

# Savings and Investment in Personal Finance

Personal finance helps you make better savings and investment decisions because it focuses on your goals. Your budget (or spending plan) should be built around your day-to-day expenses, including your short-range lifestyle and financial goals. These may include your goals for your family's well-being, shelter, food, clothing, and recreation. It should also provide for future personal lifestyle and financial goals as well.

## Savings and Investments Are Designed to Help You Reach Your Goals

Savings and investments should be used to match your short-, intermediate-, and long-range financial goals. You save and invest for a purpose, not just to accumulate great wealth. In fact, you save and invest for many purposes, and how you save and invest depend upon the purpose. For example, if you need to replace a household appliance costing a few hundred dollars in the next 12 to 18 months, you will save differently than you would if you were saving to pay for a child's education in 10 to 15 years. To make these decisions, you need to understand the relationship among investment risk, time horizon, and investment reward.

## The Reward for Risk

Investors are rewarded for taking investment risk. To encourage investors to take higher risks, the potential rewards must be higher for those higher-risk investments. You can spread investment risk over many different investments. This is called diversification. (There is no guarantee that a diversified portfolio will protect against loss, enhance overall returns, or outperform a non-diversified portfolio. Diversification does not ensure against market risk.) You can use this relationship in making savings and investment decisions—low risk for short-term goals and higher risk for longer-term goals.

*Source: Financial Fitness Academy™*