



Building a strong financial foundation early in your career is key to achieving long-term success and stability.(UBS)

Five steps to financial success for young professionals

26 July 2024, 3:06 pm CEST, written by UBS Editorial Team

Embarking on your professional journey is an exhilarating chapter filled with endless opportunities and new experiences. Amid the excitement, the multitude of financial options and strategies can leave you feeling unsure of where to begin. However, building a strong financial foundation early in your career is key to achieving long-term success and stability. To guide you on this path, here are five essential steps to kickstart your financial planning journey.

Step 1: Open Savings, Checking Accounts and Budget

One of the first steps in financial planning is understanding the different types of bank accounts available. Each type serves a different purpose and can help you achieve various financial goals.

- Research various types of savings and checking accounts such as regular savings accounts, high-interest savings accounts, money market accounts, and certificates of deposit (CDs).
- Choose the accounts that best align with the timing of your financial goals. For example, the classic CD is a fixed-term solution in which the assets are locked for a certain period of time (early withdrawals may be possible with penalty). For this reason, the timing of your goal is crucial to make sure you can easily access the funds when they are needed. Whereas high-yield savings accounts are a good place to save money for known expenses that are in the near future, but not everyday spending since they typically limit the number of withdrawals each month.
- While researching bank accounts, create and implement a budget. Track your income and expenses using spreadsheets or apps to stay informed about your financial situation at all times. This allows you to make informed decisions and manage your finances effectively.
- Build an emergency fund by aiming to save six to 12 months' worth of living expenses. Use a separate, easily accessible account for your emergency fund, and contribute regularly, treating it as a non-negotiable expense. This provides

financial security during unexpected events like medical emergencies or job loss and reduces the debt you would incur in a financial crisis.

Step 2: Manage Student Loans

Student loans are a significant concern for many young professionals. Managing these loans effectively is crucial to avoid overwhelming debt.

- Identify the types of loans you have (federal or private) by checking your loan documents or contacting your loan servicer. Note their interest rates and repayment terms. Regularly monitor your loan balances and keep a list of your lenders for easy reference.
- Keep track of your loan balance and lenders.
- Understanding your repayment options, such as income-driven repayment plans, can help you make informed decisions.
- Refinancing student loans might also be beneficial, potentially lowering your interest rates and monthly payments. It's important to weigh the pros and cons of refinancing to see if it aligns with your financial situation.

Step 3: Build Credit

Credit plays a pivotal role in your financial life, affecting your ability to secure loans, rent an apartment, or even get a job. Understanding how credit works and learning to manage your credit score are essential skills.

- Understand the factors that affect your credit score: Payment history (making payments on time boosts your score), credit utilization (keeping your balance low relative to your credit limit), and length of credit history (the longer your history, the better).
- Research different credit card companies' terms and rewards to find the best options for your needs.
- When selecting a credit card, look for one with a low, fixed APR. Choose a card with a grace period and consider the cost of any annual membership or participation fees. Make customer service a priority and prioritize security features.
- Pay your bills on time. Simple habits like paying bills on time and keeping credit card balances low can significantly improve your credit score over time. Aim to keep your credit utilization below 30%. Regularly monitor your credit score and report any discrepancies immediately to avoid damaging your credit.
- If you already have a credit card but not a credit score, focus on paying off any existing debt.

Step 4: Invest in your company's 401(k)

Systematic investing is a proven way to build wealth. One of the key principles in investing is the power of compound interest, which allows your money to earn returns on both the initial amount and the accumulated interest.

- Enroll in your company's 401(k) during the open enrollment period or upon becoming eligible
- Set a contribution amount, aiming to contribute enough to receive the full employer match if available.
- Choose investments from the investment options offered in the plan, such as mutual funds or target-date funds.
- Periodically review your contribution amount and investment choices to stay aligned with your retirement goals.

Step 5: Invest in the Stock Market

The stock market allows individuals to buy and sell shares of public companies, essentially owning a small portion of those companies. Regulated by the U.S. Securities and Exchange Commission, it includes major indexes like the S&P 500 and Dow Jones Industrial Average, along with various other indexes used by investors.

While some companies' stock may be trading for over \$1,000 per share, you do not have to wait to invest in the stock market until you can afford to purchase an entire share. Micro-investing involves purchasing fractional shares of stocks, mutual funds, or ETFs, allowing investors to gradually build wealth with small amounts of money. This approach is increasingly popular among younger investors, offering a way to own parts of major companies even with limited funds. Start investing using online brokerage accounts, discount brokers, full-service brokers, direct stock purchase plans, or through investment advisors.

These steps are a simple baseline to help you get started—some steps won't be applicable to everyone and there are several other actions that can be taken to build your financial foundation. Before you think about the five steps you should take to improve your own financial situation, we suggest speaking with your [financial advisor](#) who can help curate personalized action items and guidance.

For more information on any of the steps above, [click here](#).

Main contributor: Mary Ampong, 2024 Global Wealth Management Summer Analyst

Important information

As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.

© UBS 2024. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.

There are two sources of UBS research. Reports from the first source, UBS CIO Global Wealth Management, are designed for individual investors and are produced by UBS Global Wealth Management (which includes UBS Financial Services Inc. and UBS International Inc.). The second research source is UBS Group Research, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.