GRAYISSUE
LONG TERM COMMENTARY

19 February 2007

A little goes a long way – the power of compound growth on your savings

Warren Buffet referred to the 'power of compounding' as the eighth wonder of the world. The power of compounding is about the power of making your money work for you: earning returns today on the returns that you earned yesterday. It also holds the key to financial security for most of us as we live longer and need to save more for our retirement. We therefore make no apology for updating and redistributing an example used in a previous version of the GrayIssue to illustrate this principle.

The South African Savings Institute barometer report (released in July 2006) showed that gross savings as a percentage of Gross Domestic Product (GDP) fell again from 13.5% in the last quarter of 2005 to 13% in the first quarter of 2006. This was the continuation of a decrease from 15% in the 3rd quarter of 2004. This latest recorded decline took place in the face of an improvement in the overall saving environment in South Africa: GDP is growing, household income is rising and this is against a backdrop of an increase in savings as a percentage of GDP in developing Asia and other emerging markets. However, 'spend it' rather than 'invest it' seems to remain the trend for South African consumers, fuelling the spending boom. What else could South African consumers be doing with their increased household income and what benefit or impact could even a little financial discipline and prudence have for them in the future?

The simple hypothetical example below highlights how 'a little money *can* indeed go a long way'. In the table below, we have compared the returns that one may have achieved over the last 5 years to end December 2006 by investing various amounts on a monthly basis into the Allan Gray Equity Fund, the FTSE/JSE All Share Index and into an average Money Market Account. For example:

1. If you had saved just R20 per month in a money market account over the 5 year period since 1 January 2001 until the end of December 2006, assuming an average money market return, your money would have grown to R 1 498.33.

2. Taking this one step further, if you had invested the R20 a month in the stockmarket and received the FTSE/JSE All Share Index (including dividends) return over the same period, your money would have grown to R 2 122.06.

3. Had you achieved the return that Allan Gray earned for its clients, your R20 per month would now be worth R2 801.56*.
   * Please note that the minimum monthly debit order into the Allan Gray Equity Fund is R500.

Monthly Savings	Total Investment (R's)	Allan Gray Equity Fund (R's)	FTSE/JSE All Share Index (R's)	Cash in average Money Market account (R's)
R 20	1,200.00	2,801.56	2,122.06	1,498.33
R 50	3,000.00	7,003.90	5,305.16	3,745.84
R 100	6,000.00	14,007.81	10,610.32	7,491.67
R 500	30,000.00	70,039.04	53,051.58	37,458.36
Annualised Return		18.48%	12.08%	4.54%

This example illustrates the profound impact of saving a small amount regularly, investing it wisely and letting the power of compound interest work for you. You can substantively improve your financial situation and if you start saving sooner rather than later you will be a step closer to being financially independent when you retire.

Commentary by Johan de Lange, Director, Allan Gray Investor Services