Prudential Investment Managers

JULY 2019

Why saving won't make you rich

July is Savings Month, but it's also the month of the ICC Cricket World Cup, FIFA Women's World Cup, the African Cup of Nations and let's not forget Wimbledon and the Tour de France. As sporting fans, it really doesn't get much better than this. As investors, it's a fantastic opportunity to draw on the strategies employed by winning teams and to see if they can be applied to the investment world. One thing we do know, however, is that to become champion you simply cannot rely on a good defence… you also have to know when to go on the attack.

Playing on the defence

Saving is good. Saving is useful. But here's the problem: saving won't make you rich. While saving money helps you balance your household budget, protects you from irresponsible spending, and lets you sleep peacefully at night knowing that your money is safe, it's unlikely that your money will grow significantly over time sitting in the bank. That's because the interest rates on savings accounts are often far lower than those offered by investments with similar risk profiles. In sporting terms, relying entirely on saving your money is like blocking out every delivery to protect your wicket, or like playing with two goalies and nine defenders. You might not lose, but you’re unlikely to ever really win.

One of the overlooked drawbacks of saving your money – whether it’s in a bank account or stashed away in a sock under your bed – is that inflation will make the value of your savings depreciate over time. It’s inevitable. The costs of products and services will rise; your money, meanwhile, will just sit gathering dust. The interest you’ll earn in a savings account at a bank is unlikely to match – let alone beat – the rate of inflation. As your expenses become more costly, your money will steadily be worth less and less. Over time, this will mean that you’ll end up poorer than when you started.

When to attack

If you want to build wealth, you’ll need to put that “defensive” money to work. That means investing, putting your money into unit trusts and other solutions that will enable it to increase in value. It means giving your money a purpose and a goal.

You can choose how you want to reach that goal. Again, think of cricket or soccer when you draw up your financial game plan. You could play cautiously, with low-risk shots and a packed midfield; or you could go on the attack, smashing the loose deliveries to the boundary and not being afraid to take calculated risks. Of course, the more aggressive you play the more susceptible you are to counter-attacks. Speak to your financial adviser, and determine your risk profile and the most appropriate investment strategy.

Either way, you’ll want to have enough money in your investments instead of gathering dust in a savings account. Remember, it’s compounding real growth at high returns over time that’s likely to make you rich.

If you’re ready to put your money to work in one of Prudential’s funds, we can get you started. Contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.