

net worth,
the ultimate
financial
metric



**PERSONAL
FINANCE**



One of the most common misconceptions in personal finance is that net worth is a metric intended to measure wealth.

While that is a true statement, it misconstrues the true purpose of net worth monitoring. Net worth is a metric that takes all of your complex financial information and presents it to you in one number that sums up your entire financial life. The misconception that net worth is something only wealthy people have is false. Even if your net worth is negative, regularly updating your information can show true financial progress, which in turn motivates you to move forward. This guide will walk you through how to calculate and increase your own net worth.



HOW TO CALCULATE YOUR NET WORTH:

Calculating net worth is a simple equation of total assets minus total debts.

What is an asset?

An asset is anything that you own, whether tangible or intangible, that can be traded for cash value (or is already cash).

HERE ARE EXAMPLES OF COMMON ASSETS:

- The value of your home(s). A quick Google search can pull up the resale value of your home, but don't get too attached to that number. A realtor would be the only person who can give you an accurate expected sale price.
- The amount of money you have in your checking account and any savings accounts.
- Investment accounts
- Money market accounts
- The amount in any retirement accounts (401(k), Roth IRA, etc.)

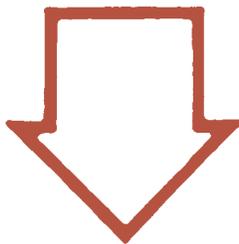


What is a debt?

A debt is an obligation that you owe to another person or entity.

HERE ARE EXAMPLES OF COMMON DEBTS:

- Mortgage(s)
- Credit card(s)
- Student loans
- Lines of credit
- Personal loans
- Loans from family or friends



DO YOU NOTICE
WHAT IS MISSING?

Vehicles. Do not include the value or loan amounts associated with vehicles.

Why? Vehicles are depreciating assets, so whether you own them outright or you still owe money on them, they will not play into your net worth equation.



$$\begin{array}{ccc} \$ & - & \$ \\ \text{TOTAL ASSETS} & & \text{TOTAL DEBTS} \\ & = & \\ & & \$ \\ & & \text{NET WORTH} \end{array}$$

Is your net worth positive? *Congratulations!*
Is your net worth negative? *Don't panic!*

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Whether your net worth is positive or negative there is room for progress. Let's start with a positive net worth.



You have a positive net worth. This can seem like cause for celebration, but don't exhale too quickly.

Having a positive net worth is a great start, but there is plenty of room to improve. Oftentimes, a positive net worth can lead to complacency. Fight this by working to increase your net worth.



How to improve your already positive net worth:

- A positive net worth rarely means you are completely debt free. Set goals to pay down current debt faster. Determine what money is left in your budget, and use that money to pay down your smallest debt first. Work your way up to your biggest debt. This is the best way to increase your net worth.
- When you are debt free, or if you are already there, there are other ways to increase your net worth. Saving more is an easy way to increase a positive net worth. You should have a full three months of expenses in an emergency fund.
- Contribute more toward retirement. It's great if you already matching your employer's contribution, but you can do better. Increase your contribution percentage each year.
- Invest. Find a good financial advisor, and make the most of the money you want to invest.
- Don't incur new debt.



LET'S MOVE ON TO A NEGATIVE NET WORTH.

While seeing a negative net worth can be disheartening, don't let it get to you. The best part about a negative net worth is that there is a lot you can do to quickly improve your net worth. And when you do get your net worth right side up, it will be cause for celebration.

How to improve your negative net worth:

- Paying off debt is the priority when your net worth is negative. Every payment made toward debt increases your net worth. While you may not feel excited every time you make a payment on your credit card, your net worth is rejoicing. Get into your budget, make sacrifices and pay down your debt as fast as you can.
- Every penny saved increases your net worth. You may only have minimal debt, but if you don't own a home or any other major asset, your net worth can seem very low. Saving is the surest way to increase net worth when you don't own a major asset.
- Increase retirement contributions up to the company match. Don't go over the match yet, but increasing your retirement contributions up to the match will add to your net worth.
- Don't incur new debt.



It is important to remember that while reaching a positive net worth is the goal, any increase in your net worth is a good thing.

If you check your net worth today, make progress all year and then check it next year and it's still negative, that isn't a bad thing. At that point, check your percentage increase. What you'll notice is that you increased your net worth by 15 percent or 25 percent or more. This is great news!

Don't get caught up in the negative. Celebrate the increase, and set new goals by a negative or low net worth. Just like losing weight, if you don't weigh yourself before starting a fitness regime, how will you be able to track your progress? Knowing your financial "weight" makes you sit up straight and get serious about your financial life.



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