

Your Personal Net Worth

Good net worth is one of the best tools you have to achieve any of your personal financial goals.

Poor net worth could prevent you from accomplishing your financial goals, as well as other goals you might have.

Determining your net worth is pretty easy. Just subtract your liabilities from your assets.

What are you worth? If you're thinking "priceless," you're not thinking like a bank or a creditor.

It's nothing personal, but having a good net worth is one of the best tools you have to achieve any of your personal financial goals. On the flip side, if you manage your net worth poorly, it could prevent you from accomplishing your financial goals, as well as other goals you might have.

Net worth is the total value of a person's financial holdings. Determining your net worth is like taking a full body scan of your financial health. It shows your assets, or how much you own. It also shows your liabilities, or how much you owe. The process of determining your net worth is pretty easy. Just subtract your liabilities from your assets.

Let's go through the process of determining your net worth.

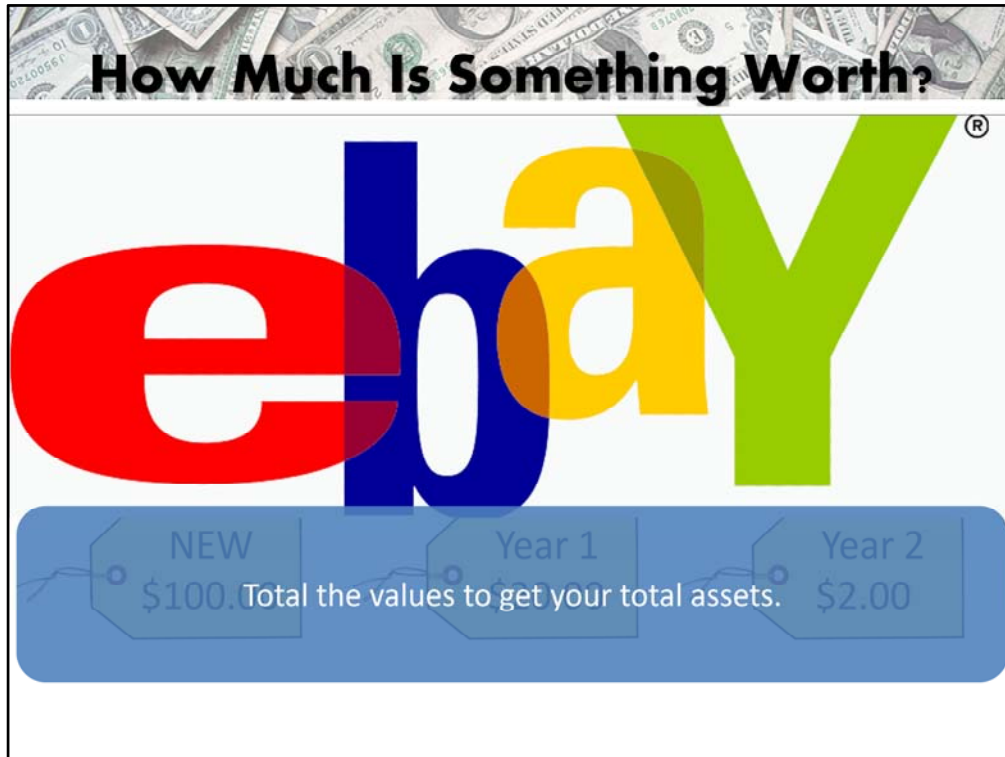


Assets are anything of value that you own. This might include things like your clothes, jewelry, computer, car, camera, cell phone, video games, savings account, checking account, and the cash in your pocket. As you get older your list will probably expand to include things like a home, stocks, bonds, and retirement accounts.

How do you know what each item is worth? For assets like bank accounts, bonds, or cash, it's pretty easy to determine this number. What about real property like cars and cell phones? Are they worth what you paid for them? No. As you use these items, their value decreases. Also, as newer models come onto the market, it makes older items lose value too. For example, when the 2010 Dodge Charger came out, the 2009 Charger immediately lost value. This decline in value is called depreciation.



All assets don't depreciate though. Some things actually appreciate, or rise in value. For example, an antique car might appreciate as long as the car is well kept. Another example of items that may appreciate is collectibles. Collectibles are items that are relatively rare that people collect, like coins, stamps, or other types of unique items that people may want, like Star Wars figures from the original movie time or beanie babies.



So, how do you know how much each piece of real property that you have is worth? Basically you have to estimate.

Start with the purchase price and subtract a little for each year you have owned the item. You pretty much need to guess how much someone would pay for that item if you sold it right now. There are exact formulas for the depreciation of certain objects, but for now, just estimate.


Try not to let your emotions or sentimental feelings about an item affect your estimates. That teddy bear your best friend gave you before she moved away may be special to you, but what would another person who didn't know your best friend pay for it? The value needs to be what someone else would pay for that item in its current condition. Be honest, and your numbers will be much more accurate. For your collectibles, you can use sites like eBay® to find similar items.

When you finish making your list with current values, total the values to get your total assets.

Sample Personal Property Inventory

| Bill E. Student's Personal Property Inventory | | | |
|---|----------------|----------------|---------------------------|
| Item | Year Purchased | Purchase Price | Approximate Current Value |
| Savings Account | n/a | n/a | \$250.00 |
| Car | 2009 | \$1,500.00 | \$1,200.00 |
| Clothes | 2007-2010 | \$2,000.00 | \$500.00 |
| PC | 2008 | \$750.00 | \$200.00 |
| Totals | --- | --- | \$2,950.00 |

A personal property inventory is just a list of each asset that you own, the year you bought it, the price you paid for it, and the estimated current value of the item. This list is useful when you prepare your own net worth statement, or if you have a fire, theft, or property damage and have to file an insurance claim. In case of fire, theft, or damage to your home, it's important to keep your personal property inventory at a separate location. It's also a good idea to take pictures or video of your most valuable items as proof that you own them. This list will also help you assess your spending patterns. You can see what you actually spend your money on!



Liabilities

Money you owe other people, or institutions, otherwise known as your debts.

| Liability | Amount |
|---------------------------|------------------|
| Money I Borrowed From Lou | \$ 5.00 |
| Car Loan | \$3343.23 |
| Credit Card Debt | \$765.34 |
| TOTAL | \$4113.57 |

It's great to have assets, but as you get older, you'll start to get more liabilities, which are money you owe other people, or institutions, otherwise known as your debts.

When you list your liabilities, include *everything* you owe to someone else. If you borrowed \$5 from your friend last week, that's a liability. Other debts may be more formal, such as car loans, credit card bills, senior class dues, or other items you have already committed to pay, like car insurance for the next six months. We're not making a list of your monthly payments, but the total amount you still owe on each debt. After you make your list, total them up. This is your total liabilities number.

No one wants to have liabilities, but if you ever want to buy a new car without having to save up all the money first, or if you want to go to college and you have to take out student loans to do it, then you can't avoid them.

Calculate Net Worth

WHAT ARE YOU WORTH?
Total Assets – Total Liabilities = Net Worth

Total Assets – Total Liabilities = Net Worth
\$2500 \$1500 \$1000

Own More Than You Owe
Solvent
(in the black)

Owe More Than You Own
Insolvent
(in the red)

Now we can answer the question we started out with. “What are you worth?”

Just subtract your total liabilities from your total assets.

Suppose you have two thousand five hundred dollars in assets, and one thousand five hundred dollars of liabilities. Your net worth would be one thousand dollars, which is two thousand five hundred dollars minus one thousand five hundred.

If you own more than you owe, you are solvent, or in the black. Your current financial situation is favorable. If you owe more than you own, you are insolvent, or in the red. Your current financial situation is unfavorable.



Many people are insolvent right now; they have borrowed more money than they have in assets. If they have a life-changing event, such as losing their job or having another child, it may be difficult for them to keep paying their debts. People who are insolvent also have fewer choices because they have to keep paying their liabilities.

Say that you have a job that you really don't like, but you have to keep it in order to keep paying your liabilities. If you had fewer liabilities, or more assets that you could sell, you would have greater flexibility to find a new job.

Now that you know more about your net worth, you can keep track of yours to make sure you don't end up in the red.



Other than peace of mind, why is your net worth important? You need this information for all of the big financial decisions you'll make in your life: borrowing money, getting financial aid for college, and applying for a home mortgage, to name a few.

Your net worth also helps you keep track of how you spend your money. What do you have to show for all the money that you have spent? If you buy things that you use up, like eating out and going to the movies, you won't have anything. Although that Big Mac tasted good at the time, you can't exactly count that as an asset because it has no value after you ate it! If you hope to buy a new car some day, you'll probably have to borrow some of the money. How much interest you pay will be based on your credit history and your net worth.

Creditors want to know that you handle your money well, and they can get a good picture of this based on your personal net worth. If you owe more than you own, you may not be able to qualify for a loan. When banks give loans, it's not because they just trust you to pay it back. They want something in return in case you default on your loan, or fail to repay it. Banks want you to guarantee that you will repay the loan. This guarantee is called collateral, which is an item of value that the bank can take and sell if you don't repay the loan. When you take out a car loan, the car is the collateral. In fact, until you pay off the loan to the bank, they hold onto the title of the car. If you don't pay back the loan, the bank repossesses the car.



Co-Signer

Co-Signer
Someone who signs a loan with you and promises the bank that they will pay back the loan if you don't.



What if you don't have any assets to pledge as collateral? You will have a harder, if not impossible, time getting credit for the things you need and want. Without any collateral, or credit history, you may have to have someone else co-sign on your loans. By doing so, the co-signer is promising the bank that they will pay back the loan if you don't.

Be careful when you pledge items as collateral. If something happens that makes it impossible for you to pay the loan, like you lose your job, you could lose the asset you pledged as collateral. This is why so many houses are being taken back, or foreclosed, by banks recently. The owners couldn't keep paying the mortgage, so the bank took back the house, which served as the collateral for the loan.

Net Worth

Questions

Based on Bill's net worth statement, what is Bill's current net worth?

- 4290
- 1610
- 1300
- 1610

| Bill E. Student's Net Worth Statement | |
|---------------------------------------|-----------------|
| Assets | Current Amounts |
| Savings Account | \$ 250.00 |
| Car | \$1,200.00 |
| Clothes | \$1,000.00 |
| PC | \$ 500.00 |
| Total Assets | \$2,950 |
| Liabilities | Current Amounts |
| Car Loan from Grandpa | \$ 700.00 |
| Car Insurance for 6 Months | \$ 600.00 |
| Senior Class Dues | \$ 40.00 |

PROPERTIES

On passing, 'Finish' button:

On failing, 'Finish' button:

Allow user to leave quiz:

User may view slides after quiz:

User may attempt quiz:

[Goes to Next Slide](#)

[Goes to Next Slide](#)

[After user has completed quiz](#)

[At any time](#)

[Unlimited times](#)

