

4.1 Savings & Investments - Introduction

As you move through life, you will likely encounter a variety of reasons to save money. Sometimes you may have your sights set on a short-term goal such as saving for a car or for that dream vacation or ensuring you have a rainy day emergency fund to back you up when you need it. And sometimes you'll find yourself saving for a long-term goal such as saving to make a down payment on your first home or saving for retirement. Ideally, your money will not only be protected while you save but will also grow.

Saving vs. Investing

And that aspect of growing your money is an essential difference between simply saving money and investing money. You can save money by burying it in a hole in the back yard or tucking it under your mattress. However, while that may allow you to protect and save your money, it won't grow your money.

If you want your money to grow, you have a variety of options:

You can deposit your money into a savings account at your financial institution. This will allow you easy access to your money at any time and you will likely earn a small amount of interest on your money. This involves little to no risk and provides a small amount of guaranteed growth if you leave the money in your savings account over time.

Most financial institutions will also offer some forms of guaranteed investments that will allow you to grow your money in a safe way with little to no risk. These investments usually offer a higher interest rate than a regular savings account but the trade-off is in your ability to access the funds. Your funds are often locked in for a set term or at the very least, are not a quick, simple withdrawal as with a savings account. In most cases, for these investments, the principal (the amount you invested) is protected and the interest is often guaranteed.

If you are someone with some tolerance to risk and want to see potentially higher returns on your money, you can ask your financial institution or a knowledgeable and qualified financial planner about other forms of investments such as mutual funds or stocks and bonds.

Kinds of Investments

For the purposes of this topic, we'll discuss the standard, low-risk options offered by most mainstream financial institutions. However, keep in mind that most of these options have higher risk counterparts with potential for higher returns and you can get more information about those options by contacting your financial institution or a qualified financial planner.