"Achieving Successful Outcomes"

Compound Interest

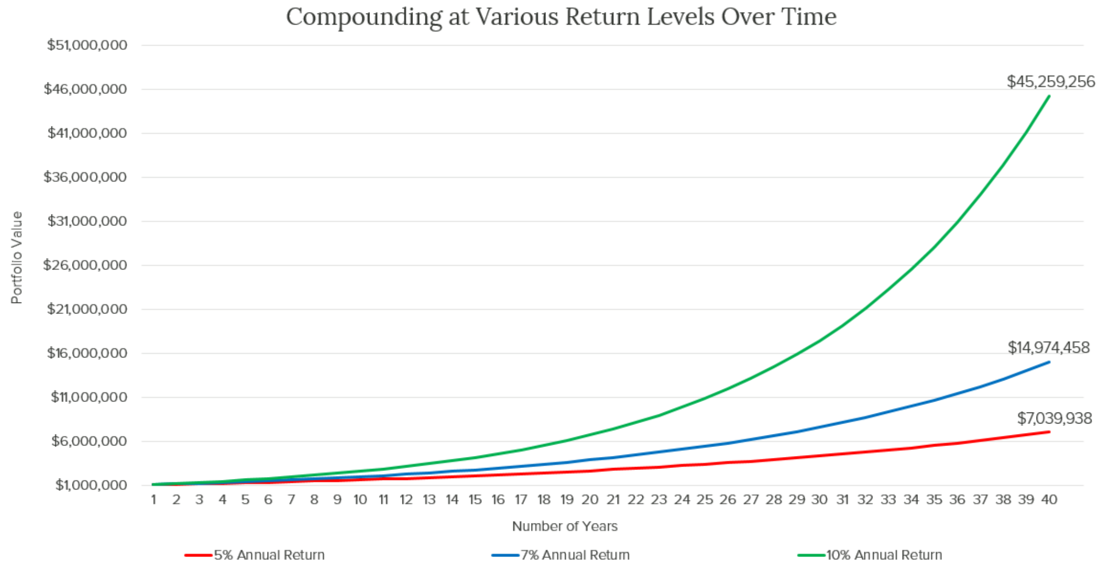
CRAWFORD INVESTMENT COUNSEL Est. 1980

Article #1 ATLANTA, GA USA January 2024

COMPOUND INTEREST: WHATS IN A NAME?

We are titling our new, private investor oriented blog *Compound Interest*. Our first installment, "What's in a Name?" shares the genesis of this title and attempts to explain how we will address areas of interest to our individual investors. Our intent is to provide relevant investment and financial information that is curated specifically to address the needs of our private clients. In this case, we are referring to compound interest dually. First, as an investment concept (and the 8th wonder of the world according to Einstein), but also as a way to share our thoughts and perspective on a combination of financial and investment-related topics. We hope these will come together or *compound* in a manner that is of *interest* to our investors.

"What's in a name?" is actually a quote from Shakespeare's *Romeo and Juliet*. Juliet articulates that a rose would still be a rose even if it was called something different. Regardless of what we call compound interest, earning interest on interest over time is a powerful phenomenon that can work to the considerable benefit of investors. Another popular saying, also attributed to Einstein, is "he who understands compound interest earns it, while he who doesn't understand it, pays it." The chart below illustrates the power of compound interest and the growth of $1 million after 40 years.



While a couple of percentage points may not seem like it would significantly impact the returns earned over a certain period, compounding is a powerful phenomenon. Notice how a portfolio with a 5% annual return grew from $1.0 million to roughly $7.0 million over 40 years, an impressive feat. But, a portfolio with a 7% annual return grows to over $14 million over the same period. Even though a 7% return is only 40% more than a 5% annual return, compounding creates an end result that is more than double the cumulative growth! Additionally, compounding at 10% versus 5% does not yield double the terminal value. Instead, the terminal value is more than 6x due to the power of compounding.

At Crawford, we fully recognize and appreciate what compound interest can do for our clients over time. For those reasons, we have developed an investment approach that we believe helps take full advantage of this phenomenon. In particular, we build conventions into our investment portfolios/programs to ensure that clients enjoy the full benefits of compounding. These include the following:

- High-quality, dividend-paying companies tend to grow year-in and year-out, thus contributing to the power of compounding.
- Investing in quality and narrowing the range of potential investment outcomes reduces the risk of emotional response to volatility and thereby increases an investor's likelihood of staying invested. Compound interest does not accrue to those who are not invested.
- Downside protection is paramount because large drawdowns in portfolio value impair the ability to compound at attractive rates.
- Income helps soften downturns but also provides a positive return each and every year and helps reinforce compounding.

In summary, we have chosen to name our blog after the most important concept in investing. We are an investment-centric organization that has a demonstrated (and fully audited) track record of achieving successful outcomes and compounding returns for our clients over our 40+ years of history. We look forward to building on this heritage and continuing to expose our clients to the most powerful phenomenon in finance.

Disclosure
Crawford Investment Counsel Inc. ("Crawford") is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Crawford, including our investment strategies, fees, and objectives can be found in our ADV Part 2 and/or Form CRS, which is available upon request.

This information is for illustrative purposes only. The opinions expressed are those of Crawford. The opinions referenced are as of the date of the commentary and are subject to change, without notice, due to changes in the market or economic conditions and may not necessarily come to pass. Crawford reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. CRA-2404-26