

Smart Money: How to use a net worth statement

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Brad Brain: "Track your net worth over time. It's great for positive reinforcement and it can keep you fixed on your financial objectives, which helps you achieve your Great Goals in life." | Getty Images

Here is a simple and useful exercise that will give you some insight as to how you are doing financially: Track your net worth over time.

Your net worth is your assets (what you own) minus your liabilities (what you owe). It's very easy to set up a spreadsheet where you can track these things. The magic happens when you update your net worth statement once or twice a year. The key is to save your work, so you can see your progress over time.

In our daily routines it can be easy to overlook all the incremental bits of progress that happen. Sometimes it feels like we are working hard and still not getting anywhere. But when you look back to where you were last year and the year before, now you can start to see the progress: the growth of your assets, and the reductions of your liabilities. Tracking your gains provides a nice bit of positive reinforcement.

Tracking your net worth can also give some insight whether your spending decisions are consistent with your financial objectives. Perhaps your Great Goal in life is a comfortable retirement, but instead you find that you are consuming all your income. Updating your Net Worth Statement can illuminate that your retirement assets are not increasing at a satisfactory pace and allow you to refocus your spending priorities.

There is no need to get hung up on the format. It doesn't have to be fancy to be effective. We aren't preparing audited financial statements here. Feel free to do it in the style that works for you. The important part is consistency.

I use an Excel spreadsheet to list my assets in one column and my liabilities in another column. When I update the spreadsheet I put the current information on a new tab, and name the tab with the date. Now all I need to do is to click on the appropriate tab to see what my finances looked like at various points in time.

I separate my assets into short-term assets, such as bank accounts, and long-term assets, such as RRSPs and real estate. The short-term assets are available for me to use when I want, while the long-term assets are ones that are left to appreciate. With the spreadsheet it is easy-peasy to have subtotals for the short-term assets and the long-term assets, and an overall total for the combined assets.

I will do the same with liabilities. Categorize them into short-term and long term, then use the spreadsheet to find the subtotals and the overall total. At that point it's a cinch to subtract my liabilities from my assets to come up with my net worth.

Let's face it, the last few years have been rough for a lot of people. Personal story: I have felt it too. The pandemic, the economic slowdown, the uncertainty. Life has felt like a real grind lately, and sometimes it feels like I am stuck in the mud, tires spinning, going nowhere fast.

But this week I came across an old net worth statement, and I updated it. I realized that, despite the pandemic, I have actually made some pretty decent progress in my own financial situation. And that made me feel pretty good.

This isn't about my own financial prowess as much as it is a testament to paying yourself first. Every month I contribute to my RRSP, my TFSA, my kids RESP, and I pay extra on my mortgage. But I don't think about these things very much because they all happen automatically. But since I don't think about it, it is easy to lose track of it. When you update your net worth statement you get that fantastic reminder that you really are making progress, even if it doesn't feel like it sometimes.

Track your net worth over time. It's great for positive reinforcement and it can keep you fixed on your financial objectives, which helps you achieve your Great Goals in life. Its simple and its useful and it doesn't have to be fancy, just consistent.

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