Wealth-Building Strategies for HENRYs – Video Transcript

Are you a HENRY? That's a playful acronym that stands for "high earner, not rich yet" – an apt description of young and highly educated professionals who have substantial incomes but little or no savings.

HENRYs generally have enviable career prospects, but many of them feel financially stretched or may even live paycheck to paycheck for years, especially if they are working in cities with high living costs and/or carrying large amounts of student debt.

If this sounds like you, it may be time to shed your HENRY status for good and focus on growing your wealth — even if it means making some temporary sacrifices.

Start by calculating your net worth — the total of your assets (what you own) minus your liabilities (what you owe). This simple exercise should help you take stock of your current financial position, and it's also a good way to track your progress over time.

Once your net worth is established, consider these three proven wealth-building strategies.

First, pay close attention to your spending.

After studying long hours and working your way into a good-paying job, you deserve to spend some money. But it's virtually impossible to increase your net worth if you don't live within your means. If you can't pay for most of your splurges without relying on credit — or wiping out your savings — then you need to rein in your lifestyle.

Pay yourself first every pay period by diverting money from your paycheck to a separate savings account and then spend what's left over, not the other way around.

Budgeting software or smartphone apps can help you analyze your spending patterns and identify some less-painful ways to cut back.

Second, take full advantage of your workplace retirement plan.

Making regular contributions to a 401(k) or similar plan is a no-nonsense way to accumulate retirement savings, and pre-tax contributions reduce your taxable income by the same amount.

If your employer offers a match, free money is great reason to save at least enough to receive the full match and any available profit sharing.

Finally, weigh housing decisions carefully.

Whether you rent or buy, paying for a place to live probably accounts for the largest chunk of your monthly spending. Renting may do little to improve your financial situation in the long run, especially if you face rent hikes year after year, but it offers flexibility if you want or need to move.

If you intend to stay in one place for a while, purchasing a home could help stabilize your housing costs. It typically takes three to five years to recover the transaction costs, but you would build equity in the property as your loan balance is paid off over time — more so if the value appreciates. Nevertheless, you should resist the temptation to buy more house than you can afford, even if the bank says you can.

You may not be rich yet, but fortunately you still have lots of time, earning potential, and opportunities like these to build wealth for the future.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.