

How Is The Compounding Help To Build A Wealth?

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Abstract- Compounding is just like putting your money to work for you. Compounding is an overflow of interest and wealth can grow exponentially through compound interest. Compounding is making money through money with the help of time.

I. INTRODUCTION

When you earn money then you have to manage your own finance to save your money for future. Then after the saving your plan is going to invest the money in that way that it increases your wealth. Your wealth will only increase with the compounding of money. It differs from linear growth, where only the principal earn interest each period.

Compounding refers to the reinvestment of earning at the same rate of return to constantly grow the principal amount year after year. “Even Albert Einstein said that compound interest is the 8th wonder of the world.”

Compounding is the process in which an asset’s earning, from either capital gain or interest, are reinvestment to generate additional earning overtime.

II. ELABORATIVE APPROACH



Source:-<https://tradebrains.in/wp-content/uploads/2017/05/power-of-compounding-1.png>

Diagram 1.1



<https://www.principalindia.com/sites/default/files/inline-images/power-of-compounding-in-mf.jpg>

Diagram 1.2

We can invest money in stock market, mutual funds, loans, FD (fixed deposit) etc. These are the resources using that we can earn the money in the form of compound interest.

Power of compounding on investment of Rs 1 lakh a year for 5 years

Year	Opening balance (₹)	Investment (₹)	10% interest (₹)	Closing balance (₹)
1	–	1,00,000	10,000	1,10,000
2	1,10,000	1,00,000	21,000	2,31,000
3	2,31,000	1,00,000	33,100	3,64,100
4	3,64,100	1,00,000	46,410	5,10,510
5	5,10,510	1,00,000	61,051	6,71,561

Total investment: Rs 5,00,000 | Value after 5 years: Rs 6,71,561 | Interest earned: Rs 1,71,561

Conclusion of above mention table:- Compound interest leads to a substantial growth of your investment over time.

III. FINDINGS

- Make an early start
- Consistency
- Be Patient
- Save money
- Spent money only on important things
- Time value of money

CONCLUSION

Now as we all are going to earn money, the thing is that to invest the money in effective manner and its give you very high return after longer period of time. So we all have to start investing money in mutual fund, share market even though the amount may be small like 500,1000 .

REFERENCES

www.investopedia.com
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APPENDIX

Diagram 1.1
Diagram 1.2

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I would like to say thank you to my Prof. Prathamesh Nadkarni sir who once thought me and provide guidance. He is always patient to help me with Question in terms of administration, rules and knowledge. Thank you very much sir!