

Why You Should be Investing, Not Saving



As we often tell our children, it's wise to save money. But there are some occasions when saving isn't the most financially astute decision.

If you're managing your money with one eye on your future (and if you're not, why not?), then savings shouldn't be your only financial strategy.

However, it can be difficult to know when you should be saving and when you should be investing.



Saving is obviously the safer route because the amount in your bank account won't typically decrease unless you withdraw funds.

Investing your money with the aim of receiving higher returns, beating inflation and improving your financial position is very tempting.

But the reality is that the value of your investments won't always go up - That's a fact of life.

So, how do you know when you should stick to the safer route and save, or take a risk to earn potentially bigger returns by investing?

Neither saving or investing is better in all circumstances, and the right choice depends on your own financial situation.

But here are two rules of thumb:

1. If you need the money within a year or so, or you need it for any kind of emergency fund, the money should be saved.
2. If you don't need the money for the next three years or more, then you are probably in a position to invest the money.

Some people are of the opinion that one year is a long time - Well in the world of investing it isn't, it's a very short time. So if you are thinking:

"Well, you know, I have a year to save a deposit for buying a house, maybe I should invest in the stock market."

Please don't, because really that's gambling, not investing. Something that important (and imminent) should be in a dedicated short-term savings vehicle.

And it's the same for your emergency fund



It should never be invested but always kept in savings. If you have an illness, a job loss or urgently need to access money, you can do so – immediately.

You don't have to resort to having to take on debt - you've got money that you've intentionally set aside for just this situation.

So...

If you have your short-term savings needs and emergency fund sorted out, then it's always best to invest, with your eye firmly on the long-term benefits of doing so.

And here are five reasons you should invest, not save...



1. If you stick to cash you'll lose money to inflation

If you save up over many years, you won't earn enough interest to cover the increasing cost of living.

When your cash fails to keep up with inflation, it loses relative value and you'll have less buying power.

In fact, you'll have to add more to your cash balances to make up for the lost value due to inflation, so holding too much cash is costly.

Investments, on the other hand, can be linked to inflation, or have a reasonably better chance of out-performing inflation during most years - preventing your assets from declining in value as the years roll on.

2. Some investments can give you an adequate income

Some investments can give you a regular income, which is high enough to live on once you have a large enough portfolio balance. In contrast, savings pay little in interest these days, and you cannot live on that income stream; it's just too small.

Depending on the investment, it can generate capital growth and still pay out a solid income, where your income comes from the net yield.

This gives you the best of both worlds- capital growth AND income.



3. You can use the effect of compounding to grow the value of your investments

If you invest for the long-term, the effect of compounding becomes a significant factor in building your investment capital.

4. You can diversify your investment portfolio for safety

Make sure that your investment portfolio is structured to minimise risk. For example, being too overloaded in property or commodities can cause issues if it all declines in value at the same time.

By using diversification, you can smooth out variable returns because investments in one asset class that year might perform exceptionally well, which balances out a decline in another asset class.

5. Your savings alone won't be enough for you to retire on



If your income isn't stratospherically high (and it isn't for 99.9% of people), you need your savings to grow and save more than you require to retire on.

The interest from cash savings rarely beats inflation, so that won't work in the longer term.

Instead, investment is necessary in order to increase your retirement pot. If you don't, you may never be able to afford to retire. Sticking with cash because you're scared of the stock market means you could just be sabotaging your retirement!

There's a time for saving ... but in your future isn't that time



Saving is important. It buys time when things go wrong, gives you a buffer for any unexpected expenses and has a useful sleep-at-night factor that's not to be discounted.

However, you can't usually hang your entire financial future on your savings.

If you have enough freely available cash, it's much wiser to invest it with a long-term eye on your future - Your future you will thank you for it!



Saving and investing are two different ideas.

Saving is a good habit, but being an investor can take discipline and a long-term attitude to ride out the occasional bumps that will appear along the way.

And when you keep your money in investments longer, you give yourself that time to ride out the ups and downs of the markets. It is proven to help you achieve a more comfortable financial future for yourself and your family.