Building Wealth: A Roadmap for Students

Once you start your first job, you have the potential to begin building wealth. There is a roadmap that can improve your chances to achieve financial security. That roadmap starts with controlling credit card debt, having an emergency fund for unexpected expenses, and setting aside a portion of each paycheck to invest in your medium and long-term goals, including a comfortable retirement. Here are five tips to build wealth through saving and investing, and you can learn five additional tips on Investor.gov.

1 Have an intentional spending plan that leaves room to save and invest

Once you start earning a regular paycheck, the next step is to get a handle on your average monthly expenses. Understanding the income you have coming in and the financial obligations you owe every month will empower you to build a budget, or an intentional spending plan, that ensures you have room to save and invest for the future.

PRO TIP

Avoid an expensive car purchase. A $40,000 car can come with a car payment over $800 per month. Your four-year car loan will limit your ability to achieve other important financial goals, like saving, investing, paying off debt, or having extra spending money.

2 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. No investment will give you guaranteed returns to outweigh the high interest rate you pay with a credit card or other high interest debt, so get serious about paying that down.

3 Start saving and investing regularly

There is a proven formula when it comes to building wealth: your regular investments + time = wealth. Youth is your superpower! The earlier you start, the longer you have to save for your future! To put that formula into action, take at least two action steps as soon you start earning income:

- 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.
- And, most importantly, begin investing some portion of what you earn, and do it consistently over your entire career. Investing has more risk than money kept in the bank, but it also gives you a better chance to create wealth over the long term.

4 401(k)s and IRAs have advantages that make them great building blocks of investing

Some jobs offer workplace retirement saving plans to help their employees prepare for their retirement. When beginning your investing journey, consider your workplace retirement plan, often called a 401(k), as a starting point 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. IRAs also offer tax advantages.

PRO TIP

Automate your contributions 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 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 exposure to 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 auto-pilot.

5 Be careful!

Scams: Scammers use social media, text messaging, and other means to market fake investments, often making getting rich from investing seem easy or quick. In fact, investing is a long game, and most folks build wealth by steadily investing throughout their careers.

Apps: Investment firms may market financial technology, or fintech, to assist with investing, budgeting, borrowing, and other financial needs, in an app. These apps can provide you with convenient tools to make investments, but apps may give you access to complex products or strategies for sophisticated investors. Also, be aware that some apps may "gamify" the process of investing and nudge you to trade more than your comfort level, and pay attention to the fees you'll pay and the data you make available to the app.

Frequent Trading: 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.

Crypto: The risk of loss remains significant. Learn the latest about crypto asset risks at Investor.gov.

Avoid FOMO: Don't fall for investments that sound too good to be true or promise high or guaranteed returns. Scammers will use buzz-worthy concepts, like crypto or artificial intelligence, to convince you they have a "can't miss" opportunity.

If you plan to use an investment professional, like a broker or investment advisor, look them up on Investor.gov – make sure they are licensed and registered and review their employment history for red flags.

Investor.gov has tools and resources that can make you more likely to build wealth and less likely to engage with a scam. Visit and bookmark our Students page to learn more about the roadmap to building wealth.

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