**

"But I Will Simply Invest More Later" — The Catch-Up Cost

Mr. Y might say: "No problem, I will start at 35 and just put in a bigger amount to reach the same Rs. 6.50 crore as Mr. X." So how much would Mr. Y need to invest every month from age 35 to match Mr. X?

To match Mr. X's corpus of Rs. 6.50 crore, Mr. Y (starting at 35) must invest	Amount
Required monthly SIP from age 35	Rs. 34,228 p.m.
Mr. X's monthly SIP (for the same goal)	Rs. 10,000 p.m.
Extra Mr. Y must invest every month	**Rs. 24,228 p.m. (about 3.4 times more)**
Total Mr. Y will invest over 25 years	Rs. 1,02,68,469
Total Mr. X invested over 35 years	Rs. 42,00,000

To reach the same goal, Mr. Y must invest Rs. 34,228 per month — nearly 3.4 times what Mr. X paid. And even then, Mr. Y ends up putting in over Rs. 1 crore of his own money, while Mr. X reached the same figure with just Rs. 42 lakh. Lost time can be bought back only at a very steep price.

Why Does a 10-Year Head Start Matter So Much?

In compounding, the early years are the quiet years — the money looks like it is barely growing. The real explosion happens in the final stretch, because by then the corpus is large and even a 12% return on a big base adds enormous sums each year. Mr. X gives his money those crucial extra years at the start, so it has time to reach the explosive phase. Mr. Y, by starting late, misses exactly those final high-growth years — the most valuable ones of all. Time, not timing, is what builds wealth.

So, When Should One Start Investing?

The ideal time to have started investing was **yesterday**. If you missed that, the next best time is **today** — certainly not "someday." Every month of delay is a month of compounding you can never get back.

Key Takeaways

- Start early — even small amounts grow into large sums when given enough time.
- Be regular — a monthly SIP builds discipline and removes the worry of timing the market.
- Stay invested — the longer you hold, the more powerful compounding becomes.
- Do not wait for the "right time" or a bigger salary — the cost of waiting is far higher than most people realise.
- Time in the market beats timing the market.

Remember: it is not about how much you invest, but how early and how long. Begin today — your future self will thank you.

Disclaimer

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