Simple Wealth Building Steps

Are you about to make a financial decision? Does it make you nervous? Do you feel pressured? How do you know you're making a good decision?

Today we are focusing on building wealth. But this isn't going to be about get-rich-quick schemes or chasing the trends in the market. We will be working through an Investopedia.com entry entitled, "3 Simple Steps to Building Wealth" published in May of 2019. But don't let the title of our resource today lead you astray — while these steps may be simple to understand, they can be harder to execute.

According to the article, in order to build wealth over the course of your life, you need to do three things:

First, you need to **Make it:** You need to have a consistent source of income that allows you to have some left over *after* you've covered your necessities like housing, utilities, food and transportation.

Then you need to **Save it:** Once those necessities are paid for, your next step is to have a proactive and consistent savings plan. This could include a 401(k) through your employer or another type of individual savings strategy.

Finally, you should **Invest it:** Once you have put aside that savings, it needs to work for you in an investment mix that matches your risk tolerance and long-term strategy.

Let's dive into each of these three steps to wealth building a bit more in depth, starting with *earning income*. While earning income may seem like a no brainer, it is still the most important step. Odds are that you have seen various charts and tables showing the value of compounding interest over time. What those tables and charts rarely show is what you need to be making to cover the necessities of your life. There is only so much you can save by cutting down on your expenses.

You will likely need to increase your income over time to allow for more opportunities to invest. One way to make sure that you are using new income for savings is to automatically increase your savings when you receive a raise or a bonus. You already know how to live on your current income, don't simply spend more because you have more. Some 401(k) plans and individual retirement accounts will even provide you with the ability to automatically increase savings percentages on the schedule that you determine works for you. Are you paying off debt like a credit card or school loan? Schedule an increase for when that debt is paid off, thereby increasing your savings.

Speaking of savings, there are some more ways that you can avoid spending more than your income. The Investopedia article identifies four ways to make sure you don't exceed your budget and spend too much.

1. Track your spending. Have you felt like your money has just disappeared in the past!? Even knowing exactly what you are spending your money on can help you avoid spending too much. Categorize and sort your expenditures. Where can you adjust? Did you realize you were spending that much on certain categories? I think the results with surprise you.
2. Once you have identified those surprise areas or categories, decide where you can save money. Could you eat out less? Pack a lunch from home to save money instead. Even making a change that impacts one or two days could have an influence on your savings over time.
3. Don't be afraid to adjust to your lifestyle. You may feel that right now entertainment and eating out is close to essential, but over time are you really getting the enjoyment you are paying for out of those expenditures? Automatic subscriptions are very convenient and increasingly common for all types of entertainment. But they are easily overlooked and may be an opportunity to cut back on expenses.
4. And as always make sure you are taking full advantage of your company's 401(k) match if available. Leaving matching money on the table is just the same as turning down a raise. Don't do it!

Finally, you need to find the right investment strategy and mix for your risk tolerance. At Strategic Wealth we provide the Color of Money Risk Analysis and the Color of Money report. The first step is to color code your risk tolerance by answering the 11 questions of the Color of Money Risk Analysis. This analysis provides you with a financial picture and a roadmap to your overall risk preferences.

The output will be a proprietary Color of Money Risk Analysis score. This short, interactive analysis is an important part of determining how to properly align your assets among Red, Yellow and Green money.

Asset allocation does not guarantee a profit or protect against loss. All investing involves risk, including the possible loss of principal. These are complimentary and available in the Generational Vault — secure, easy to set up and available at no cost. Just fill out the short form on our website, to request your complimentary Generational Vault account.

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