The Financial Harmoney Podcast

Episode 6

Calculate Your Net Worth and Level Up Your Financial Life

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Hello and welcome to another episode of the Financial Harmoney podcast. This is episode 6: calculate your net worth and level up your financial life.

I first mentioned the concept of your net worth back in episode 3 - Your level 10 Financial Life - when I touched on establishing financial habits that can greatly enhance your financial life. Your net worth is an often used calculation by personal finance coaches that indicates your financial health. So today we are going to take a closer look at this concept, find out what it is, how to calculate it and most of all, how to use it to gain momentum on your journey to increased financial success.

Now before we get into the details of your net worth, I have once again put a free download together with this episode, so if you're a little weary about the calculations you need to do here, or if you would just like to have a nicely laid out format for you and have a structure that allows you to do this regularly, go to ingenataliehol.com/episode6 to find the show notes as well as the free download to help you calculate your net worth.

So let's get started. First thing of interest is of course, what exactly is a net worth? And why would this be of interest to you? To start with the first point, your net worth indicates the net value of your finances. I say net value as opposed to value as it takes into account not just your possessions but also your debts. Your net worth essentially tells you how much money you would have left over, if you took all of your possessions, sold them, and then paid off all of your creditors, which are the people or establishments you owe money to. Another way of saying this is that your net worth is everything you own minus everything you owe.

Now why exactly would this be of any use? Well first of all, as you can imagine, if your net worth is negative, meaning you owe more money than that you actually have, this isn't a great situation at all. Now you might be surprised but most people when they first start tracking their net worth end up finding out that their figure is a negative number. I honestly never thought of this myself before I calculated my net worth for the very first time and I was shocked to find out that I had a

negative net worth! But as is usually the case, I thought it better to be aware of this, then to be ignorant. So if your net worth is negative, then that absolutely means you've got some work to do and turn the situation around, to start working towards having more than what you owe in debts.
Once you're clear on what your net worth is, there is a second advantage of this number, and that is in using it to track your progress when it comes to improving your personal finances. If you listened to episode 3 of this podcast, then you might remember how I divided your personal finances into 10 different areas, including your income, savings, debt and retirement provision. Identifying these subdomains makes it a lot easier to set specific goals. You might however remember that I am generally not a big fan of setting too many goals. In fact, I think setting yourself just 2 or 3 goals is the optimum amount to focus on, not to get distracted and see real results. But because there are so many different areas to work on, it can also be difficult to maintain the overview and see how you're doing overall. To give an example, if you in say 3 months time managed to build up your savings by an extra 2,000 dollars, or euros or pounds or whatever currency, and at the same time saw your debt increase by 1,600 dollars, then really the overall net result isn't actually that great. You gained an extra 2,000 but also lost another 1,600 and you'll be paying interest on those 1,600 dollars. If you just focussed on looking at your savings progress, you might conveniently forget those 1,600 dollars debt that you'd accumulated. Now if you tracked your net worth, then you can instantly see how much you've gained or lost altogether as it takes into account all of these changes in your savings, debts and the other financial areas too. So it's a really quick and simple way to see your own progress from month to month or trimester to trimester in terms of your financial situation. Sounds pretty cool, no?

Now, one last advantage that is somewhat related to the previous one, is that once you've got your number, it is a great way to set yourself goals. Of course, I am all in favour of setting yourself specific goals, like "I want to increase my income by x amount by 1st July" or "I want to pay off 10,000 dollars in the next 12 months". But once again, to set yourself an overall goal, your net worth is probably your best bet. We'll look at this a little bit more towards the end of this episode.

So, how do you find out what your current net worth is? It requires a bit of effort to get clear, but once you've done it for the first time, you should be able to recalculate your net worth a lot faster on future occasions. So hang tight.

As we saw, your net worth is the net result of all of your possessions, which are also known as assets, minus all of your liabilities, which are your outstanding debts. The best way to do this is to just grab a pen and paper, or open an excel sheet on your computer and first of all start noting down in list format any possessions of worth that you own. Here's what to include:

- Firstly, the current value of your house, if you've bought your house. Ignore your mortgage for this and also make sure that you put in a decent estimation of the current value, not the amount of money you once paid for it.
- You also want to add the money you have in your savings accounts. I would ignore your checking account if that fluctuates a lot and if you don't have much extra money in there. Of course if you have a fair amount of money in your checking account then by all means

include it in your calculation, but I don't tend to as my checking account doesn't have much extra money but only really what i need on a monthly basis.

- Next up is the value of your investments. Now these amounts can once again fluctuate a fair bit, depending on what the market is doing. So just be aware that the bigger the percentage of your assets is made up of investments, the more the number can fluctuate at times of a market crash in particular.
- Also add the current amount of retirement provisions you have. So not the projected amount you'd have in x amount of years by the time you retire, but really the amount you have in your accounts today.
- If you have a permanent or whole life insurance, then once again add this one in too.
- Then any possessions of noteworthy value, such as antiques or jewellry. Don't bother with any small amounts as it's not really worth the effort to include them. I'm talking about big items here.
- Now, I wouldn't include any assets that depreciate which is any possession that will lose value in the next few years. A car is a great example of something that I wouldn't include in my net worth, simply because the price you would get for it just goes down each year, so any progress you make on one end in terms of increasing your net worth, would then be cancelled out again by the decrease in value for your car. So keep this out. The same might be true for computer or music equipment for example.

So start with just listing any possessions, and be specific, so if you have more than one savings account, then include all as separate entries in your list. For example savings account with bank x as well as savings account with bank y. In this way it will be easier to remember and update.

Once you've got that list, start jotting down the numbers of the value for each one. I highly recommend that you find a way to make this as efficient as possible. For example, I would recommend you set up, if you haven't done so already, access to your various bank accounts online via your mobile phone. This makes this process a lot quicker and easier next time. Use a complex password and make sure to update this regularly and set up double authentication to access your account, to add an extra level of security. I also recommend you never access any of your financial accounts on public WiFi networks, such as on the train, in a warehouse or in an internet café. If you need to access your financial accounts when you are away from your own home WiFi it is a lot safer to use data, so 4G or 5G, than it is to use a public WiFI account.

When you write down the value of each asset, make estimations where needed, of course the value of your house will be a guess or an estimation, you don't need to get your house taxated just for this exercise, but with some market research of houses on sale in your area you might be able to get a rough idea of the current market price of your own house. However, some real estate agents might do a free basic taxation of your house if you approach them about potentially wanting to sell your house and buying a new one via them. This is something I did a couple of months ago with our house, just to get an updated price and know the current value. And unfortunately it was shockingly low and well below the money we once paid for it. But hey as we bought our house at the height of the crisis in 2008, I guess that was to be expected. Yet, all the same, not a very nice message to hear, though certainly better to know and have a realistic idea of the value.

So once you've done this first step, it is time to move onto the second step in calculating your net worth, which is the more depressing one usually, that of listing all of your outstanding debts in the same way as what you just did with your assets. Here's what to include:

- The current amount of your mortgage. You don't need to include your starting amount or interest rate, just the amount of money you're still due
- Your student loan balance if you still have one. Again you need to just fill in the current outstanding balance
- A car loan if applicableAny outstanding credit card balances
- A medical debt
- Any overdrafts on your bank accounts
- Any loans or financing plans with banks, stores or travel agencies
- And lastly any personal loans you have with friends or family.

As I said before this step is a little bit more depressing and can be quite eye opening in terms of how much you're actually due in total to others.

Once you've got your list together, the same as before, find out the total number for each debt individually. You might need to contact some of your creditors to get the most up to date amount, but definitely make sure to do so and get this out of the way!

Now of course, as you can probably see, the advantage of doing an exercise like this in a digital spreadsheet such as excel, google sheets or numbers if you're on a mac, is that it will be super interesting and easy to update these numbers from one month to the next and see the progress on each one individually. But of course if you prefer the pen and paper option then that is totally okay too.

Okay so now you've done step 1 and 2, let's move on to the final step in this process to calculate your net worth. First of all, find out the total amount of all your assets. So just add it all up. Then do the same for all of your debts by adding the outstanding amounts all together. Then take the total value of all your assets, subtract your liabilities from that and that now gives you your net worth.

Now I know that if you've got a negative net worth at the moment, this can be a bit disappointing really. I totally understand, but you are not alone. So use it to move on from here and get working on improving your net worth.

And now you might be wondering what is next now you have your number. I recommend you do three things from here on.

First of all, make it a habit to calculate your net worth regularly. In most cases once every trimester is more than enough, as you'll be surprised to find that changing your net worth is relatively slow going unfortunately. But of course, if you want to go hard core on this one, then you can decide to do this monthly. I suggest you put a reminder in your calendar or digital to-do software to remind you when the date is coming up, to update your net worth so that you won't forget. So action point number 1 is make it a habit to update your net worth.

The second thing I recommend you do is that you set a goal for your net worth. In order to set a realistic goal, first you want to get clear on what the natural or normal monthly progression of each one of your assets and liabilities are. What I mean is that there is not much point in setting yourself the target of increasing your net worth by $10.000 in the next 6 months, if you currently only manage to move your net worth by about $200 a month. To set a realistic goal you need to find out how much every single item of your assets and liabilities progress each month. Let me give you a few examples to find this out. In terms of your mortgage, let's say you pay $1000 to your bank each month for your mortgage. Now that doesn't mean that your outstanding balance goes down by $1000. The money you pay is used not just to pay off the principal, which is the money that you borrowed, but also the money you need to pay the bank which is the interest. So of these $1000, maybe only $800 are used to pay off your loan, and the rest is all interest that goes directly to the bank. That means that each month your mortgage goes down by $800 which means your net worth increases by $800. Similarly, let's assume you set aside $200 each month for savings. That means your net worth increases by another $200. And so on. So once you know how much each individual entry on your assets and liabilities moves each month, you've got a great starting point to set a realistic goal for the next few months and / or years. I recommend you set a goal for 6 months from here on, 1 year from here on, 3 years from today and also 5 years from today, just to get started. Now ideally your goal is to increase your net worth by more than what you'd logically expect if you just stuck to what you're already doing. As the whole point is of course to improve your situation beyond what it is now.

Lastly as a third point, you want to decide on your strategies to achieve your new set of goals. So if you look at your net worth goal for 6 months from today, then you want to write down how you're going to hit that goal. Are you going to save more? Pay off more on your debts? And if so, where is this money coming from? What expenses are you going to cut, or how are you going to increase your income to cover these extra net worth increases? Be as specific as you can be here to make the implementation of this all a little easier. Also feel free to check out last week's episode, number 5, on different income generating strategies.

And that pretty much sums up the how's and why's of calculating your net worth. Let's quickly review the three steps to calculating your net worth.:

- First total all of your possessions to find out the total value of all of your assets.
- Then total all of your debts to find out how much your liabilities are.
- Lastly, subtract your debts from your assets to find your current net worth.

With that, make it a habit to recalculate your net worth every trimester, set goals to improve your net worth with a specific amount by a set time and plan out strategies that will help you achieve these goals.

I hope you feel inspired to calculate and track your net worth and use it to level up your financial life. Now remember to check out ingenataliehol.com/episode6 for your free download with this episode, which will make tracking your net worth even easier.

So that was it, the end of this episode of the Financial Harmoney Podcast, about calculating your net worth. I hope you enjoyed it and found it useful, make sure to subscribe and I'll see you next time.