RESERVE BANK OF FIJI

WHY DO WE NEED TO INVEST?

1. What is the difference between saving & investment?

Many people view saving and investing as the same thing. Actually they are not. Saving is that part of your income you set aside to spend at a future date. Investing however, is taking your savings and making your money work for you by putting it in financial instruments or products such as shares, bonds, units, property and even term deposits.

Investments generate income for you. You may receive dividends if you invest in shares, interest from bonds or rent from property that you lease out. This is referred to as "income gain". Your investment may also increase in value over time, allowing you to sell (if you were planning to) at a profit. Profit is referred to as a "capital gain".

2. Why do you invest?

There are varying reasons why people invest. Let us look at a few:

(i) Financial security

People want to be financially secure and this is why they need to have extra money. They are able to protect themselves financially against whatever financial hardship that might strike them. An example could be a costly life event such as a major health crisis or home destruction by a cyclone or fire. Having an investment ensures that you are financially secured to meet such unforeseen events.

(ii) Financial independence

Your investment enables you to be independent and not rely on the money of others in any event of financial hardship. It ensures that you have enough money to pay for your needs and wants for the rest of your life without having to rely on someone else or having to work in your old age.

(iii) Build your wealth

People invest with the view to build their wealth. This means that they save and then invest their savings over time. In this process, the proceeds from the investments, whether they are dividends or interest earned, can be reinvested into the same financial instrument or even something else. This way you too can start investing and continue building your wealth.

(iv) Attain your goals

Some people set specific goals in life and invest to achieve those goals. For example, if it is your dream to buy a house or a new car or take a trip around the world, the goal you set would be your motivation to invest. It is important that you list down your goals and how much money you need to achieve that goal. Your goals could be short term, medium or long term in nature. Investing your money according to your goals will enable you to grow your money and achieve your goals quickly without you having to work all your life.

3. Be aware of risks

Unlike savings, where you put your money away for future consumption; investing, where you want to grow your money has its risks. Therefore, before investing, you must understand that different investment choices have different risks. It is crucial to know and understand the risks associated with each financial instrument or product before you take the step to invest your hard earned money. Fortunately, there are licensed investment advisors who can advise you of the investment if you are unsure about an investment option.

4. Tips on investing

In addition to ensuring that you understand the risks associated with investment options, here are some other tips that can help you grasp the importance of investment.

(i) Invest early, start now

With each day you wait or keep your money at home, you lose the opportunity to build your wealth from the investment opportunities that arise.

(ii) Reinvest income

As noted above, each time you reinvest income earned from your investments, you increase your total investment which at a given interest rate, earns even more income the next time around.

(iii) Invest at a good interest rate or with a company that is performing well and paying good dividends

The higher the interest rate (also referred to as "rate of return"), the more income you earn which can then be reinvested. However, as a general rule, investments with high returns tend to be more risky. Therefore, the appropriate risk for you depends on how much risk you are prepared to take.

(iv) Diversify your investment

Don't put all your eggs in one basket! Put your money into a variety of investments to minimise your risks of investing. In the event where one of your investments is not doing so well and incurs a loss, you could offset this loss with your other investments earning you a positive or much higher return. In this way you are able to reduce the losses in your investments.

Remember, investing is all about growing your money to achieve your goals, but you must invest cautiously.