How's Your Net Worth?

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His banker asked Trent what his net worth was for a loan he was applying for. He had trouble answering the question right away.

What is Net Worth?

Quite simply, net worth is the difference between what you own and what you owe. But true net worth may not be quite that simple.

Some things that we own contribute to our total net worth but are actually a drain on our financial net worth. A motor vehicle, for example, rarely increases in value. In fact, as soon as you drive a new car off the lot, its value drops, or depreciates, by about 10% to 15%. The same holds true for a new computer, travel trailer or home entertainment system.

For an item to truly contribute to our net worth, it should at least hold its value or, more importantly, increase in value over time. Your home, RRSP investments, shares in a business and permanent life insurance policies are just a few examples of things you can own that generally meet this criteria.

Is Net Worth Important?

We all use methods of measurement to see how we are doing at something. Just as you would keep score in a hockey game, net worth is a method used to determine your financial score.

Let's say you have a goal in mind of retiring at a certain age. You need to determine what assets you have that will contribute to that goal and how they are accumulating. By measuring your financial net worth regularly, you will know how your plans are progressing and where changes need to be made.

How Can You Increase Your Net Worth?

Trent learned that there are only two ways he can increase his net worth - increasing his assets and reducing his debt [1].

The easiest way to increase your net worth [2] is to simply increase your assets. One of the best ways to do this is by starting a 'forced' savings plan. Trent decided to make regular monthly contributions to his RRSP by having a set amount withdrawn from his bank account each month and increasing it yearly.

Too much personal debt is the most serious obstacle to achieving financial goals. Even modest levels of personal debt can put a drain on cash flow, leaving little to invest. Putting a 52-inch big screen TV on your credit card is not a good way to increase your net worth.

However, debt to buy some assets can have a positive effect on net worth. Some examples are a mortgage to buy real estate, an RRSP loan or a loan for conservative equity investment funds.

Trent now realizes that he needs to review and measure his financial plans on a regular basis. By calculating his net worth each year, he can make sure his plans keep moving in the right direction.

Calculate your Net Worth Today

Contact our office! **[3]**

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Tags: financial strategies [4]

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