

### Saving vs Investing

Saving is putting money aside bit by bit, to make a lump sum. You usually save for a particular goal, like having the money for a vacation, a deposit on a house, or emergencies that might crop up. Often saving is taken to mean putting your money into cash products, like bank or credit union deposit accounts. Investing is taking some of your money with the aim of making it grow by buying things that might increase in value, like stocks, property or shares in a fund.

Everyone ought to have a certain amount of cash savings on hand. The rule of thumb is to have three months' essential outgoings (things like rent and food) in an instant access savings account. This is called an emergency fund. The only time you should not save or invest is if there are other, more important things you need to do with your money. This includes getting your debts under control and making sure your family could cope financially if you died.

Once you have your emergency fund, you should keep on saving. A good goal is to be putting aside at least 10% of your earnings each month (or what you can afford if your earnings are variable). Aim for 5% to begin with and build it up. You can save up for anything you want, for example to pay for a wedding or to have enough money to invest in something specific. It is important to set savings goals so you know what you are aiming for – more on how to do this later.

As with savings, you need to know your goals to decide if and how you should invest. Specifically, you need to know which of your goals are short-term, and which are long-term. Short-term goals are things you plan to do within the next five years. Medium-term goals are things you plan to do within the next 5-10 years. Longer-term goals are ones where you will not need the money for ten years or more.

For your short-term goals, the rule is to save in cash deposits. The stock market may go up or down in the short term and if you invest for less than five years you might well make a loss. For longer-term goals, it is often best to invest because inflation can seriously affect the value of cash savings over the medium and long term. The stock market tends to do better than cash over time. The longer you can leave your money invested, the more likely you make a profit. For the medium term, cash deposits may sometimes be the best answer, but it depends on how much inflation risk you are willing to take, and whether you need a certain sum on a certain date.

You can adjust the level of risks you take when you invest by spreading your money across different types of investments – called diversifying the risks. If you are approaching or over 30, you probably have at least one long-term goal – retirement. Money you put aside for retirement should usually go into investments. Most people invest in a pension, but other investments may also be suitable.

As a financial advisor it is my pleasure to help people assess their situation to help determine a course of action that suits their short and long-term goals. If you or someone you know would like to dive deeper into the topic of saving and investing, please do not hesitate to contact me.

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