FINANCIAL AWARENESS

SAVE & INVEST

A guide to making your money work harder and building a more secure financial future

In this guide, we explore saving and investing. Starting with the main differences between the two approaches to help you work out which route is best for your money.

What are the differences?

01 Saving

Cash savings accounts are ideal if you're setting aside money you'll need to access, which will accumulate interest at a rate set by your provider.

You will always get back at the very least what you have put into your account, as well as any interest on your deposits.

Although cash savings accounts accumulate interest, as a long-term strategy, you could risk losing out on potentially higher returns available from investing, while also struggling to keep up with inflation since cash accounts generally don't pay very high rates of interest. You will also need to shop around to find the best deals.

02 Investing

When you invest your money, you buy financial assets that you expect to produce a profit or income. Your investments will rise and fall over time and there is a chance you could lose some of your initial investment.

> **"Although cash savings accounts accumulate interest, as a long-term strategy, you could risk losing out on potentially higher returns available from investing."**

EARN

SPEND

Please speak to your financial adviser to find out about other guides in the series.

BORROW

PROTECT

What are the different types of investments?

The main types of asset classes that you can choose as an investor are equities, bonds and property. Each has different levels of risk and return. Safer assets tend to deliver lower returns, while riskier ones can offer the potential for higher returns.

01 Equities

Also known as stocks and shares, equities are issued by public limited companies and can be bought and sold on stock exchanges. When you buy an equity, you are buying a piece of that company and become a shareholder. Equities can make you money through increases in the price and you can receive income in the form of dividend payments.

The disadvantage is that returns are not guaranteed, and the share price could fall below the level that you invested. Therefore, you may get back less than you invested.

02 Bonds

Sometimes called fixed income investments, most bonds are issued by governments and companies looking to raise money. A bond is essentially a loan made to a company or a government by an investor for a set period – usually a number of years. In return, they pay you a regular income in the form of interest over the life of the bond, after which they must repay your loan. Bonds can offer stable returns and are often lower risk than equities, although they tend to offer lower returns in the long term.

03 Property

This could be investing in a private property or a commercial type like retail, industrial or office space – through investment funds. Property could make a good long-term investment and is effective at beating inflation. However, it comes with risks, including potentially falling in value or finding yourself unable to sell your investment if market liquidity is low.

Why it’s important to diversify

A diversified approach to your investment portfolio is important because a portfolio that blends different types of investments from different geographical regions tends to deliver better returns over the long term. That’s because at any one time, some will be rising in value to potentially offset any others that are falling in price.

Set your saving goals

Short term
Cash for essentials

Medium term
Holidays, education

Long term
Retirement, financial freedom

Did you know?

At the March 2023 budget, the Help to Save scheme was extended in its current form by 18 months until April 2025. The scheme offers working people on low incomes in receipt of certain benefits, four-year savings accounts with a 50% government bonus where they can save a maximum of £50 a month.

How does compound growth work?

Imagine snowball rolling down a hill. It keeps getting bigger because it is building on itself. Compond growth for your investment works in the same way and the earlier you start to save, the greater the effects of compounding. But it only works if you keep the original sum invested.

Compound growth can make a big difference to the value of your pension over time because the interest you earn is reinvested and you then build interest on your new total.

Saving Example

Amount per month:	£300
Held in:	Current account
Growth:	0%
Total after 25 years:	£90,000

Investing Example

Amount per month:	£300
Held in:	Pension fund
Growth:	6% Compounded annually
Total after 25 years:	£209,362.98

Extra £119,362.98

A diversified strategy also tends to be less risky than one that invests in a single asset class. Diversifying your investment portfolio is important to minimise your exposure to risk, as is spreading your investments within the different asset classes.

A financial adviser can help you make sure you're aware of the risks and the length of time required if you want to invest. A longer timeframe (at least five years) will give your investment more time to recover if there are any sudden market swings.

Are you on top of your workplace and state pension?

On average, we're all living longer. Even those who don't stop working until they are 70 are likely to have many more years of retirement to fund.

- Since 2012, employees have automatically been enrolled into their workplace pension schemes.
- With a workplace pension, the overall minimum total contribution is 8% of your salary – employees contribute 5% of their salary and employers contribute 3%.
- The most you can currently expect to get from the new UK State Pension is £203.85 per week. You'll be able to claim the new State Pension if you were born on or after 6 April 1951 (for men) or born on or after 6 April 1953 (for women).

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Volatility is a feature of investing and markets have bad months, quarters and years. But the evidence still supports the argument that exposure to the markets can be an effective way to build wealth over time.

Speak to your adviser and conduct some research to see which approach is right for you.

Get in touch

Speak to us if you want more information about investing or making more of your pension to help you achieve your financial goals.
Please get in touch to arrange a time to chat.

PART OF THE Openwork PARTNERSHIP

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