

Introduction to savings and investing

Handout 5-6

Benefits of saving

Saving money may not be easy if you are struggling to pay your bills, but there are ways to save money and several advantages to saving which may motivate you to save. Saving money toward your goals is a key part of good financial management and when you start saving, you develop positive money habits and make progress towards a goal. With your savings, you can then choose to pay your debts and loans, save it in your emergency fund, or even consider investing.

Benefits of having an emergency saving fund

An emergency fund can help you manage sudden, unexpected expenses or a job loss, or even a medical emergency.

Before you consider investing, it is recommended to build up some savings as most investments require a minimum amount to be invested. This may be a good place to start if they want to invest in the future. Saving even the smallest amount whenever you are able to, can help you build your emergency fund.

Basics of investing

Investing refers to buying financial products whose value may increase over time. This is different from savings because there is a higher level of risk involved and a possibility that you could lose your money. While putting your money into savings is an option if you want to play it safe, the returns you could earn are lower compared to investments. If you want to consider investing, it may be necessary to first build a pool of savings as all investments come with additional costs and fees and may require a minimum amount to start with. Once you've invested your money, you may need to track it regularly to see how well it is performing.

Rate of Return

This indicates how much the money invested has grown or how much it has reduced. The rate of return will determine if the investment is profitable. For investors, knowing the rate of return will help them determine if they are on track to achieving their financial goals.

Risk

This refers to the possibility of an investment earning lower returns than the expected value of returns. Investments that have the highest risk may also have the highest returns. However, you need to be cautious about the amount of risk you can take as there are chances you may lose some or all of your invested money.

Time Horizon

This refers to the length of time you expect to hold an investment. An investment with a long time horizon has the greatest opportunity to grow, but also to recover from any losses that may have been experienced. This may not always be feasible as it depends on your financial priorities. If you want quick access to your money, investing with a shorter time horizon may be a better option.

Investment fees

You may have to pay fees for buying, holding, or selling your investment, or for receiving financial advice. It is important to be aware of what fees are being charged for your investment. Keeping track of them regularly and comparing these charges with other similar investment products is best practice. By doing this, you can make sure your investment is profitable.