## Savings versus Investing

For some of us, the problem with thinking about investing money, putting our money to work growing for us, is that we do not understand that it is a 2-part process. First, we need to set aside money. Some of the income we have needs to be saved for future use. Second, once we have savings, we can think about putting part of it to work – investing.

The challenge is that we always need to have access to some wealth – perhaps in an emergency or when something unexpectedly pops up. We cannot tie all of our wealth into investments, because we do not know what will happen in the future. There is uncertainty – we can call this risk.

We protect ourselves from unexpected setbacks, the risks we all face, by having savings – money we have access to when we need it. Many experts believe we should save money until we have at least 6 months of our normal, expected expenses set aside. In other words, we should save money so that, in an unexpected emergency, we can take care of ourselves and anyone that depends on us, for 6 months. This is simple math – what is our monthly budget? Multiply this by 6.

Now using 6-months of our spending to plan our savings is not set in stone. Maybe we should plan for more. Probably we should never consider planning for less. Things happen and 6-months can go by fast. The idea is to plan for financial security.

And the key is to be able to have access to these savings – that is why we are not calling it investing. Savings, usually using a savings account at a bank, are not meant to grow quickly. Why? Because when we hope to have money grow quickly, there is always risk that we may lose some or all of it. Everyone should begin with a savings plan – safely depositing our money. It should earn some interest growth, because we expect prices to rise over the years. Our main goal, however, cannot be growth. Our savings goal is to protect what we set aside and do not spend all we earn.

Once we have money set aside and have calculated how much of a safety or security cushion we have saved, it is time to think about putting some of the money we have to work. Remember, as we move through the financial life cycle, we need to accumulate wealth.

Once our savings needs are met, once we have enough money set aside for an unexpected event, we can put money to work. This means taking more risks with it, but expecting more growth. When we are ready to start investing, we need to learn how to balance risk and reward, but that will be a future video. There are ways to balance investment risks and returns.