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### Saving vs. Investing: What's the Difference?

The words “saving” and “investing” are sometimes used interchangeably, but when it comes right down to it, we should be engaged in both to secure our financial future. This month, as we continue to explain the differences between short-term and long-term strategies and financial life goals, something to consider are the differences and benefits between saving and investing. Last week, we strictly discussed saving strategies to consider during the pandemic, but how does it align with investing?

A shared characteristic of both saving and investing is the utmost importance that they play in our lives. If you are not doing either, it's never too late to start. This may require changes in spending and tracking, as well as strategies to maximize your income. A general rule of thumb is to save for the short-term and invest for the long-term. Keeping that in mind, let's review the differences. Therefore, it is important to define your short-term and long-term goals so you can determine the best avenue to achieve them.

#### **Saving**

Typically, we save for purchases and emergencies. We save for things that need a vehicle to sit in, available when we need them and have low risk of losing value. As we discussed last week, it is important to track your savings, put a deadline or timeline to your goals, and assign a value.

The first step to creating a plan is creating your budget. This should include paying your bills first, then saving toward short-term goals, paying off debt, and finally, identifying discretionary funds to put toward achieving your long-term goals. Your savings should be about 3-6 months of expenses to act as a fallback strategy or contingency plan in case you suddenly lose your job/income.

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Remember: pay yourself first, no one else is going to do it! Be diligent with discretionary dollars and stick to your budget so you can work toward achieving your long-term goals, like retirement. There are tools available for all generations and technology confidence levels: from mint.com and mobile banking apps, to using an excel spreadsheet or balancing your checkbook and keeping track with pen and paper.

Retirement saving has many levels, some of which are focused on the short-term. Do you have an employer-sponsored 401(k) or an IRA? Do you have monthly or yearly retirement savings goals? If not, it's never too late to start! In the end, achieving your short-term goals will help lead you to achieving your long-term goals. For more savings tips and strategies, visit our website [www.whzwealth.com/covid19-resources](http://www.whzwealth.com/covid19-resources).

## **Investing**

When investing, it is important not just to invest, but to invest wisely. Investing early can lead toward a greater return.

The first long-term goal that everyone should consider is retirement. You may already have a retirement plan in place, or perhaps you want to get started. Consider the short-term strategies from above for saving: build a budget, be diligent with discretionary dollars, and consider retirement among other short-term goals. From there, give yourself decades to invest to allow time horizon, compound interest, and risk to do the work for you. Eventually, these funds will replace your steady stream of income, and you want to be sure you have enough to last. Even during COVID, if you have experienced a loss of income and are currently unable to continue contributing as you have in the past, don't stop contributing. Even putting away just the company match or the bear minimum can help keep you on track for achieving your goal.

Once you have determined your investment choices, the money you invest does the work for you, and most times you can't touch it until the terms are up. However, don't forget to monitor your investments and reassess as time passes or your goals evolve.

Everything connects directly back to goals, which are critical in financial planning. You have to determine your own financial life goals before you can put a saving or investing strategy into place.

## **Key Difference: Risk**

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The biggest and most influential difference between saving and investing is risk. Funds contributed into a savings account have little risk of loss of funds but also have minimal gains. However, when you invest, there is a lot more risk associated with the potential for long-term gains and losses.

### **Special Considerations**

Generally speaking, short-term goals are those you wish to accomplish in less than five years and long-term goals are those that have a time horizon of five or more years. However, do not be too tied into the specific amount of years, rather, focus on the intrinsic values of your financial life goals. Also keep in mind when you will need funds, what you plan to use the funds for, and the safety/risk associated with it.

Once we understand the difference between saving and investing, it becomes easier than we think to follow through. We need to save and invest more than we are and do so for longer than just a few years. In the end, do not wait to do either: time is the greatest opportunity to grow your money and to meet your goals. Lastly, it is important to understand the definition of wealth. At Weiss, Hale & Zahansky Strategic Wealth Advisors, we coach our clients to consider what their Live Well.™ goals are. What will it take for you to sit back and think, “this is why I saved and invested for so many years, and now I get to enjoy the benefits.” It can be easy to feel wealthy if you adjust your perspective and understand that the only true measure of wealth is how you define it.

For more information on planning tips, COVID-19, the CARES Act, and more, visit our website [www.whzwealth.com/covid19-resources](http://www.whzwealth.com/covid19-resources). If you would like information about financial planning services, email us at [info@whzwealth.com](mailto:info@whzwealth.com) or call us at 860-928-2341!

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