

How and Why to Calculate Your Net Worth

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Net worth is a term that refers to the sum of your assets after subtracting your liabilities. Calculating your net worth allows you insight into your financial situation at any given moment. It is a snapshot of your money and investments, but it is not static. It changes over time as you earn, save, and spend money. That ever-changing aspect of net worth is where the real value of tracking and calculating it lies.

When a person tracks their net worth over time, they are recording data that can help them analyze the performance of their financial decisions. The process of calculating net worth requires examining all of your assets and liabilities, which may unearth potential problems or inspire ideas for potential growth. Watching net worth change over time may also allow an individual to see how their net worth may change in the future.

How to Calculate Net Worth

A simple spreadsheet, a calculator, and access to your financial accounts are tools that you need to calculate your net worth. The first step is to list all of your assets and liabilities. Assets may include cash on hand, savings accounts, property, retirement investments, and other kinds of long and short term investments. Liabilities may include a mortgage, credit card debt, student loan debt, lines of credit, car loans and other debts that must be paid back over time.

Once you have listed each investment, add up the total of your investments and subtract the total sum of your liabilities. The result is a theoretical amount meant to represent how much money you might have if you sold all of your assets and paid back all of your liabilities, also known as your total net worth.

Calculating Net Worth To Reflect

By calculating their net worth, an individual has the chance to take a step back and consider their finances from a bird's eye view. If you are not in the habit of checking your net worth, the end number may come as a surprise to you. One individual might be surprised to see the total amount of credit card debt they have accumulated, while another individual might be pleased to discover how much equity they have in their home or the health of their assets. By reflecting on how your calculated net worth is different from your predictions, you may be able to make more informed and productive financial decisions for the future.

Calculating Net Worth For Financial Decision-Making

Over time, as your financial situation changes, so will your net worth. There are a number of questions you may ask yourself in order to better analyze the data you are collecting.

? How is my net worth changing over time?

? How do those changes align with changes to my lifestyle?

? What are the biggest assets and liabilities impacting my net worth?

? Could I make any simple changes that would have a positive impact on my net worth in the future?

? Is my long-term strategy performing as expected, or are adjustments in order?

? Projecting my net worth into the future, am I on track to meet my goals in retirement?

Calculating your net worth may inspire you to rebalance your portfolio, clear debt, increase savings, adjust your investment strategy, or to stay on track without making any changes at all. It helps you make more informed financial decisions.

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