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Start investing as early as possible and don't be afraid to start small

Aesop's popular fable of the Ant and the Grasshopper can offer us some great lessons on investing. In the story, a group of ants consistently and meticulously gather bits of food during the summer while their grasshopper friend chooses to 'play the time away' on his fiddle. By the time winter arrives, food is scarce and one cannot gather food again. The ants now fall on what they stored during summer but the grasshopper has to beg the ants the food. As simple as the story sounds, it teaches us the important principle of storing for the future when you have the opportunity.

Three lessons can be applied to investing from this story: (i) Invest while you can, (ii) don't be afraid to invest even little and (iii) invest consistently. These three keys can make the difference between a successful and an unsuccessful investor.

Invest while you can…

Just like the ants in our fable, we must also see investing as an opportunity that must be taken while it is available. There is no better time to start investing than NOW. Investing while you can today will help you be financially secure to cater for unforeseen circumstances in the future.

Don't be afraid to start small…

There is no rule that says you should invest a lot of money - you can start investing with as little (or as much) as you have. The ants in our story just kept storing little pieces of food each time until it was enough for them. Although you start small, you do not need to keep it small – increase it as and when you get more money. This will help you to avoid postponing your investment opportunity just because of limited resources.

Invest consistently…

Consistency is the secret of many great investors. Warren Buffet, one of the most successful investors of all time, says "we don't have to smarter than the rest, we just need to be more disciplined". Regular investing does two things for you: first, it helps you to make investing a habit and second, it helps you to invest more over time, which improves your investment returns. But consistent investing requires a high level of discipline, which is why we must take advantage of automatic deduction tools offered by many banks like Direct Debit.

Why early and consistent investing is key

Ever wondered how investing is able to significantly grow your money? It is thanks to the effect of compound interest. **Compounding is simply interest on interest. It is the ability of an asset to generate interest, which is then reinvested to generate its own interest.** It may look simple but its impact on your returns is significant. No wonder Albert Einstein called it "the greatest mathematical formula of all time" and the "8th wonder of the world".

Suppose you invest GHC 10,000 into a mutual fund. The first year, the return on the investment is 10%. Your investment is now worth GHC 11,000. Assuming you do not withdraw and the return for Year 2 is also 10%, your GHC 11,000 will grow to GHC 12,100. Rather than your investment growing by an additional GHC 1,000 (10%) like they did in the first year, it grows by an additional GHC 1,100 because the GHC 1,000 you gained in the first year grew by 10% too.

How compounding works

Compounding is more beneficial over the long term. This is why it is **important to start investing early.** It also yields more if the investment is held without withdrawals. This is why you must **invest consistently over a long period.**

Amount invested	Years	Returns ONLY	**Total investment** (Returns+Contributions)
GHC 1000	10	GHC 3,440	GHC 4,440
GHC 1000	20	GHC 18,715	GHC 19,715
GHC 1000	30	GHC 86,541	GHC 87,541
GHC 1000	40	GHC 387,701	GHC 388,701

For illustrative purposes only. Investment returns are not guaranteed. Calculation assumed an average annual return of 15%. Results are from the Databank Investment Calculator.

It gets even better with amounts invested regularly. Let's assume you **invest GHC 100 every month:**

Amt invested/ month	Years	Returns ONLY	**Total investment** (Returns+Contributions)
GHC 100	10	GHC 14,341	GHC 26,441
GHC 100	20	GHC 109,042	GHC 133,142
GHC 100	30	GHC 529,310	GHC 565,410
GHC 100	40	GHC 2,268,751	GHC 2,316,851

For illustrative purposes only. Investment returns are not guaranteed. Calculation assumed an average annual return of 15%. Results are from the Databank Investment Calculator.

Your actual returns may be significantly different from these figures as returns on your investment are not guaranteed. However, this gives you a good picture of how compounding helps to improve your returns as an investor. It is also a reminder to take advantage to start investing early and keep at it.

If you would like to invest smaller amounts regularly, please sign up for our Direct Debit service here for monthly/ quarterly deductions from your bank. You can also contact us for all your questions on investing or managing your personal finance. Call us on **0302 610610**, WhatsApp us on **0577 289133** or send us an email at info@databankgroup.com.

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