

How to balance saving and investing



Want to take charge of your finances, but unsure if you should save or invest? We've got you covered!

Saving vs. Investing – what's the difference?

Although these terms are used interchangeably, saving and investing are two different concepts



Saving

Saving money means putting it aside so that you amass a substantial sum of it over time. This is typically done for a short-term goal like fixing your car or buying a new phone.

Usually, money is saved in the form of cash, or in a savings account or fixed deposits, since you need to access it soon.



Investing

Investing goes a step further. This involves taking some of the money you have saved and putting it into a specific asset like real estate, mutual funds etc. to grow over time.

While investing can also be done for short-term goals, such as renovating your home, investment planning usually works towards long-term goals like the down payment to buy a house.



Which one to pick?

Usually, the first step is to save and the second is to invest that money in smart financial planning and wealth creation. However, it is possible for both of these to take place simultaneously. So the good news is, you don't have to pick one over the other!

The investing readiness checklist:

- ☒ Have a steady income?
- ☒ Have an emergency fund – ideally worth 6-12 months of your salary?
- ☒ Have life insurance in place?
- ☒ Have some extra money left over each month?
- ☒ Have the desire to build wealth?

If you've checked off all five, you're all set to invest. But it's okay even if you only check off till point number four. Everyone has to begin with saving anyway! You can jump to the section on 'How to go about saving'.



How to go about investing:



Answer these three key questions

01 What are your financial goals

02 What is your investment horizon?

03 What is your risk appetite?

Explore your investment options

When you're getting started, putting your money in one or two asset classes may help you invest smarter. Here are some of the most suitable asset classes

Equity shares

Mutual funds

Debt instruments like bonds

Digital gold

Finetune your asset allocation

Don't invest all your money in equity markets, since they are volatile – but don't put it all in debt instruments either, since their returns are lower. It's essential to find the correct asset allocation balance for your investment portfolio.

How to go about saving

Instead of setting an arbitrary saving goal, assess your needs and work backwards:



Understand your expenses

Open an Excel sheet, app or journal. Start by listing all areas of spending, such as



Transportation



Housing



Utilities



Food



Shopping



Entertainment

Track each expense

Once you know your spending categories, start noting down each transaction or expense incurred.



- No expense is too small
- Do it right away, or you'll forget
- Review it bi-weekly or monthly
- Keep the categories consistent

Start budgeting

Next, review your monthly expenses and set a spending limit for each category.

Experts advise not spending more than 75% of your income in your 20s¹; that percentage should be lower if you live with your parents.



- Prioritise fixed expenses
- Leave room for unanticipated expenses
- Experiment with limits over time
- Remember that budgets may look different each month

Review and control spending

Once you start mapping out and managing expenses, you'll realise where you can cut unnecessary spending, e.g. impulse buying.



- Go over your subscriptions
- Eat at home more often
- Try 'no-spend' days
- Make a list before you shop and stick to it
- Make the most of discounts

Set savings goals

Now, you can set an informed and realistic savings goal.



- Build an emergency fund first
- Explore fixed deposits and liquid funds
- Scale up your goals over time

As you begin your financial journey, you will realise that saving and investing work in tandem. So, it's not a choice of which one to pick, but about figuring out how to work on them simultaneously to meet your financial goals.

Sources: 1. <https://www.cnbc.com/2017/09/20/how-much-you-should-save-in-your-20s.html>

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