Our Perspectives: Saving and Investing are Different

Homestead Funds

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Megan joined Homestead Funds in 2010. She has FINRA securities licenses Series 6 (Investment Company and Variable Contracts Products Representative), Series 63 (Uniform Securities Agent State Law), Series 65 (Investment Adviser Representative) and Series 99 (Operations Professional).

She received a BS from University of Maryland University College and majored in accounting. Megan is a Certified Financial Planner™.

You might see the terms "saving" *and* "investing" *used interchangeably, and while they're both steps in the wealth accumulation process, they're really very different disciplines. Savings accounts provide stability. Investment accounts are designed to generate income, provide growth, or meet some combination of those objectives. Homestead Senior Client Relationship Advisor* Megan McFarland, CFP®, *explains how understanding your goals, risk tolerance and financial situation can help you strike the right balance between saving and investing.*

Q: What's important to keep in mind about saving?

Saving is the process of storing money somewhere safe in case you need immediate access to the cash. What's important here is not so much return on your money as it is return of your money. You want to save in something safe, like an FDIC-insured bank account. In the event of a bank failure, the government guarantees at least $250,000 of your deposits. This is where you hold funds that you anticipate using in the very near future, perhaps for the down payment on a car, or tapping for emergencies. Savings accounts typically don't pay much in interest, but they can give you peace of mind that your principal will be there when you need it.

Q: How does investing differ from saving?

Unlike saving, where safety is the goal, investing requires taking risk with a goal of obtaining higher returns in pursuit of your longer-term objectives like funding a college education or retirement. Investing involves the purchase of an asset — often stocks, bonds or real estate — that you expect will generate a return greater than you could earn from a savings account. U.S. stocks have returned about 10 percent annually for the past century, but of course those higher returns come with greater volatility. The value of your investment will go up and down with fluctuations in the economy and markets. In some years, you could be down substantially.

Q: Is it possible to be too conservative?

Conservativism is paramount when you need to have quick access to funds and you don't want to be exposed to market risk, but if it's a long-term financial goal you're trying to accomplish, something five or more years down the road, you may not achieve the kind of growth you need — especially at today's low rates — from cash held in a savings account. If you don't need to touch the money for many years, that longer time horizon may allow you to ride out any rough patches in the market. As you anticipate needing the money, you could then move it into something more stable.

Q: What should come first, saving or investing?

Saving should come first. It's recommended that you have savings sufficient to cover at least three to six months of living expenses in case of job loss, a medical emergency or some other unforeseen hardship. Once you've covered that, you can focus on investing.

Q: Do you need a lot of money to begin investing?

Everyone needs to start somewhere, and for many people that means making regular contributions to an investment program through payroll deductions or another kind of automatic purchase. You can start small if you need to, maybe $100 per month, and increase your contributions as you earn more money. Over time, the effects of compounding can produce very impressive results.

Homestead Funds client services team would be happy to talk with you about your goals and current investment program. Give us a call at 800.258.3030.

Past performance does not guarantee future results.

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Investing in mutual funds involves risks, including the possible loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Investors are advised to consider fund objectives, risks, charges and expenses before investing. The prospectus contains this and other information and should be read carefully before you invest. To obtain a prospectus, call 800.258.3030 or visit homesteadfunds.com.

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