Where Is Your Money Going?

Net Worth

Cash Flow

Internet Tools

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NCCI

Net Worth

<u>Why is understanding Net Worth important?</u>

The Net Worth figure is the key to several personal finance issues. Figure it out and the rest will fall into place.

Net worth is simply an estimate of the value of an individual's portfolio of assets after taking into consideration all that is owed. Simply put, it tells an individual what they are worth.

<u>Why is it important to calculate net-worth?</u>

Every individual should have an idea of their net worth. This figure is arguably one of the most important in any financial plan because;

- **It gives an idea of the current financial forecast so it is easier to estimate future needs. If net worth is calculated it is a simple process to figure out the balance needed for upcoming goals.**
- **It takes the guesswork out of protecting assets. The calculation of net worth involves listing assets against liabilities. This makes it easy to come up with a figure for insurance purposes.**
- **It compiles a list of all outstanding debt obligations in one place. This can be an eye-opening experience and often leads to intense motivation to bring debt balances down. Realizing a goal of reducing debt is made easier by drawing up a table of net worth.**
- **It provides an easy measure of personal financial health. Generally speaking, if total assets surpass debt obligations things are looking good.**

Net Worth

<u>How is Net Worth Calculated?</u>

Net worth is actually basic math. It is found by subtracting all debt or liabilities from all assets both fixed and current. The resulting figure can be either positive, if assets are greater than liabilities, or negative, if the opposite is true.

Net Worth = Assets – Liabilities

<u>Is There an Ideal Net Worth?</u>

There is no one-size-fits-all solution for individual net worth. It may be interesting to compare one individual's net worth to that of another of the same age, but this comparison might reveal vastly different figures because of different lifestyle choices.

The following formula is an attempt to average net worth figures for individuals according to age:

Net Worth = Age * Pretax Annual Income ÷ 10

"Knowing your net worth is important…if only for one reason: It forces you to interact with your financial life, keeping you in touch with your money and knowledgeable about where you are on the road to where you think you're going."

– Jeff Opdyke The Wall Street Journal Complete Personal Finance Guidebook

This is not a perfect measure though because it gives inflated values for younger individuals, while simultaneously producing somewhat low figures for older people who are more likely to have accumulated wealth. It should not be completely discredited though, because it does provide a ballpark figure that can be used as a yardstick.

Net Worth

<u>Tracking your Net Worth</u>

After you've calculated your net worth, what can you do with it? You can use net worth to guide your future. Begin by tracking it systematically with a spreadsheet, or with a web-based tool like NetworthIQ.

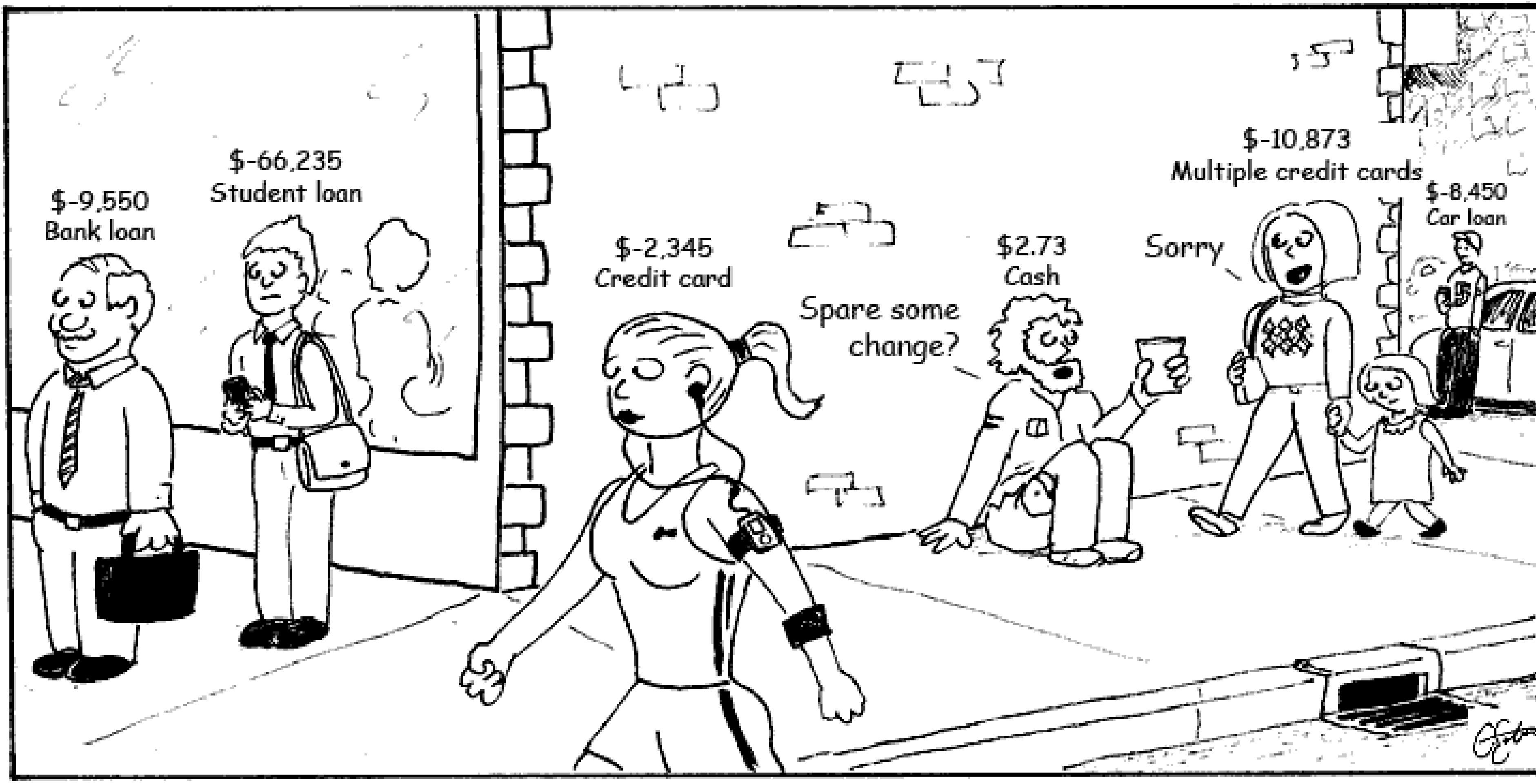
- **Compute your net worth yearly. Changes to your net worth are only really meaningful over the long term. From month to month, a variety of factor can cause your net worth to fluctuate. An annual checkup is frequent enough to catch problems and to be sure you're still on course to meet your goals. (Quarterly checks would probably work, too.)**

- **Don't compare yourself to other individuals. It's fine to compare your net worth to other *groups* of people (all 30-35 year olds, for example), but it can be dangerous to begin comparing net worths with your friends. That can lead to the need to "keep up with the Joneses."**

According to The Federal Reserve Board's 2004 Survey of Consumer Finances, the median net worth for U.S. families is $93,100. If you dig through this survey, you can also find comparisons based on age, education, income, and more.

- **Establish a system of measurement and stick to it. If you're married (or have a long-term partner), will you track your *combined* net worth, or just your own? What does that mean for shared possessions, like a house? And how do you measure the value of your home, anyhow? List what you paid for it? Take a guess as to the market value? Use the tax assessment? It matters less which answers you choose to these questions, and more that you choose the *same* answers from one year to the next.**

Net Worth



Net Worth

Net Worth and Cash Flow

<u>Building Your Net Worth</u>

Even if you are not close to the peer average in the net worth category there is no need to throw in the towel. There are some simple steps any individual can take to help accelerate the growth of their net worth.

1) **The first step to building your net worth is to figure out your current financial position: What do you own? How much do you owe? Is your net worth positive or negative? Write a list of where you spend your money. The extra money you have left over from your income after expenses is <u>called free cash flow</u>. Free cash flow is crucial to building net worth because it can be used to improve your financial position.**

2) **The second step is to lock in low interest rates on your long-term debts to protect your future cash flow. If you have student loans, call the lender and find out what the interest rate is. Lock in the rate, so your debt cost won't go up as your income goes up.**

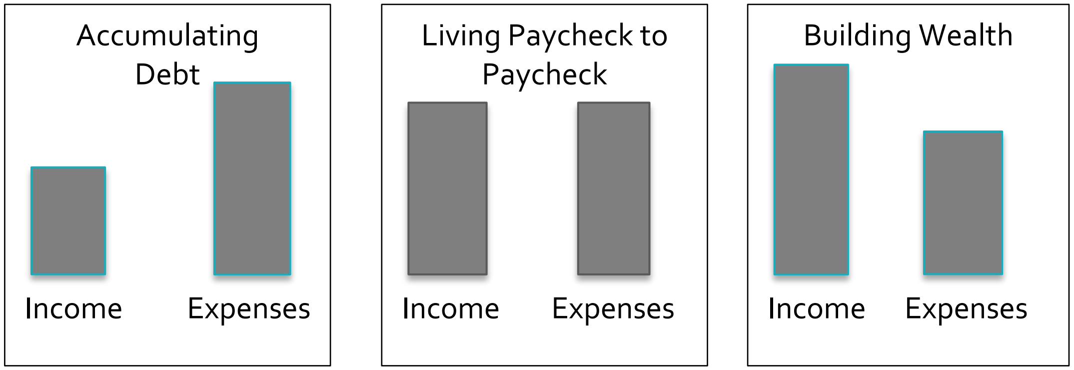
3) **The third step is to accumulate savings and other assets. Once you have positive cash flow, you are spending less than you are making and you have money left over, it could go to reduce your debt and it could also increase your savings.**

Net worth that's positive and growing is a solid road to wealth and financial prosperity. But net worth isn't a get-rich-quick scheme. It doesn't happen overnight. Rather, it takes self-discipline and a willingness to sacrifice that fourth vacation or sixth latte in favor of debt reduction and asset accumulation.

Increasing Your Cash Flow

1) <u>Reduce Your Expenses</u>

The best and easiest way to improve your cash flow is by cutting your expenses; especially ones that are recurring month-to-month. Don't try to reduce your expenses by 50% — it will never happen. Challenge yourself to cut $50 a month or even $100 a month. Once you accomplish that, go for another $50, and so forth.



2) <u>Increase Your Income</u>

The other side of the equation is improving your income. This is harder than cutting your expenses, but there are things that you could do — even little things like moving your money to a high interest savings account helps you to earn more. Again, it's all the little things that add up.

- Earn more from your job — i.e., ask for a raise, get a promotion, work overtime, etc.
- Earn more outside of your job.
- Make your money work harder – i.e., investing in the stock market, real estate investing, and other alternative investments, etc.
- Pay down your debt — e.g., eliminate credit card debt, car loan, student loan, etc. As you do this, you'll free up even more cash because you no longer have to pay all the finance charges and monthly payments.
- Invest your money. Again, make your money work for you and continue to improve your cash flow.

Internet Tools

Here are some useful internet tools for you to check out:

Mint.com

Learnvest.com

Spendster.org

Hellowallet.com

Smartypig.com

Piggmojo.com

Behaviorwizard.org

Springcoin.com

Pearbudget.com

CreditKarma.com

PersonalCapital.com