

COMPOUNDING



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**Compounding refers to
generating earnings from
previous earnings.**



COMPOUNDING



Let's try to understand this with
the help of an interesting story...

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- ❑ **The King of Persia and a peasant sat down one day to play a game of chess.**
- ❑ **The King, with his noble birth, expensive education and strategic training was confident of an easy victory.**



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- ❑ **Said the king to the peasant “If you win, I shall give you whatever you ask,”**
- ❑ **However things didn’t go as the King had anticipated, and he was defeated**
- ❑ **Expecting the peasant to demand half the kingdom, his daughter, or worst of all his fluffy Persian cat, the King was pleasantly surprised when the peasant asked for nothing but rice.**



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“How much rice?” asked the King.

- ❑ If it pleases your Majesty,” answered the peasant, “I would like one grain placed on the first square of this chessboard, two on the second, four on the third, eight on the fourth, and so on, doubling the number of grains with each square.”**
- ❑ The King, greatly relieved and thinking the peasant a worthless fool called his minister and ordered him to measure out the rice, put it in a bag, and send the peasant on his way.**



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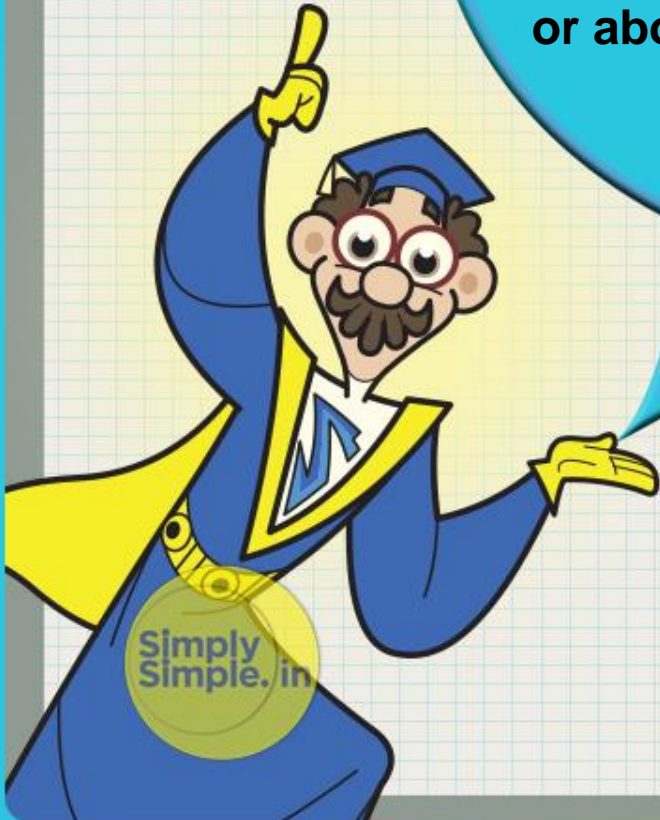
- ❑ To the King's horror, his minister informed him that there was not enough rice in the whole World, let alone Persia to honour his deal with the peasant.
- ❑ In the fashion of tyrants when faced with ruin, the King had the peasant's head cut off.

...now the numbers...










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If you wish to calculate how many grains of rice the peasant won, it's 18,446,744,073,709,551,615, or about 18 quintillion!!



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							128
256	512	1024	2048	4096	8192	16384	32768
65K	131K	262K	524K	1M	2M	4M	8M
16M	33M	67M	134M	268M	536M	1G	2G
4G	8G	17G	34G	68G	137G	274G	549G

As you can see,
if an average grain
of rice weighs
roughly 10
milligrams, this
much rice would
weigh about 15
times as much as
Mt. Everest!!



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This is what is popularly known as the 'Power of Compounding'.

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Hope this story succeeded in
clarifying the concept of
Compounding.



Thinking of Investment

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