Technology Savvy
The younger generation is a technologically savvy one, able to study, research and apply online investing tools and techniques. Online information platforms provide countless opportunities for both fundamental and technical analysis, as do financial and educational web sites. Technology, including online opportunities, social media and applications, can all contribute to a young investor's knowledge base, experience, confidence and expertise.

Human Capital
Human capital, from an individual's perspective, can be thought of as the present value of all future wages. Since the ability to earn wages is fundamental to saving and investing for retirement, investing in oneself - by earning a degree, receiving on-the-job training or learning advanced skills - is a valuable investment and the potential for greater return from investing in different types of assets.

As one embarks on the journey of building their wealth for the future, it is important to have a good mixture of saving and investment depending on your short and long term goals. However, starting early makes it easier to achieve all your financial goals.

Investments

Savings

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South Pacific Stock Exchange

INVESTMENT VS SAVINGS

What is an Investment?
Investing is when you use your money (or capital) to buy an asset that you expect to generate an acceptable return, making you richer over time. People who own businesses, put their personal money into these businesses to increase their wealth. This is investment. However for most of us this involves using part of our income to buy investments such as shares in companies, units in unit trusts, bonds or property. We are putting our hard-earned money to work for us to earn even more money. These investments can be attractive because they can produce two forms of returns - income in the form of dividends, interest or rent and a capital gain. Capital gain is the rise in value of your investment over time so that when you sell them in the future you can get more for them than you paid. Before you start investing, it is very important for one to distinguish between investing and merely saving.

How is Investment different from Saving?
Saving involves simply setting money aside for future spending. It is usually put in a safe place, whether it is under your mattress or in a savings account at a commercial bank, which you can get access to easily. Savings typically are low risk for the return of the amount that one has set aside. But savings can also attract low interest rates—sometimes the rates that one earns on savings can be less than the rate of inflation, demonstrating that there is a risk to simply saving money for a long term goal.

Why hedge against Inflation?
A very basic definition of inflation is the increase in general prices of goods and services over time. We all feel how expensive things are every time we do our grocery shopping or pay our bills. So why is it important that we invest money

in something that ensures that we are able to make a return that is higher than inflation? If you had saved one month's rent ten years ago, it will far from cover the rent today. Similarly, a savings account is good for short term savings and emergency funds but chances are that it may not generate enough interest to cover the rise in prices. Therefore, it is important for you to ensure that your investment generates returns higher than inflation, especially for long-term goals such as retirement or education fund for children.

What is Compounding?

By investing your money, you can earn more income and build wealth faster. The secret to this wealth building lie in the "power of compounding". Compounding refers to how your money can grow faster over time. This is what happens when you reinvest income earned from your initial investment rather than spending it. This reinvested income will earn an additional income, which you reinvest as well. If this cycle is allowed to continue, it eventually has a "snowball" effect. This is because with each cycle your total investment grows larger and therefore earns even more income in the next cycle. For example, if you invest $1,000 at 5% p.a rate of return, you will earn $50 at the end of the first year. Instead of spending this $50, if you add it to the principal amount of $1,000, the following year you will earn a return of $52.50 on an investment amount of $1,050 and a return of $55.13 the year after.

Time Value of Money

When one is investing, time is often the most important asset. If one starts investing early , the power of compounding is more evident. To illustrate this wonderful concept, let's use an example: Say a person wanted to set aside funds for a future $24,500 payment on a house. If the person saved $200 per month and earned 8% rate of return per annum, he/she could accumulate the $24,500 in about seven-and-a-half years. If the person waited to start two years later, he/she would have to save $300 per month at the same 8% rate of return. An early start to investing or saving can build up funds that also earn a return for the future. In addition to the effects of compounding, a security holder also benefits from capital gains. The larger the initial investment, the rate of return and length of time you invest, the more powerful the effect of compounding.

When should I start investing?

Many people who decide they need shares as part of their investment portfolio often hesitate when it comes to actually buying the shares; usually because they're not sure if it is the best time to buy or they feel they still have a lot to learn about the share market.

How you approach the share market may depend on your investment horizon. When taking a long-term view, the best time to buy shares is not about timing the market but rather about time in the market. For those investors who have a short term investment timeframe, timing the market does become important as short term volatility may present trading opportunities. You can learn about the share market by observing it and keeping an eye on how your shares perform under different market conditions.

People often think they should put off the idea of investing until they get certain other things out of the way – finish their degree, get the kids in a good school or pay off the mortgage. If this sounds like you, remember that no matter how small your investment portfolio is at the start, it could be growing while you do all that. Finding the sources of investment funds now will mean that your investment will be significantly larger in the future than if you waited to start.

Advantages of starting early and young

Young adults often face financial challenges due to burdensome student loans, relatively low-paying junior-level positions and a lack of budgeting experience. While people in their twenties know they are supposed to be saving for retirement, the golden years seem unimportant and a long way off compared to the consumer purchases that could be made now. For many young adults, it seems easier to put off any investing decisions until their financial situation becomes, at least theoretically, more stable. Twenty-something's, however, are actually in a prime position to enter the investing world, even with college debt and low salaries.

Time

While money may be tight, young adults have a time advantage. The magic of compounding allows investors to generate wealth over time, and requires only two things: the reinvestment of earnings and time. The longer money is put to work, the more wealth it can generate in the future.

Take on more risk

An investor's age influences the amount of risk he or she can withstand. Young people, with years of earning ahead of them, can afford to take on more risk in their investment activities. While individuals reaching retirement years may gravitate towards low-risk or risk-free investments, young adults can build more aggressive portfolios that are subject to more volatility and that stand to produce larger gains.

Learn by doing

Young investors have the flexibility and time to study investing and to learn from both successes and failures. Since investing has a fairly lengthy learning curve, young adults are at an advantage because they have years to study the markets, and to refine their investing strategies. With the increased risk that can be absorbed by younger investors, so too can they overcome investing mistakes, because they have the time needed to recover from losses.