WHAT'S THE DIFFERENCE BETWEEN SAVING AND INVESTING?

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PERPETUAL
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Many people will consider saving and investing as alternatives to each other. However, it is really the way you combine them which may have a powerful effect on your money and is what we'll aim to demonstrate in this article. Although both saving and investing involve setting money aside to save for the future (and that, we love), the biggest difference between saving and investing is the decision you make as to *where* you put your money.

Where you decide to put your money will ultimately reflect how much risk you're wanting to take, your timeframe and also how much your money could grow (or potentially lose) while it's saved / invested.

How does saving and investing work?

Saving

Swear jars, piggy banks and those stashes of cash you may (or may not ☺) have under your mattress are not really what we're talking about (although these count too).

When you put your money in a savings account, you generally earn a small amount of interest. The national average in 2020 is 1.0%, and even higher yielding accounts (returns) only pay around 2%. Why do banks pay interest? They do so because technically they are paying you to borrow your money. They do this ultimately so they can use customer's deposits (i.e. your money) to loan money to other people (and then charge their own, generally more sizable interest) e.g. through credit cards and home loans.

Term Deposits

A term deposit is also a cash investment held at an ADI (Authorised Deposit-taking Institution), mainly a bank or a credit union. This is where your money is invested for an agreed rate (generally higher than your average Australian savings account) over a fixed amount of time (or 'term'). Terms usually average between one month to five years. This means you generally can't dip into them for that lush holiday you've just decided to take, like you can in most savings accounts and if you do break the 'term', a heavy penalty is usually attached. Term deposits generally appeal to those wanting a more secure investment and a set return, opposed to the fluctuations of say the sharemarket. You could say it's kind of a saving-investing hybrid.

Investing

When you invest, you are using your cash to purchase investments. An investment is an asset or item acquired with the goal of generating income or a profit. For example, this may mean you own shares, bonds, property or it may mean you own units of a fund (that is a collection of individual investments like Perpetual's Direct Real Return Fund (DRRF)).

The value of your investment/s may go up (or down) and/or you may receive payments for shared-ownership (i.e. dividends from shares) or for basically lending out your money for set period of time (i.e. interest from bonds).You can learn about how investments have the potential to make (or lose) money here. Also, the exact amount of risk involved depends on what type of investment you own.

Although you are purchasing investments, say 'shares' for example, we like to think of investing not as spending but just changing the game. And even though you can't pay your phone bill with them, your investments have the potential to be worth substantially more (or less) than what you originally paid for them (compared to a steady 1%pa or so in interest from an average Australian savings account).

Note: you can generally sell your investments to turn them back into cash anytime you want; you may need to give it a couple of days to process. Also, you may owe taxes if you sell investments that have gone up in value (but you may also owe tax on the interest earned from savings).

In a nutshell, saving and investing both involve setting money aside for the future, and generally both give pretty quick access to that money if you need it. But unlike savings, investing involves risk.

Okay, so if investing is risky, why not just keep all your cash in savings?

Historically, over the long term, investing has been a more powerful way to make your money grow compared to savings (past performance is not a reliable indicator of future performance).

We understand that risk of the unknown be can daunting.

If you're a control freak and very risk-adverse, the idea of investing may make you generally uncomfortable. Perhaps you feel like you do not know enough about investing. If so, learn more here.

Our home girl, Marie Curie once said:

> **"NOTHING IN LIFE IS TO BE FEARED, IT IS ONLY TO BE UNDERSTOOD. NOW IS THE TIME TO UNDERSTAND MORE, SO THAT WE MAY FEAR LESS."**

But if it's the risk that you're grappling with, then we recommend starting small and not investing an amount that you wouldn't be able to stomach losing; don't obsess about the day-to-day fluctuations and see what long-term returns it gives you, then re-evaluate. Generally, we believe that investing is a great way to meet money goals. That's because, even though over the years markets have been up and down, over the past 120 years, the Australian share market has returned an annual average of 11.8%[1] (and a very timely reminder, average Australian savings account pays 1.0% interest and inflation has historically hovered around 1.9%).

Why does this matter?

Research shows that women keep more of their assets in cash compared to men[2] which means they're likely missing out on potential investment returns and the compounding that comes with it. If we *bring* in things like the pay gap, our longer life expectancy as well as the fact that many females take time off work to give birth which also affects super contributions as well as the compounding on our super) females generally retire with approximately two-thirds the amount of money that men have (gah!). Therefore, it's important to make our money work harder (which also needs to last us longer).

When should I save and when should I invest?

Obviously, at Perpetual, we're huge believers in investing but we also acknowledge there is a time and place for both. It will generally come down to two main things, time and risk. If you believe you'd need your money in the next year or two, it may make more sense to save. This is because if the investing markets took a tumble you wouldn't have much of a chance to let them recover. We're also a huge believer in having an emergency savings account (so that *if* you were to come into a health scare or lose your job, your money would be 100% accessible in real-time).

But if you do have a longer period of time (over three years) before you many need to draw on your money, then investing may make more sense. Generally, the longer your timeline, the more important it is to consider investing over saving.

The bottom line: we believe putting your money into saving and investing should be on your life-admin check list. They aren't the same but they're both part of a smart female future-focussed financial plan.

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1. Perpetual Investments and Bloomberg 1900 to 2019
2. https://www.abc.net.au/news/2019-05-24/why-are-fewer-women-investing-in-shares/11139454