

What is compound interest?

Let's start with a definition: compound interest is interest calculated on both the principal amount of money — like a loan or deposit — and on the interest payable or earned on that principal amount.



How does compound interest work?

To illustrate how compound interest works, let's consider the snowball effect.

Let's say you're standing at the top of a snowy hill holding a snowball. You let go of the snowball, sending it rolling down the hill. As the snowball rolls, more snow packs on to it, making it grow a bit bigger. Then more snow packs on to that, making it grow even more.

Compound interest grows almost the same way as what happens to the snowball rolling down the hill – interest is calculated on both principal and interest.

In addition, the frequency of the compound interest calculation – for example, monthly, half-yearly or yearly – as well as the term of the loan or the deposit – can also affect the total amount of interest payable or earned.

What are the benefits of compound interest?

In general, if you choose to purchase an investment that offers an interest rate compounded over time, the longer the term of the investment, and the more frequent the compound calculation occurs, the higher your return could be. And the earlier you start investing, the sooner interest can begin to compound.

Consider **booking an appointment** with a TD advisor for advice on compound interest and which investments may be suitable for you.

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