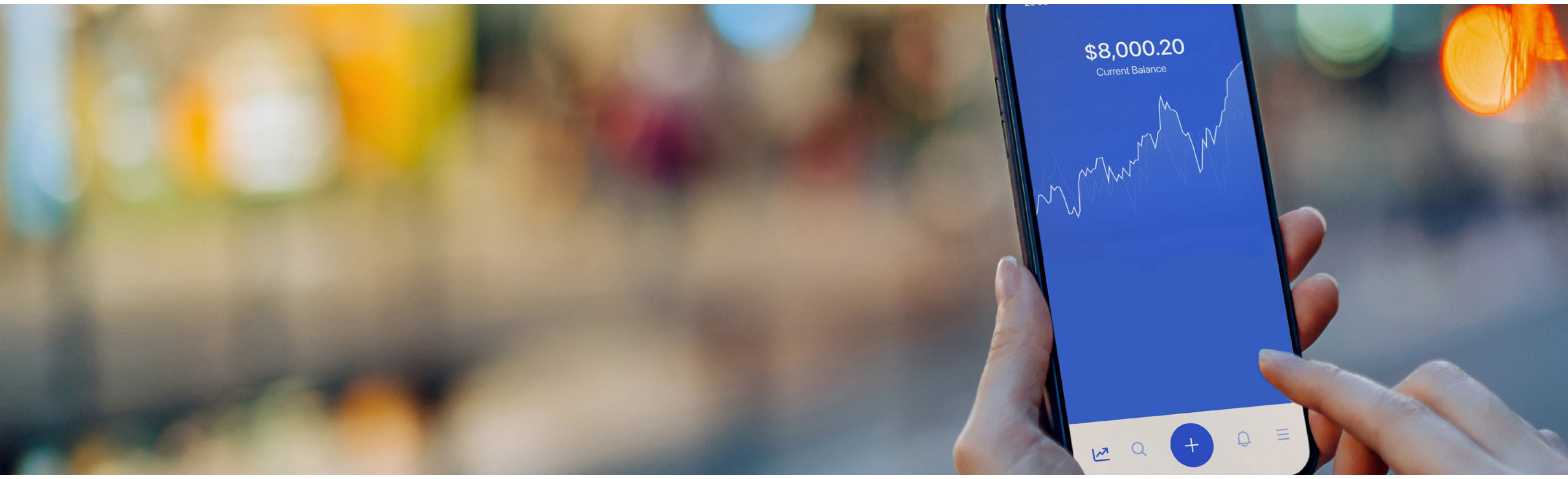
Build Wealth Over Time Through Saving and Investing



You can improve your chances to achieve financial security by controlling credit card debt, having an emergency fund, and setting aside a portion of each paycheck to invest in long-term goals, including retirement. Here are tips to build wealth through saving and investing.

1. Be smart about credit card debt.

Credit cards charge high interest rates if you can't pay off your balance at the end of the month. That interest increases the price you pay for the items you buy and may stretch your debt over many years. Pay down any credit card debt and try to live within your means.

2. Leave room to save and invest.

Get a handle on your monthly expenses. Understanding the income you have coming in and the bills you owe every month will empower you to build a budget that ensures you have room to save and invest for the future.

PRO TIP: Don't overspend on a car. A $40,000 car can come with a car payment over $800 per month. That loan can limit your ability to achieve other important financial goals, like saving, investing, paying off debt, or having extra spending money.

3. Start saving and investing regularly.

Over time, a simple formula has helped many on their financial journey: your regular **INVESTMENTS + TIME = WEALTH**. The earlier you start, the longer you have to build wealth through investing! To put that formula into action, take at least two action steps:

- Start an emergency fund in a savings account at your bank or credit union and automatically deposit a certain amount of money directly into that account each pay period. That money can help you avoid going into debt if you have an unexpected expense.
- Invest regularly over time (for example, 5% or 10% of your income or some fixed amount that you can afford to contribute each pay period) and continue to invest over your entire career. Consider increasing your investment contributions if you are able to increase your income or reduce your expenses. Investing may have more risk than money kept in the bank, but it gives you a better chance to create wealth over time.

4. Consider starting with your 401(k) and IRA.

Some jobs offer workplace retirement plans, sometimes called a 401(k), to help their employees prepare for retirement. When beginning your investing journey, consider starting with your 401(k) because your contributions give you a tax break and your employer may match your contributions up to a certain amount—that's free money!

A second building block of investing is an Individual Retirement Account (IRA), which you can set up yourself. IRA contributions also offer tax advantages.

> **PRO TIP:** Set it and forget it. Automate your contributions to your 401(k) and IRA to keep building wealth each time you get paid, instead of having to make multiple separate decisions each year to prioritize saving and investing.

When choosing an investment option within your 401(k), IRA or any other investment, a diversified fund that spreads your investment across many companies/securities (like an index fund) may reduce the risk of investing. That's because if one or a few stocks or industry sectors lose value in any given time period, your fund's investment in other parts of the market may improve your returns.

> **PRO TIP:** A popular investment option is called a "target date fund," where you can choose a date in the future (your target date, often retirement) when you will need your money. Target date funds will automatically adjust the way your money is invested from a more aggressive, stock-heavy portfolio earlier in your career to a more conservative mix of investments as you approach retirement. It's sort of like putting your long-term investments on autopilot.

5. **Research investment professionals and opportunities.**

There are steps you can take to protect your nest egg once you become an investor. If you plan to use an investment professional, like a broker or investment adviser, look them up on **Investor.gov**—make sure they are licensed and registered and review their employment history for red flags. Also keep in mind that scammers love to use social media, texts, emails, chats and other means to promote bogus investments to investors. If something sounds too good to be true (for example, promises of high guaranteed interest or overnight riches), trust your instincts and ignore it. Promotions that make getting rich from investing seem easy or quick are likely scams—in fact, most successful investors build wealth by consistently investing a portion of their income over a long period of time.

PRO TIP: If I trade more, I'll profit more, right? Probably not. Research has generally shown that frequent trading is more harmful than helpful to your investment returns over the long term. Even frequent traders who make profitable trades may pay more, because short term trading is typically subject to higher taxation than investments held for at least a year. For more information about taxation and investments, consult a tax advisor or visit the **IRS website**.

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WHERE CAN I GET MORE INFORMATION?

Find tools and resources that can help you build wealth and avoid scams on **Investor.gov**.

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