

VIEWPOINT

PINK FINANCIAL CONSULTANCY

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Investing or saving?



Investing can beat inflation

Investing is a better option if you've got longer-term goals because inflation can erode the value of cash savings over the medium to short term, and your money may not have the same spending power as when you first put it away.

For example

If you have £2,000 in savings and the bank offers a 1% interest rate, each year you will get back £20. However, if the inflation rate is 6% the cash in your savings account will fall in value. After one year your cash would be worth £1,887. After five years it would be worth only £1,495!

Saving money is a great way to prepare for unexpected expenses and investing your money can have the potential for higher growth than saving.

A lot of people put their money in a savings account and leave it there to accumulate interest. While this is a good strategy in the short term, you potentially risk losing out on higher returns in the long run, while also struggling to keep up with inflation. However, investing is a good approach if you have long-term financial goals and want to earn more money than you could by saving it.

What's the difference between saving and investing?

With saving you are setting aside cash for future use, while investing means using cash to buy assets that you expect to produce a profit or income. The biggest difference between saving and investing is the level of risk. With saving you will always get back at the very least what you have put in, as well as any interest on your deposits. You won't lose any money, making it a less risky option.

Investing your money means it will rise and fall over time and there is a chance you could lose some of your initial investment. Your financial adviser will be able to help you make sure you're aware of the risks and the minimum time you should consider investing for. A longer timeframe (at least five years) will give your investment more time to recover if there are any sudden market swings.

Speak to your financial adviser to find out about a range of investment opportunities to help you meet your financial goals.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Types of investments

The main types of asset classes that investors could choose from – which your adviser can go into detail with you – are equities, bonds, and property. Different asset classes have different levels of risk and return. Usually, the safer an asset is the lower the returns will be, while the riskier an asset is, the higher the returns.



Property this could be investing in commercial property through investment funds, including retail, office, and industrial property. It makes a good long-term investment and is effective at beating inflation. Property can add diversification to your portfolio as it tends to perform differently to other assets in response to different market conditions. However, property does come with its risks, including a risk of a fall in value as well as the maintenance costs.



Bonds sometimes called fixed-term investments, bonds are issued by governments and companies looking to raise money. A bond is essentially a loan made to a company or a government by an investor for a set period – usually several years. In return they pay you a regular income in the form of interest over the life of the bond, after which they must repay your loan. Bonds typically offer stable returns and are a lower risk than equities, although they tend to offer lower returns in the long term.



Equities also known as stocks and shares, equities are issued by a public limited company and can be bought and sold on stock exchanges. When you buy an equity, you are basically buying a piece of that company and become a shareholder. Equities can make you money through increases in share price or you can receive income in the form of dividend payments. The disadvantage is that returns are not guaranteed, and the share price could fall below the level that you invested.

The pros and cons of downsizing

Downsizing could mean lower overheads as well as the extra cash from the sale of your home. But there are factors to consider before you make the decision.

From reducing household bills to boosting retirement savings, there are plenty of reasons why people choose to downsize and move to a smaller property.

It's important to consider interim costs, however, like whether you decide to rent in the area you're thinking of moving to, as the search could take some time. There are also fees to pay when selling your home including stamp duty, survey costs, legal expenses, agents' fees and moving costs. Your adviser will be able to help breakdown these costs for you.

Practical benefits of downsizing

Along with cutting your bills, helping you to pay off debt and putting some money towards your retirement savings goals, downsizing has other benefits too.

The stress of maintaining a larger home might become unmanageable as you grow older – leaving you out of pocket and physically drained too. Moving to a less expensive-to-run, smaller home could make your life simpler, leaving you with more time to do the things you enjoy during your retirement years.

Downsizing and tax

Your financial adviser can guide you through the tax implications for downsizing, like inheritance tax and whether your estate may still be able to benefit from the residence nil rate band (RNRB) even if you have downsized your property before your death. The rules around this are complex and often come with qualifying conditions, however, so it's essential to let your adviser examine your options and potential tax implications beforehand.

If you're considering downsizing, your adviser can expertly guide you through the process, explain your options and ensure you are fully informed throughout the process

Plan ahead when downsizing

It pays to plan ahead for the type of home you need when you're downsizing. Your mortgage adviser can help you do this and ensure you're buying somewhere that's the right size for you, as well as keeping you updated on what your eventual mortgage payment might be. They will also be able to explain the advantages and disadvantages of other options, like moving to a retirement village.

It's an emotional decision too, especially if the home you are selling is where your children grew up and holds happy memories. Talk about it as a family so that you are all clear about the reasons for the move. Thinking about your future and planning what your retirement income and outgoings could be – in your current home compared to a smaller one – is also something your adviser can help with.

Things to think about if you've made the decision to downsize:

- Clear out any clutter before you move and consider selling items (like furniture) you will no longer need.
- Look at your home and assess whether any repairs are needed before you sell. Your mortgage adviser can help you with this.
- Your adviser will also be able to factor in the costs for selling your home and moving to a new one, to help you budget.
- Think about how much space you will need in your new home, for hobbies, work and when guests come to stay.



YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE