The compound interest method takes the frequency of interest charges into account when converting an annual rate into a daily rate.

Specifically, to correctly calculate the interest for \( n \) equal periods in a year, the \( n \)th root of 1 + the annual interest rate is taken and the 1 is subtracted again to correctly allocate the charges.

For example, if you want to allocate a 6% annual rate to 12 months the formula works as follows: \((1+0.06)^{1/12} - 1 = 0.00487\).