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5 Ways to Grow Your Net Worth TODAY

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Building wealth is difficult. If it were so easy, everyone would do it! The reality is that there are so many moving parts in our personal financial situations that it can be overwhelming to craft the perfect plan to build net worth and, arguably, even more difficult to properly implement on a consistent basis. The following steps are designed to provide you with a solid base to start growing your wealth right now.

1. **Save Uncomfortably…to Start**

Assuming you don't have any major debt with high interest rates, it's never too early to begin saving for retirement or a rainy day. When you enroll in your 401(k) or other retirement plan through work, at a minimum, it's important to take advantage of your employer match, if you're fortunate enough to have one. Where else can you get a dollar-for-dollar return on your investment?

Consider going above and beyond, and setting up an automatic savings plan that you feel slightly uncomfortable with. In other words, if saving $100 per month is a piece of cake, but saving $300 per month might be pushing it, consider starting to save $300 per month. Worst case scenario, you can always decrease your savings rate if you later feel that you need the extra cash. On the flip side, you might find that saving $300 per month is totally doable, and you don't event miss that extra $200 being set aside. It's usually more painful to eventually save more than it is to save less!

Finally, consider the following: if you invest $19,000 (current maximum for 2020) into your 401(k) every year from age 30 through age 60, assuming you earn a rate of return of 6% on your investments, you will end up with just over $1.5 million. For many, that's enough to live a well-earned retirement. Don't underestimate the power of compound interest and the ease of setting your savings on auto-pilot.

2. Don't Give in to Lifestyle Inflation

Lifestyle inflation refers to increasing spending when income goes up. It's easy to get accustomed to a certain lifestyle and very difficult to "downgrade" your lifestyle if your cash flow requires it. If you get a 50% bump in your salary, would you trade in your $20,000 car for one that costs $30,000? Some would, and those that do, often feel that the extra income would have been better spent elsewhere.

When you get a raise at work, consider setting up an automatic savings plan for that increased amount. It's simple to set up a recurring monthly transfer from your checking or savings account to an investment account, so there's no risk of forgetting to save. Hopefully, your savings will grow at a reasonable rate and will be readily available in case of an emergency or for a large purchase.

3. Build an Emergency Fund

One of the leading causes of consumer debt in America is a widespread lack of emergency savings. The last thing you need when an unexpected expense comes up is to panic about how you're going to cover it. Many people turn to high interest credit cards as a last resort, which are detrimental to building long-term wealth.

Generally speaking, you should have 3-6 months of your living expenses set aside for emergencies. So, if your rent/mortgage, groceries, utilities, car, gas, entertainment expenses, etc. set you back $5,000 per month, consider targeting an emergency fund between $15,000 and $30,000. This will prevent you from needing to incur debt with high interest rates, like credit cards, when an unexpected expense arises.

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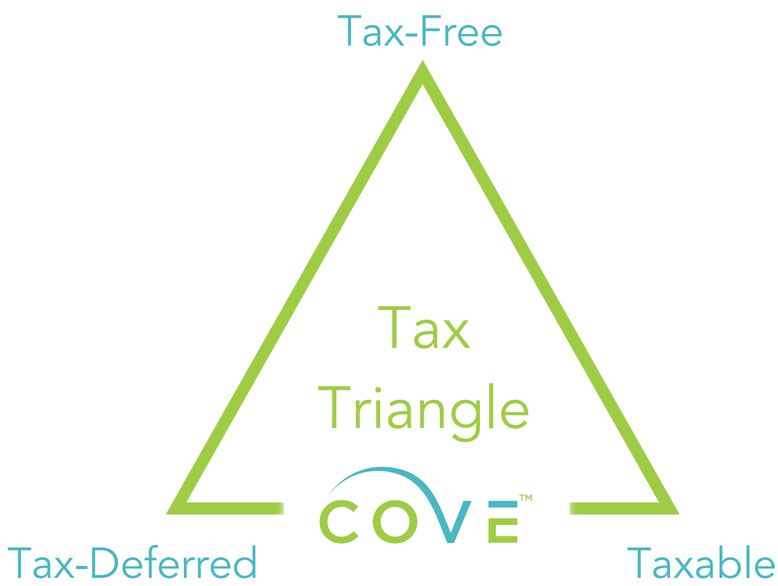
4. Consider Taxes

It's not about what you ***make***, it's about what you ***keep***. It's difficult enough making sound decisions on how much to save each month let alone which investments to choose from. Another consideration for building wealth involves which types of accounts you are investing in from a tax perspective. Enter, the tax triangle:



Maintaining a balance between three types of accounts, tax-free, tax-deferred and taxable, can provide unique control of distributions, especially in retirement. Below are common examples in each category:

- **Tax-Free** (post-tax): Taxes paid before contributing, and distributions are tax-free
  - *Examples*: Roth IRA, Roth 401(k), 529 Education Savings Account and Health Savings Account (HSA)
- **Tax-Deferred**: No taxes paid before contributing, and distributions are taxed as ordinary income in the year taken
  - *Examples*: Traditional IRA, 401(k), 403(b), 457(b) and SEP IRA
- **Taxable**: Taxes paid before contributing, taxed when you sell an investment at a gain, and dividends are taxed when paid
  - *Examples*: Individual Investment Accounts, Trusts

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Your ideal tax balance will depend on your current income and tax bracket, how much you're investing and your distribution needs in retirement, among other things.

For example, if you are in a higher income tax bracket now than you expect to be in during retirement, then it makes sense to invest more in a tax-deferred account such as a Traditional IRA or 401(k) because you will expect to pay less in taxes when you withdraw from the account later on in retirement. If the opposite is true, and your tax bracket is low now, consider overweighting your tax-free savings such as in a Roth IRA. Saving and eventually distributing strategically from these types of accounts can lead to more money in your pocket (and less paid to Uncle Sam).

5. Take Control

Keeping track of your finances can be difficult and, oftentimes, overwhelming. Simply knowing what your cash flow and net worth looks like can be incredibly empowering and useful in making smart decisions towards long-term goals. Consider building a budget by tracking income and expenses over the last three months to start. Ask us about simple templates that can help get you started.

Next, look at all your current assets, liabilities, and spending history in real-time and in one place using account aggregation tools and apps. One great (and free) place to start is Mint.com, which is fairly easy to set up and use. If you work with an advisor, ask if you can access any aggregation tools that he/she uses.

We at Cove Financial Planning want to empower and support you in responsibly growing your wealth. Schedule a free initial consultation call to learn more about how we can help you take control of your financial life.

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Ben Smith is a Whitefish Bay, WI fee-only financial advisor and CERTIFIED FINANCIAL PLANNER™ (CFP®) Professional serving clients in the greater-Milwaukee, WI area as well as virtually across the country. Cove Financial Planning provides comprehensive financial planning and investment management services to individuals and families, regardless of location, with a focus on Socially Responsible Investing (SRI). Ben acts as a fiduciary for his clients. He does not sell financial products or take commissions. Simply put, Cove Planning sits on *your* side of the table, and always works in your best interest. Learn more how Cove Planning can help you Do Well While Doing Good!