TWO SIDES

Savings and Investments aren't the Same. Here Are Five Differences

Savings are the present and investments are for the future, says **Viral Bhatt**

Financial security is a necessity for meeting various purposes: buying a house, world tour with family, child's higher education, marriage or retirement. So how secure you? Are you SAVING money or INVESTING it? Let us learn the differences between saving and investing based on the following five parameters to understand what suits you best.

Time horizon: Savings typically cater to short term (1-3 years) financial objectives such as purchasing a new mobile phone or going on a local vacation. On the other hand, investing is typically a long term plan for bigger financial goals. Planning for your child's education or wedding or setting aside funds for a comfortable retired life requires prudent investment in order to achieve these goals.

Access to money: Money saved proves to be handy cash at times of critical need. You may withdraw a part or whole of this amount as per your wish, but at times, you may end up spending all your savings. In case of investing, access to money depends on the kind of investments made. Open-ended equity mutual fund schemes allow you to redeem your investments any time (If you stay invested for over a year in equity mutual funds, the redemption proceeds are also exempted from capital gains tax). The government also provides tax rebates on investments in equity-linked saving schemes (ELSS) u/s 80C of Income Tax Act 1961.

Risk: If you save money in reputed banks, it is more secure than when it is at home. Hence, the risk of losing money in savings is very low compared to investments. Besides, your savings are also entitled to interest. In comparison, investments (and the returns) may be susceptible to market risks. Thus, you might lose money if you don't invest in quality stocks with a long-term growth potential. Hence, it is advisable to avail services of expert financial advisors so as to avoid short-term ups and downs. Investment risk also varies according to the channel chosen. Mutual fund houses also provide scheme details, thereby indicating the possible risk involved. Investing wisely may give returns much higher than savings in the long run.

Mere savings might not be enough for larger financial goals of the future. Your dreams don't follow the inflation rate

Returns: In case you park your money in bank fixed deposits, on an average, you may earn interest of up to about 8-9%. Interest on savings accounts is often much lower (4-6%). However, the investments in equity-based mutual fund schemes carry much higher potential for long term value growth. Quality investments have higher potential returns than regular savings if compared over a period of about 5-10 years.

Choice: It is also critical to identify your purpose. Why do you want to save or invest your money? Check whether your goals are short-term or long-term. It's always wise to save money for short-term goals, emergencies and casual expenses as it provides quick access. However, in the long run, consider your changing needs, limited income sources and inflation; mere savings may not be enough for larger financial goals.

Remember you are planning for your future. It's advisable to start investing at a young age but it's never too late.

To conclude, your dreams don't follow the inflation rate. It is recommended to save for small term goals but investing simultaneously may make it simpler achieve your long-term dreams

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