STEP BY STEP WITH MONEY

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Over the past two weeks in our series on '**Saving Money**' we saw how a Balance Sheet and Profit and Loss Statement works. This week (20) we will go back to basics on saving money. We have been putting at least $5.00 or $10.00 a day into our jar in the bathroom and saving 10% of our income. This week we will look at where do we put this money.

Before we start we may want to revisit week 15 where we reviewed one of the purposes of saving money as being able to manage it, i.e., manage it for the future – what type of legacy do we want to leave after our death. If managing money for life after death still feels weird to us then we may focus on managing money for our retirement.

The following is educational and not intended in any way to be advice.

Most of us save our money in banks. However, some of us have savings other than money. This is because we are not reliant on one form of savings. We understand that the value of cash reduces over time and inflation eats into the value of the dollar. For example, $100 today is worth less tomorrow. Another factor reducing the value of money is the printing of money by governments. This has the effect of reducing the value of money. Further, negative interest rates also reduce the value of cash, although not currently used in New Zealand there will come a time when negative interest rates will be used by banks.

Negative interest rates are where banks charge us for holding our money. This is the opposite of the situation as we know it. We understand that if we invest $1000 in a bank that we will earn interest income on our savings. For example, $1000 saved may earn us $50 over 12 months. Negative interest rates are where we save $1,000 and the bank charges us $50 for saving it. Thus after 12 months we only get back $950. Thus, savers are penalised and borrowers are rewarded. We would not want to save our money in a bank if we will be penalised with an interest charge for saving it. The government will use this technique to persuade the public to spend their money. It is hoped that this spending will stimulate the economy. Where does that leave us savers.

Alternatives to saving cash include purchasing shares and earning dividend income, buying an investment property and earning rental income or buying gold or silver as a hedge against inflation. Here we are talking about investing in physical gold or silver, i.e., gold or silver we can hold in our hands, not paper gold or silver in the form of investments in funds which hold gold and silver.

When we buy gold or silver we will not earn a quarterly or annual interest like with bank savings or dividends from shares. However, gold and silver protects our purchasing power as inflation is steadily rising. In general, the price of gold or silver increases as inflation increases. Saving with gold and silver also protects us against currency devaluations. We can also protect ourselves with gold and silver when another banking crisis occurs and one of the big banks collapse. Gold and silver can also be used to protect our wealth from a crisis in China, the United States or Europe. With gold and silver, we can protect against uncontrolled actions of governments who have excess debts and try to solve it by printing money. Many people are reaching retirement age and governments do not have the money to pay superannuation and pensions. Governments borrow money to pay superannuation and pensions. However, governments do not have the money to repay the loans and its interest. To solve this problem government print money. This devalues the currency. More importantly, someone must repay these loans. People with cash in banks will likely end up repaying these government loans. For example, in Cyprus and Greece people can only withdraw limited cash each day. These people are repaying government loans. Gold and silver are outside the cash and banking systems. These are some of the benefits if investing with gold and silver.

Gold and silver may be purchased from the New Zealand Mint or other merchants. Unlike cash or shares, which are stored by number on a computer, gold and silver are physical metals which require larger storage space. We may store it at our homes or in a safe deposit box. Safe deposit boxes vary in size and cost depending on the length of time required to store our metals. However, the benefits of holding gold and silver exceed the costs of holding them.