

1

Five reasons investing is better than a mattress stuffed with cash

In our day-to-day jobs, we trade our time for our wage. But there's only 24 hours in a day, eight of which should go to sleep. To have wealth you need to make money, but to make more money you need to give up more time, and giving up more time means not being able to enjoy your money. It's a rat race no-one wants to be a part of.

This is where passive income comes in. Passive income is the money you earn without working, but no other passive income stream works the way investing does. And the best part is that it can work on autopilot.

You don't have to wake up at 6.30 am and sit through rush hour traffic for investing to work. You don't have to sit through a Zoom meeting that could have been an email for compound interest (which we'll get into in a later chapter) to do its thing. It's the definition of making your money work hard for you, rather than just working hard for your money. And, unlike time, it's scalable.

Before we learn how to invest, it's important to know why we should invest in the first place. It's not even related to having enough income

first; my best friend Sonya Gupthan and I, through our *Girls That Invest* podcast, have come across countless successful women with their net worth in the six-figure range. They have their bills automated, their insurance covered, their savings growing and they are very well versed in every other aspect of their financial journey. They're the women who look like they've 'made it', and they rightfully have.

However, for some reason, when it comes to investing, they just haven't started and they don't know how to begin. It's a phenomenon we seem to come across no matter where in the world we meet these women.

The majority of us know we should be investing, but no-one teaches us how or why.

Understanding the 'why' behind investing is a powerful tool. When you have intention and place value on an action, you're more likely to commit to the goal and you're more likely to stick through the rougher moments.

When medical students go through their training, they aren't called university students for five years and then 'doctor' on year six. They're called student doctors. I lived in a flat with three friends in medical school who had just begun the clinical part of their degree, where they went from studying in lectures to being in hospitals. When they'd come home from their training days at the hospital, exhausted from dealing with condescending consultants, they'd feel defeated and even question if they were good enough—despite quite literally being medical students. Being called student doctors somehow helped lift up their spirits. I don't know why it worked, but it did. I think it was a way to make them feel like they belonged in a space where they maybe didn't feel like they were adequate.

So, before we go any further, from here onwards you get a new title: reader, you're a student investor, or, as I like to say, an investor in training.

An investor in training who knows why their money is invested and understands what they get out of it is less likely to panic when the stock market goes through a downturn. It makes sense, right? It's a bit like going to the gym for the first time: if you can see the benefits of sticking through to the end, you can get through the discomfort. Without this guidance, you'll throw in the towel a lot more quickly.

So besides the whole 'becoming wealthy' trope, why do people invest in the stock market? What's in it for them compared to starting a business or putting money away in a savings account? And, more importantly, what's in it for you, specifically?

Let me introduce you to the five key reasons why people invest in the stock market rather than stuffing their savings into their mattress:

- to beat inflation
- to take advantage of compounding interest
- to reach financial goals faster
- for financial freedom and security
- to help create a better world.

Let's get into it.

Beat inflation

In simple terms, inflation is where the price of goods and services slowly creep up year by year. Inflation is not your friend. She doesn't get to sit with us.

You don't notice the effects of inflation every single year, but you notice it when you get flashbacks about how those \$4 ice creams only cost \$0.99 in your childhood. Why on earth would shop owners do that? Well, it's not exactly up to them.

There are three main types of inflation:

1. **demand-pull inflation**, where prices rise because the demand for the ice cream exceeds how many ice creams can be made
2. **cost-push inflation**, when the cost of making the ice cream increases, and that cost is passed on to the consumer
3. **built-in inflation**, which doesn't have a whole lot to do with the ice creams and more to do with government involvement and greater economic conditions.

If you are somehow unbothered by the fact that your ice cream costs will increase every year, think about it this way. The problem with inflation is less to do with goods and services slowly becoming more costly, and more to do with the fact that the value of your dollar decreases annually. As time goes on, your dollar is worth less and less. One hundred dollars in 2000 has the buying power of \$58.72 in 2022 due to inflation chipping away at it year by year.

Let's use another example: if you have \$10 right now, you could probably buy two coffees, but in 2030, that \$10 may go down to 1.5 coffees, and in 2040, \$10 may just get you one. (Though mind you, after a flavour shot and a milk substitute, my current iced lattes sometimes creep close to \$10 already.)

A millennial or Gen Z's favourite example of inflation is the cost of houses. We've all seen stories of how homes could be bought for as little as \$20,000 in our grandparents' era, and now many of us live in cities where houses are unaffordable for most average wage earners, often creeping up to the million-dollar mark. It's something that isn't country-specific and is important to factor in, no matter where you live.

Inflation isn't new. It can be traced back to the sixteenth century, when silver and gold coins were widely used as currency. An excess of these precious metals would lead to inflation. Governments don't like inflation; inflation was not our friend back then, and it's not our friend now.

In the twenty-first century, inflation usually sits around the 2 per cent mark annually. This means the money you have sitting in your bank account drops in value by roughly 2 per cent every year. **Every. Single. Year.** It never fails to amaze me how little we were taught about inflation, and yet the loss of money affects so many people daily.

If your boss gives you a 2 per cent pay rise, but inflation that year is 2 per cent, you don't end up with any more purchasing power than before. However if you *don't* get a pay rise and inflation is 2 per cent, your salary is now worth 2 per cent less—in simple terms, if you didn't get a pay rise to match or beat inflation, you got a pay cut!

I had a friend at work many moons ago who once came up to me and whispered that she'd had a pay rise.

'How much?' I asked.

'\$3000.'

'Zoe, that's less than inflation this year! You should consider going back and negotiating.'

She, unfortunately, didn't want to ruffle any feathers, so she left it. That year Zoe worked harder than ever yet made less than the year before.

So many of us grow up thinking like Zoe, my prior self included. We grow up being told about the importance of going to university, getting a good job and saving our money. We believe that the road to success involves being good savers and, once we have six figures in our bank account, to purchase a black 'I've made it' Range Rover. We get taught to play it safe and not 'gamble our money away'.

It's fair to say Zoe quit not too long after that. But getting a raise isn't the only issue. Where we keep our money is as well.

In fact, according to a 2015 BlackRock survey, women tend to leave 68 per cent of their wealth in savings accounts. That's 68 per cent of women's wealth being chipped away by inflation, every single year. On top of this, the wage gap is doing a number on us—how are we meant

to close the wealth gap when we're making less, and the money we are putting away is also shrinking? It almost feels like a never-ending cycle.

The wealthy understand inflation; they had the privilege of receiving financial education, and, as a result, they know the key to building generational wealth is not through aggressively saving, but rather investing. They put money for their children not in savings accounts, but in funds that invest their wealth. Eighteen years of inflation is not something they would wish on their child, and neither should we.

This is why you should invest. Investors in training understand that, instead of stashing their cash in their mattress or in a bank account where their interest rate is between 0.1 and 0.3 per cent, investing is a much more coherent way to beat inflation.

The stock market has returned 7 to 10 per cent annually, on average, over the last 40-plus years. This doesn't mean the stock market stays between 7 and 10 per cent each year; some years it's up 20 per cent and some years down 5 per cent, but it averages out to 7 to 10 per cent in the long run. The benefit of something going up 7 per cent when inflation is 2 per cent is that you get a 5 per cent advantage over inflation (as illustrated in figure 1.1).

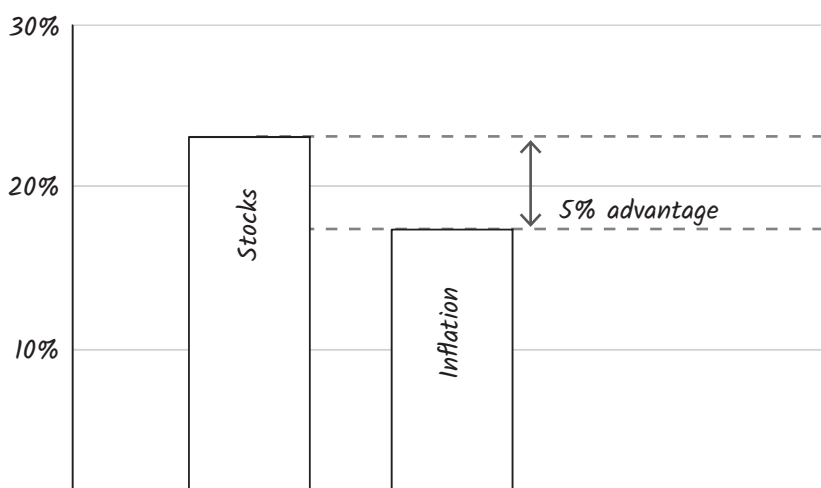


Figure 1.1: stock growth vs. inflation

By investing, you get to put your hard-earned money into something that helps outsmart inflation.

Take advantage of compounding interest

The story goes that there was a king who was shown a chessboard by an inventor. The king was so pleased by the chessboard he told the inventor he could have any reward he wanted.

The inventor pondered over this question, then responded with one simple request.

‘Give me one grain of rice for the first square of the chessboard, two grains for the next square, four for the next, eight for the next and so on for all 64 squares, with each square having double the number of grains as the square before.’

The king was baffled—what was this inventor going to do with some grains of rice? He happily obliged, thinking he was getting a bargain.

The inventor came back a week later to collect his rice. But the king told him it couldn’t be done. There wasn’t enough rice to fulfil his request in the entire kingdom!

Based on the 64 squares, by starting with just one rice grain on square one, two grains on square two, four grains on square three and so forth, the king would have needed to have 18 446 744 073 709 551 615 grains of rice in total by the final square.

This is the power of compound interest.

Much like the king who couldn’t visualise the effect of compounding one grain of rice 64 times, many of us can’t always grasp the effect it can have on our wealth.

Compound interest is a beautiful thing where, when assuming a conservative 7 per cent annual return over time, your money approximately doubles in value every 10 years. When your investment returns money,

we call this the rate of return (or annual return when you look at it after one year). Compound interest on your annual rate of return is the driving force that makes investing so powerful. Einstein even called it the eighth wonder of the world. And rightfully so.

So how does it work? Imagine that you have invested \$1000 (this is your principal or initial amount of money invested), and you get 10 per cent interest on your money that year, giving you an extra \$100. Great, you now have \$1100 (this is your new balance).

Next year you also have a 10 per cent interest, but this time it doesn't just work on your original \$1000, it now also works on your extra \$100, so your money grows to \$1210.

You begin to get interest on top of your interest, on top of your interest. And over time your money, like the rice, begins to experience exponential growth. Nice.

If the chessboard example didn't quite do it for you, let me show you with figure 1.2.

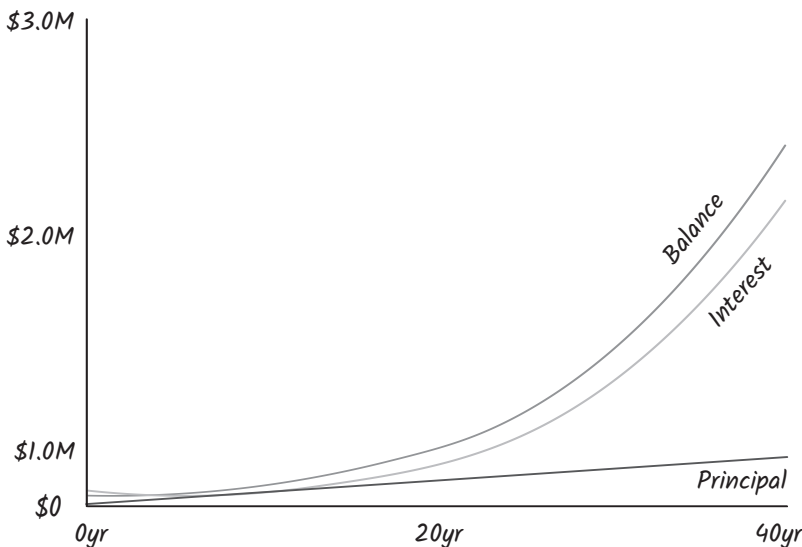


Figure 1.2: balance accumulation graph (not taking into account tax and future dollars)

Here's another example. If Devi puts away \$600 a month in cash every year for 40 years, she'd have \$288 000. Not bad. If she kept it in a savings account offering 2 per cent interest she'd have \$438 866—even better. But if she invested that money, assuming the stock market returned an average of 8 per cent annually (the market usually returns 7 to 10 per cent) for that same time period (ignoring inflation for all examples), she'd have made \$1.94 million thanks to the compounding effect of the stock market. That's a \$1.66 million difference in wealth for Devi, and it's too life-changing to ignore.

As with figure 1.2, you can see the value of having more years in the stock market. Due to compounding, the value of investing \$1 in your twenties is more powerful than investing \$10 in your forties.

And the thing is, you don't need a lot to start off with.

If Sarah started investing at 25 with even as little as \$300 a month, assuming an annual rate of return of 8 per cent, by the time she was 65 she'd have \$460 000.

However, if Sarah decided she didn't want to invest until later on, waited until she was 35 and invested \$300 a month until 65 with the same rate of return, she would only have \$251 000—almost half of what she could have ended up with, had she started 10 years earlier.

If Sarah decided that she was going to invest once she had a higher salary and began when she was 40, putting in \$600 per month—double what her 25-year-old self could afford—you'd assume that she would be able to catch up to 25-year-old Sarah's portfolio.

Surprisingly, 40-year-old Sarah would only end up with \$359 000 at 65. That's almost a \$100 000 difference, despite investing double the monthly amount, and it highlights the importance of time in the market over investing with larger sums of money later in life. See table 1.1 (overleaf) for a summary of these numbers.

Table 1.1: Sarah’s potential investment journeys

Age when starting to invest	Monthly investment	Total \$ invested	Annual rate of return	Total at 65
25	\$300	\$114000	8	\$460000
35	\$300	\$108000	8	\$251000
40	\$600	\$180000	8	\$359000

I do want to stress that this shouldn’t discourage investors in training from beginning if they are starting off later in life. Not all of us had the privilege of receiving financial literacy at 20. Remember that not too long ago women couldn’t get a credit card on our own—and for many of us, our parents weren’t in the position to be passing down this knowledge. However, as the saying goes, the best time to plant a tree was 20 years ago, but the second best time is now. Whenever we have the opportunity, it’s time to take action to invest towards our future.

Reach goals faster

Compared to any other way of seeing your money grow, investing allows you to earn a greater return. The time it would take you to make \$1M if you saved \$600 a month is 138 years. The time it would take to make \$1M by investing \$600 a month, assuming a rate of return of 8 per cent, is 32 years. People are shaving off more than 100 years by investing over saving—the difference is absolutely phenomenal, as shown in figure 1.3.

Through the power of compounding, investing helps you reach your financial goals faster.

Everyone, whether they think about it consciously or not, has some idea of what they would like their life to be like and the goals they want to eventually achieve, whether it be a dream car, or a home, or retiring early. For some people, their goals may include saving up for their children’s education or growing generational wealth. We all have a certain vision of what ‘living our best life’ would look like.

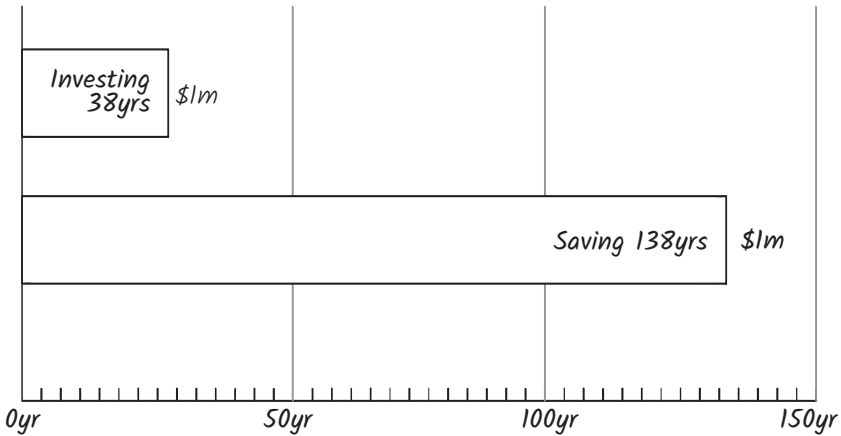


Figure 1.3: reach your goals 100 years faster

To make those goals a reality we need to put a plan into place, and to reach these long-term goals we need to be able to fund them, whether that be with a term deposit, a high-interest savings account or any investment account.

The wealthy understand this concept well.

The average millionaire has over seven streams of income, and investing has always been one of them.

It just doesn't make sense for them to not be harnessing the power of investing to grow their wealth at a much faster rate.

Having goals that you're investing towards also helps to provide clarity, motivating you to be more mindful with your money. Investing can act as a savings plan. You'll start to have thoughts like: 'Rather than eating out twice a week, I can cut down to once a week, which is an extra \$25 a week that I can add to the stock market, which alone would give future me an extra \$150 000 in 30 years.'

Your brain starts to think about future you rather than just current you, and you begin to prioritise only spending money on things that

bring you value, and investing the rest. I began to experience this myself with my investing journey: suddenly updating my earphones didn't seem like the best thing to do. Instead, I'd make do with my older model and put the \$400 I was going to spend into the stock market. That's not to say we shouldn't enjoy the pleasure of the current moment, but your mind will start to shift when you begin investing. I would liken it to wanting to eat more healthily once you start going to the gym. It just becomes an automatic switch.

The benefit of this is that not only are you investing, but you're also picking up good saving habits where it's no longer about your immediate needs. There's a bit of short-term pain involved, but it really does balance out in the long run.

For many investors in training, one of their biggest goals is having a strong nest egg for retirement. Yet as of 2024, only 16 per cent of women workers say they're very confident in their ability to retire comfortably, according to the Transamerica Institute. Think about it: we work roughly until 65, yet the average female lifespan in the Western world is 81 to 85. That's almost 20 years of expenses to be covered. 20 years of rent, food, holidays, brunches, gifts for your family and the lavish lifestyle of your pets. It's going to add up.

While retirement can feel like a long way away for some of us, it's important to be aware of longevity risk. Longevity risk is the risk that your lifespan exceeds the expectation of how long you were going to live, and therefore results in you needing more income (or cash flow) to fund these extra years. Insurers and governments who promise pensions and elderly support take into account longevity risk, but it affects women directly as well.

In heterosexual relationships, women tend to outlive their male partners by an average of five years, and more often than not they are negatively surprised by what has been left for them in their family's

estate planning. In fact, a 2018 UBS study found 98 per cent of widows and divorcees would tell other women to take a more active role in the money decisions at home. Having more of a say in money matters helps women understand and plan for their futures, and investing plays a huge part in this.

Governments already know investing is a powerful tool to help their citizens be comfortable during retirement. That's why so many countries have an opt-in retirement plan set up with employers, whether it be KiwiSaver in New Zealand, 401(k) in the US, Registered Retirement Savings Plans (RRSP) in Canada or superannuation in Australia. These schemes encourage everyday people to put aside a small portion of their pay cheque into an investment fund that aligns with their risk profiles and invests the money on their behalf. Many people assume these are 'saving schemes', but the money isn't saved in a bank account, but rather invested on your behalf.

It's also worth mentioning the shift in population demographics and what that means for you. Currently many OECD countries have a larger percentage of young people who are eligible to work, whose taxes pay for the elderly's government funding.

In simple terms, we have enough young people to pay for the pensions of all the elderly people. However, as life expectancy continues to grow and birth rates decline, we'll soon see a smaller proportion of young people having to fund a larger population of elderly (as illustrated in figure 1.4, overleaf). This means the retirement age will likely be pushed past 65 and that there will be less money to go around to us when we're older.

The next generation will eventually get fed up with funding our lives and will likely cut down or remove the pension system entirely. It's not a wild assumption, either: governments in the US, UK and NZ are already in talks about the possibility of reducing the support they provide our generation once we reach retirement age.

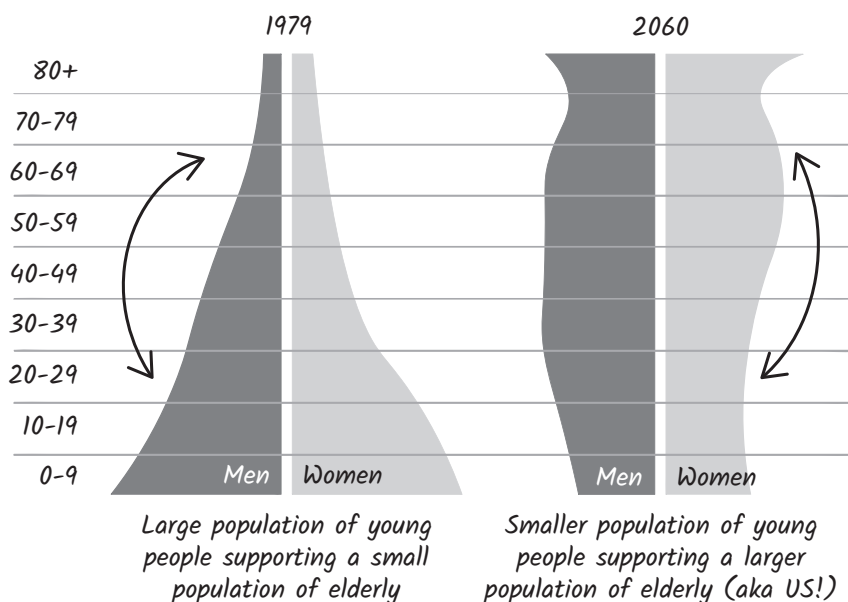


Figure 1.4: proportion of age groups in the population in 1979 vs. projected numbers in 2060

All the more reason to take responsibility for our own retirement planning and invest, and potentially reach those goals faster. Government schemes are helpful, but they often do not allow for withdrawals without reason until retirement age, and they often aren't large enough lump sums to live off entirely either. We are much better off if we have the means to stand on our own feet.

Get financial freedom and security

Money is a huge stressor in the lives of women—in fact, a 2019 survey by Salary Finance showed millennial women were more stressed about money than millennial men, and were more likely to suffer from panic attacks over financial issues. When it comes to stress, we often think about the stress of work or family commitments, yet money is the

number one cause of stress for us and the number one cause of divorce. With those statistics, you'd think we would have a bit more access to financial literacy tools. Or at least a pamphlet.

Financial stability has a powerful flow-on effect in our lives. In fact, in 2022 the study 'The impact of a poverty reduction intervention on infant brain activity' found that providing mothers of newborns an extra \$300 a month for a year ended up improving babies' brain development compared to those whose mothers were only given \$20 a month. This points to the socioeconomic effects money has on our lives. Up to a certain level, money improves our wellbeing and physical and mental health outcomes; it improves our ability to access higher education, network into better paying jobs and frees up our time to connect with our communities.

A bird does not fear the branch beneath it breaking because it has faith in its wings. When you are financially independent and financially literate, you are more empowered and in a better position to make the calls in your life. No matter what life can throw at you, whether it's curveballs in your career or with the people around you, if you are financially secure, you will always have one less thing to worry about.

***Nothing compares to the feeling of being
completely self-reliant.***

More importantly, investing helps to grow your wealth, giving women the freedom to leave any situation that does not serve them. Being financially independent means no strings attached. It means not having to listen to someone micromanage where you spend your money. Or putting up with a boss who makes you uncomfortable. It means not needing to stick it out in a career that drains you. No matter what the situation is, many women find extreme joy in investing for financial freedom.

Create a better world

Many people think money and creating social change are mutually exclusive, and that money is the root of all evil. This couldn't be further from the truth. You can pursue a financially free life and also only put your money into missions you support.

Ethical investing—investing only in ways that align with your values and morals—is a legitimate investing strategy (covered in more detail in chapter 8). While some investments include companies that engage in warfare, tobacco use and animal testing, over the past two decades there's been a shift towards ESG investing—investing in companies that place an emphasis on environmental, social and governance factors. In 2015, only \$5 billion was invested into environmentally sustainable funds in the US, but by 2020 that increased to over \$51 billion—and it's only growing stronger.

By being an investor, you can vote with your money. You can choose what types of companies deserve your hard-earned cash, and companies will take notice. Brands that promote plant-based meals or clean energy may be on your list, or perhaps you really want to back companies that have at least a 50 per cent female/male ratio in leadership—whatever causes are important to you, you can push for further change with investing. You can also vote by avoiding investing in certain companies based on their poor ESG ratings, or practices that you don't agree with.

If a large distribution company, for example, chooses to not let their workers unionise, or perhaps encourages them to stay in warehouses during a tornado, you can vote with your money by not investing in their company, or pulling out your investments, making it known that you don't support that kind of work environment and, for heaven's sake, to let people go home during natural disasters.

An example of investing for change was seen in April 2010. British Petroleum had a devastating oil spill in the Gulf of Mexico after their

Deepwater Horizon drilling rig exploded. Piercing images showed the disgustingly vast amount of oil spreading across the ocean. Photos of the wildlife drenched in oil are scenes I will never forget. BP's shares dropped 51 per cent in 40 days on the New York Stock Exchange, losing almost \$100 billion in value. Investors 'punished' the brand by pulling their money out, sending a clear message to BP and other oil companies that these kinds of mistakes would not be tolerated.

It's no surprise that millennial and Gen Z consumer spending is increasingly moving towards purchases that align with their values; thrifting, vegan products and recycled materials are shaping the way we shop and invest. A 2025 study by the Morgan Stanley Institute for Sustainable Investing, found that 90 per cent of investors globally are interested in ethical investing, with Gen Z and Millennials especially drawn to options that deliver strong financial returns and positive social or environmental outcomes.

***More and more of us are realising the
impact we can have through our investing
choices—after all, money talks.***

Investors in training understand that there are many benefits to investing—it's not just about making money. It's about preserving wealth by avoiding inflation, making use of the power of compound interest, reaching your financial goals faster and, more importantly, being in control of your financial future. And it can also be about creating a better world.

Actionable steps

1. Research the inflation rate in your country this year—the value of your cash has gone down by this percentage.
2. Make sure your pay rise this year is in line or above inflation.
3. With a pen and paper, write down what you want your life to look like in five years' and 10 years' time. How much money would you need to achieve that goal?
4. Finish this sentence: Investing for financial security is important to me because _____.
5. Write down three causes you're passionate about. Research if there are any companies that align with your views, and how their stock prices have been performing.

Investor profile

NAME: Mireia

AGE: 22

JOB: Adviser at Te Puni Kōkiri (Ministry of Māori Development)

1. What does your investment portfolio look like?

It's 60 per cent ETFs (exchange-traded funds; S&P 500, NZ top 50, Smartshares Europe Fund, etc.), 30 per cent managed funds (Simplicity growth fund and Pathfinder managed funds), 10 per cent individual companies (Air New Zealand, Tesla, Apple).

2. When did you begin investing and what was your first investment?

My first investment was about \$20 in Air New Zealand. I had no clue what I was doing and was only beginning to grasp the concept of investing. I remember thinking, 'When the borders open up then surely my money will increase in value?'

3. What stopped you from investing; were there any barriers you had to overcome?

Fear, anxiety and overwhelm around what to invest in. I tried to start investing back in 2020 after a friend had talked to me about the concept of it. I loved the idea of my money working for me, however, when I created an account on an investing platform, I felt completely lost and anxious around what to invest my money in! I remember comparing myself to all these people online who invested in companies before they grew immensely, and were now rolling in money! I remember realising that when I was looking through these companies, ETFs and index funds, it just made me feel afraid, because I didn't know how it all worked. I then decided to hold off until I knew what I was doing. The barrier I had to overcome was to educate myself and look at resources that simplified the concept of investing. I also had to not compare to other people's experiences, particularly on social media. At the end of the day, investing is a very simple concept that has been made complex.

4. Any tips for new investors?

Be clear on your intention and your 'why' behind investing. If I am investing for my future self and am putting my money in ETFs and managed funds that are diversified, then the market dips are simply a sale day! I am here for long-term investing that's going to grow my money over time, not for a short-term gain. Sticking to my intention helps me ride out the highs and lows of the market.