



OPENING UP NEW MARKETS WITH THE DUTCH CARRIBBEAN SECURITIES EXCHANGE

INVESTORS' CORNER

Saving and investing – Are they the same species?

"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case." - Robert G. Allen

Smart of you to jump on board this bandwagon! It promises to be educational, lucrative if applied sagely and let's not forget – fun! Let's jump right in! We shall start with the most fundamental, the mere basis of it all, the cornerstone of the ultimate goal we are heading towards.

But before I reveal that which has gotten you so intrigued, tell me something: If someone is to ask you: "what is the difference between saving and investing?" What statements would you be able to conjure up to answer the question? Would you be able to correctly express the actual difference or would you respond with something akin: "hmm," - interlude of the 5 seconds "I am in thought" pause – and resume with "that's a very interesting question, but is there a difference?"

If you think the latter, then you are not alone. 9 out of 10 people believe that saving and investing are one in the same! I am kidding; I might be exaggerating. I just made that statistics up... But if we are really honest with ourselves we will admit that my fabricated statistic is not very far from the truth!

If you would have responded with the latter, you are roaming around with thousands as your companions who are thinking that saving and investing are interchangeable not only in a sentence but also in substance. This is a grave misunderstanding and I will try to explain why this premise is incorrect!

What is saving you may ask – it is the act of deferring consumption by putting aside a portion of your current income in a relatively safe vehicle, normally for a specific purpose, goal or event in the future, with the intention to preserve the value of your principal – the original amount being saved. Saving is normally done via low-risk means, like a savings account. The implication is that the return is relatively low – local interest rates hover around 1% - and so the final value of your savings will often not be significantly different from the principal. The potential risk is that the purchasing power of your saving can be easily destroyed by inflation. In other words, you might not be able to buy the same set of goods you would have been able to buy because the price of the goods increased faster than how your savings grew. The conclusion, you can never... ever... ever... ever... ever... get wealthy from saving alone!

This is where investing is different! While saving attempts to preserve principal, investing goes a step further with the added objective of creating wealth!

Don't be misguided, like saving, when you invest, you are indeed deferring consumption, but that is where the similarity ends. With investing, the expectation and goal is to achieve a profit of material result so as to create wealth where it never existed before. Because of this, persons tend to invest via more risky and sophisticated means - through the stock market, starting or running a business or going into real estate. The main implication is that investing is way more risky than saving, but the potential reward, is much, much greater too!

Saving doesn't require much knowledge of finance, we just put the money in a bank account knowing that interest is being earned. Because of this, saving is what most of us do! But do not get me wrong, saving is necessary and it is ideal for emergency situations. In practice, a saving plan should be a facet of your overall financial planning and so too should be investing.

With that said, I strongly motivate you to invest as well! So if you haven't been doing so, start thinking about an investment strategy NOW! Learn about investing as much as you can. And stay tuned to these articles as we strive to expand your awareness and knowledge of investing so that your steps are guided and informed towards opportunities for wealth creation!

"Successful investing professionals are disciplined and consistent and they think a great deal about what they do and how they do it." Benjamin Graham

This editorial is presented to you by the DCSX with the collaboration of Vertex Investments.

