

Chapter 1: Investing Concepts

Video 3

The power of compounding

Compound interest

Compound interest is the money earned not just on your initial amount but also on any interest that has accumulated over time. Compounding helps your savings or investments grow faster, since you earn interest on both the money you started with and also on the interest you earn along the way.

Simple interest

Simple interest is the money earned on the original amount of money you invested or saved. It is a fixed percentage of your initial money, and you do not earn interest on the interest you have already earned.

Time value of money

“Time value of money” is the concept that money available today is more valuable than the same amount in the future. This is because money today can be invested and grow to more money in the future.

For example, if you were given the option of receiving \$100 today or \$100 a year from now, you are better off taking \$100 today, because you can invest it in a very safe, or guaranteed investment, and it will be worth more than \$100 a year from now.