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FIVE SECRETS TO BUILDING WEALTH IN THE 21ST CENTURY

This article is about how to build personal wealth in the 21st century. However, if you're expecting hot stock tips or a nifty new way to use the Internet to invest your money, you've come to the wrong place. In fact, we confess to being somewhat deceptive with the title. There are no "new" secrets for building wealth in the new millennium. They're really the same old secrets smart people used in the last century to get wealthy.

1. Have a goal. "I wanna build wealth" and "I wanna retire rich" aren't goals. They're dreams, and vague ones at that. To build wealth, you first need to determine what you want that wealth for. Do you need the money to buy your own business or retire in a certain place by a certain time? Then you can decide how much money you actually need to accomplish those goals.

Instead of thinking about becoming "wealthy," a better concept might be to become "financially independent." That suggests enough money to allow you to make the choices you want to make. Perhaps you want to have enough money to quit the job you're in so you can pursue another career you love more but that doesn't pay as well. You may not need a lot of "wealth" to accomplish that goal.

2. Spend less than you earn. There isn't a millionaire on the planet who got that way by spending all the money he made. That means living below your means. It doesn't have to be far below your means, say Certified Financial Planner practitioners, but it does mean not spending every penny you earn. Take housing, for example. People often buy the maximum amount of home they can afford. Yet for every dollar they don't spend on a house, they save approximately $2.40 over the life of a 30-year mortgage.

One trick is to design and follow a spending plan, or budget, so your money goes exactly where you want it to. Another key is to spend wisely. Research has found Americans "waste" 20 to 30 percent of their money by not getting the most for their dollars through such simple steps as using coupons, comparative shopping for the best buys from food to auto insurance, and a zillion other money-saving tricks.

3. Minimize your debt. It's difficult—and not always wise—to avoid debt entirely. Yet too many Americans saddle themselves with needless debts. It's little wonder bankruptcies are near an all-time high despite a booming economy. Too many consumers can't wait to spend. One key is to avoid consumer debt that pays nothing in return (unlike mortgage or college debt), provides no tax breaks and is often high priced. This particularly applies to credit-card debt.

4. Invest early, wisely, often and as much as you can afford. "Early" is especially key. Nothing consistently makes money like time. Investments that return even modestly over the years will usually make far more money than investments made hurriedly at the last minute. Other "old fashioned" 20th century secrets to investing include maximizing investments in tax-deferred accounts and investing regularly every month. And skip the day-trading and market timing. A recent study of mutual fund investors by the Boston-based financial services research firm DALBAR found investors who bought and

held their stock mutual funds over the past 15 years earned 17.9 percent a year. However, the average investor switched in and out of funds every three years and earned just 7.25 percent a year.

5. Protect your wealth. As you build wealth, the last thing you want to do is lose it to an unexpected financial catastrophe. Most of us get the basic insurances–life, auto, home. But some of us skip medical coverage because it's expensive and tough to get sometimes, even though a serious medical illness can wipe you out financially. Many of us overlook disability coverage–insurance that replaces income lost because of sickness or disability. Only a small percentage buy long-term care insurance, and many overlook liability insurance and the use of asset protection trusts to protect us from someone suing us for all we're worth. You don't want others becoming wealthy on the money you worked so hard to save.

This column is produced by the Financial Planning Association, dedicated to promote and support the financial planning process to help people achieve their goals and dreams. It is provided by
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