Saving vs Investing, What's the Difference?

The first step to getting your savings plan right is to understand that there is a significant difference between saving and investing but they have equal importance in terms of crafting a financial plan. Turning ourselves from savers to investors is vital to our long-term success but it is a transition that many of us have trouble making.

The act of saving is a secure way of accumulating money. Investing on the other hand carries with it the concept of risk. As a general, rule saving is the process of placing money in interest bearing accounts with fixed or predictable returns. Investing is saving money in vehicles like Retirement Annuities, the Stock Market and Unit Trusts. These products do not earn interest but rather grow in value as a result of the underlying asset. Therefore the risk is higher because you are banking on the fact that the underlying assets of the investment keep growing in value.

Fear of investing in the Stock Market or stock based investments makes people seek out very predictable and conservative, places to save. They look for guarantees that won't lose money and they actively avoid placing money in areas where its value could fluctuate.

While caution when you are investing or saving is a good thing, being overly cautious could mean that your money does not grow enough to cover the effects of inflation. The solution for the fearful investor is to adopt a long- term view to savings and investing, and to use both of these vehicles to build your wealth. You can have the best of both worlds if you separate out your long term and short- term financial goals. Short-term goals such as new furniture or a vacation can be saved for in traditional savings areas such as fixed deposits or the money market. The longer-term goals, such as having sufficient money for a comfortable retirement, should be provided for separately, in more performance oriented, stock market linked investments.

For most people, this means using managed investments like unit trusts to achieve their long-term goals. Using professionally managed investment vehicles means that that you don't have to become an expert, highly skilled investment managers do the work for you. In order to successfully invest you must ensure that the goals of the managed investment tie in with your personal goals and that you are comfortable with the risk profile and the premium the advisor has recommended. You must also learn to accept fluctuations in the value of your long-term investments. It has been proven that in the long-term, the trend of most share based investments is upwards and they consistently return inflation beating performances.

If you are finding that you cannot save for short or long term goals, have a good look at your spending habits and debt exposure. One of the biggest reasons people don’t save enough or have a

safety net in their budgets, is because they have way too much debt in proportion to their income. Another factor that stops saving in its tracks, is ineffective money management. If you repeatedly spend every cent you have each month- with no plan in place, you will never gain traction. Take the time to plan your financial life – if you draw up a budget, start a debt elimination plan, ditch the expensive designer drinks, and start a savings plan you will feel way more in control of your life. Being financially on track gives you freedom of choice. Instead of weighing up whether you can afford a holiday you will be choosing between the beach or the bush, this is a much more pleasant dilemma to have.

Source: Hollard