

Save now for a mid-life crisis car thanks to compound interest



What's a badge worth to you?

To some the difference between the most economical BMW and the cheapest VW is an extra letter in the name, with BMW drivers paying \$25,000 more for that extra flair.

If you had enough money to buy the fancier German auto first up but chose to snap up a VW and invest the remainder, you'd have \$130,000 more to your name by the time you wanted to splurge on your midlife crisis car.

The illustration below show the effects of compound interest*.



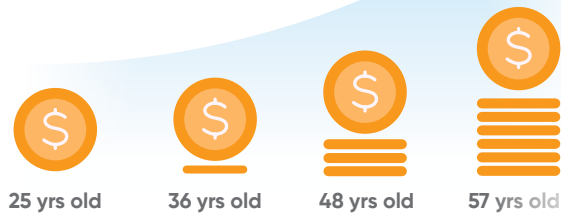
 \$25,000 Deposit
 Interest

After 23 years your initial \$25,000 is now worth **\$80,000+**

Time is Money

You might start out on learner's plates but compound interest builds momentum every year. In the first 12 months you earn interest only on your deposit (\$1,366 or 5% p.a.). But by the second year your deposit and your interest from the first 12 months combine and you score \$1,435 in interest.

Over 32 years you've earned more than \$100,000 in interest from your deposit. Giving you the opportunity to buy 7 VWs or one sports car.**



* Figures obtained using the [MoneySmart compound interest rate calculator](#), using an assumed interest rate of 5% over 32 years.

** VW polo value assumed as \$18,000.

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