Introduction to investing money animation

Animation transcript

Have you ever wondered what people do to try and grow their money?

Investing is one way and helps achieve financial security, by building a pot of money for the things we want in the long term.

You can invest in all sorts of things – companies, commodities, such as gold and oil, even art, wine and cars. But we're going to focus on stock markets and company shares as that's often what people are referring to when talking about investing.

At a simple level, investing involves buying shares in businesses, in the hope that the value of the investment will increase if the business is successful and the share price rises. You can invest in other things as well, such as bonds.

Deciding whether to save or invest your money is an important decision.

When you save, your money is kept in cash, usually with a bank or building society, and you'll receive interest on that money, which is how the value grows.

With investing, any growth you receive, is dependent on how your investments perform. Share prices go up and down, so with investing there's a chance you could lose money, although the hope is the value of your investment will rise by more than the rate of interest you'd receive if you kept your money in a savings account.

While savings accounts are great for short-term goals such as a holiday, and in case of emergencies, investing in stocks and shares typically offers better long-term returns.

If you owe money on credit cards or loans, or are regularly overdrawn, it's often better to focus on paying those off first because the amount of interest you'll be charged is likely to be higher than any returns you make on investments.

However, if you're debt free and have some money in savings to cover unexpected spending and those short-term goals, it's worth thinking about investing.

There's a range of investment options available, some are riskier than others. So don't just invest in something because a friend has, or you've seen it on social media. Do a bit of research and think about your own circumstances and how much risk you feel comfortable taking – it'll help you decide where you want to invest your money.

Investing is a longer-term commitment – ideally five years or more. This is because stock markets fall as well as rise, so there is a chance you could lose money. The risk of this happening reduces over time. You can sell investments to access the cash if needed, but it's usually best to leave it to grow.

One of the benefits of long-term investing is compounding, where returns are added to your original investment, helping your money grow faster over time.

You can start investing with small amounts of money.

For example, saving £50 a month at age 18 and increasing it to £300 a month by age 22 could give you £40,373 at age 30 – enough for a car, travelling, or a house deposit. This assumes the value of your investment increases by 5% a year. Some years it might go up by more, others it might go up by less. In some years the value could fall.

If you left that to grow and increased your monthly contributions to £500 at age 30, the total could grow to £321,268 by age 50 potentially supporting retirement plans.

Saving earlier and larger amounts makes a big difference for example – £5,000 annually from age 30 could result in £659,590 by age 70, but starting at 18 could snowball to £1,281,667.

To reduce risk, invest in multiple businesses or a fund, where an expert spreads your money across different companies.

You can also use investment accounts like Individual Savings Accounts to protect your returns from tax or consider pensions for retirement savings.

So next time you hear about investing money for a secure financial future, you'll know what it means.

What would your investment goals be?