Ways to Build Wealth

Build for your Future

CREATE AN EMERGENCY FUND

You should always have a dedicated inventory of cash to be ready in case of a job loss or unexpected bill. This will protect you from racking up credit card debt or tapping into retirement savings to cover these surprise expenses. Thus, it is always wise to save at least 3-6 months of living expenses in a safe, easy-to-access savings or money market deposit account. All levels of cash or savings above that number should be invested in a suitable manner, based on your risk tolerance.

MAKE THE MOST OF EMPLOYER INCENTIVES

For the slow-and-steady way to get rich, take full advantage of your company's 401(k). You can contribute up to $18,500 (or $24,500 for people 50 and older) to this pre-tax account. The benefits are further improved by any potential company match. If you have to cut back for a few years, due to unplanned circumstances like the birth of a baby, try to kick in at least enough to get the full company match, then boost your contributions later on to get back on track.

SET SPECIFIC GOALS

You're more likely to accrue wealth if you have specific written goals and a plan to reach them. That means coming up with short-term goals, such as paying off debt, buying a house, or saving for vacation, as well as long-term goals, which will typically include funding your retirement and your children's college education. Make your goals specific and realistic – instead of saying you want to save for a college fund, make the goal that you want to have $60,000 saved in 20 years for a college fund. Regular periodic contributions may make acquiring wealth less painful and more predictable.

Protect Estates

INSURANCE

Life and disability insurance would replace lost income if you or your spouse died early or were injured. One rule of thumb for life policies suggests buying at least 8-10 times your gross income. A 20- to 30-year term policy, which has no savings component, is best for most families. Age and preexisting health conditions directly affect the annual premiums. The life policy should be calculated to replace your total income to last until your children are out of college, you pay off your mortgage, or you stop working due to accident, illness or retirement. If you need insurance longer- if you're supporting a child with special needs, or if you'd like to create a legacy for your family after your passing- consider permanent insurance such as whole life or universal life, which also builds cash value. Additionally, as the population ages and the need for assisted living care or nursing homes becomes a reality, purchasing a long term care policy when you are in your 40s and 50s is a reasonable way to protect your personal wealth.

INVESTMENTS

The best way to build wealth in the long run is to invest in stocks. U.S. stocks, measured by the Standard & Poor's 500-stock index, have typically returned about 10% per year compounded since the 1950s. Stocks can be volatile over the short term, so a 5-15 year holding period is advised. After a long bull market run, equities are due for a correction or possibly a bear market. These do happen, usually followed by a recovery. So don't panic. Proper allocations are designed to soften any correction – hence why it's best to always diversify!

YOUR ESTATE PLAN

The best way to protect an estate while leaving instructions for heirs is to have a will and other estate planning documents. You may also want to look into obtaining a durable power of attorney (which allows you to appoint a person to manage your finances and legal affairs) and health care power of attorney (which gives a trusted person the authority to make health care decisions on your behalf if you cannot). Make sure these documents reflect your current circumstances, including birth of a child, divorce or if you move to a new state, and are updated to reflect such changes in the laws or personal conditions. Also review the beneficiaries of your life insurance, 401(k) and IRA.

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Diversify

ALLOCATIONS

Plans designed to lower risk with a diversified mix of stocks and bonds can help your portfolio stay afloat during sell off markets and may improve your long-term returns. As an illustrative example, if you have at least 10 years until retirement, you may want to hold 70% of your portfolio in stocks and 30% in high-quality bonds. A mixture of mutual funds or exchange traded and index funds (ETFs) can also work well too and should include large, mid and small cap, as well as international holdings. Trying to time the market is not an investment plan. If drastic and sudden changes cause you distress, it may be a sign that a balanced portfolio wasn't created properly. Successful investors understand cooler heads prevail and long term markets have rebounded. Cash pays almost nothing, and bonds come with their own set of risks. Successful investor, Peter Lynch, manager of Fidelity Magellan's success, was known for imparting the idea that the best time to invest in the market, is "when it is open." Meaning, investments choices and not timing is the key to success. Thus, our advice would be to set up an appropriate allocation plan according to your risk tolerance, experience, timeline and goals, and then rebalance as needed. It's generally advised to trim your winners periodically and add to your laggards to keep your mix intact, and to check your brokerage statements each quarter to see if your portfolio has veered off track.

Know Your Retirement

WRITE DOWN YOUR PLAN

Create a retirement budget, devoting one column to essential costs (housing, food) and another to discretionary expenses (travel, hobbies). Factor in inflation for overall expenses, which is expected to be 2.4% over the next 20 years according to the Congressional Budget Office. Consider making a separate calculation for health care costs, which are likely to have a much higher rate of inflation (possibly as much as 5.1% over the next 20 years). Match expenses to guaranteed income, like pensions or Social Security payments, plus the annual amount you plan to draw from savings. If there is a gap, reconcile yourself to spending less or working longer.

Staying in the workforce a few extra years gives you more time to contribute to your retirement accounts. Plus you'll have fewer years to finance once you retire. As the old saying goes, "People don't plan to fail, they fail to plan."

CREATE SAVINGS BUCKETS

Being forced to sell your investments in a bear market, especially at the beginning of retirement, is a major wealth killer. Your carefully laid plans for making your savings last the rest of your life could be in jeopardy. To avoid this, create three "buckets" for your savings. The first should hold enough cash, CDs and other short-term investments to cover 1-3 years of living expenses, after factoring in guaranteed income like Social Security or pension distributions. The second should have slightly riskier investments, like intermediate-term bonds and a few diversified funds. The third should be for long-term growth, holding diversified stock and bond funds. As you draw down the first bucket, you eventually refill it with the profits from the second, and the second bucket gets refilled with gains from the third.

LONG TERM CARE

With a median cost of $92,000 a year, a stay in a nursing home can quickly deplete your retirement nest egg. Long-term care insurance can help preserve your wealth. But the long-term cost of this insurance has skyrocketed, so most people need to find a way to affordably set up this safety net. Remember, the later in life you seek to purchase this type of policy, the greater the cost will be to you. Therefore, we advise you look up the cost of care in your area and estimate how much of a three year stay you could cover with income and savings. That number will probably shock you. You'll then want to shop for a long-term care policy to cover the gap. You can save money on premiums by lowering the inflation adjustment from 5% to 3%, or you can reject that rider altogether. You can also opt to shorten the benefit period or pool it with your spouse to cover the two of you; or you may extend the waiting period from one to three months, for example. As you can see, long term care has a lot of variables that affect the annual premiums. As the greatest influence on cost is the condition of your health and any pre-existing conditions, it is a good reason to control your diet and exercise regularly.