



Net Worth

Scaled Finance Welcome Course: Episode 4

Net Worth: What It Is and Isn't

Part Two: Net Worth

Welcome back!

Last episode centered on three great questions to help you plan your best life. The remaining episodes are more tactical.

Today, I'll define net worth and share some examples, uses, and limitations.

Definition

Net worth is simply what you own less what you owe.

Since own and owe sound similar, folks came up with other terms.

- What you own = assets
- What you owe = liabilities

**Net Worth =
What You
Own
—
What You
Owe**

Net Worth = what you Own - what you Owe

Net Worth = Assets - Liabilities

Net Worth = \$480,000 - \$330,000

	Assets		Liabilities
Home	\$400,000	Mortgage	\$300,000
Car	\$20,000	Car Loan	\$15,000
Savings	\$10,000	Credit Card	\$12,000
Stock	\$50,000	Tax Owed	\$3,000
Total	\$480,000	Total	\$330,000
		Net Worth =	\$150,000

You Own Assets

You Owe Liabilities

Net Worth Includes

Assets

- Cash, checking, savings
- Investments – retirement, taxable
- Health savings and spending accounts
- Real estate, business ownership
- Precious metals, personal items

Less Liabilities

- Credit card debt
- Personal “I owe you”
- Mortgages
- Business loans
- Student loans

Exclusions

Net worth generally excludes anything you don’t have a right to sell:

- Income you’ll probably earn later this year
- Inheritance you may receive from Aunt Gertrude
- Your brother’s half of the car you own together
- Restricted Stock Units (RSUs) which haven’t vested

3 Things Net Worth Is

Net Worth Is a:

- Financial snapshot
- Tool to track progress over time
- Way to compare to forecasts

3 Things Net Worth Isn't

Net Worth Is Not a:

- Way to track completion
- Reflection of your self-worth
- Tool to compare with others

As of a Specific time

Financial Snapshot

It is the value at a point in time.

As of 8:21am Pacific on February 9th...

It’s like checking your weight, only you’d prefer a bigger number!

Tracker

Tool to Track Progress Over Time

It can be invigorating to see how net worth trends for over time.

My wife and I usually update ours on January 1st. It's a day off, good time to review the previous year, and something we can do while recuperating.

Forecast

Way to Compare to Forecast

We’ll explore an example in the next episode.

Incomplete

Not a Way to Track Completion

Chosen goals may not mean much and the goalposts move!

Inflation Bites

Dollars today aren't what they were in the past.

Inflation Bites

According to the [U.S. Bureau of Labor Statistics](#), the price of goods and services for urban consumers (CPI-U) nearly tripled from June 1984 to June 2021.

\$1 in June 1984 had the same purchasing power as \$2.62 in June 2021.

The net worth needed to maintain a desired lifestyle decades from now will likely be *much* higher than the nest egg needed today.

Those Tricky Numbers

Also, we humans do some odd things with numbers. 😊

Whole # Bias

Take whole number bias. It's the tendency to apply whole number properties to other numbers such as fractions.

An example was the [flop of A&W's 1/3 pounder because consumers thought it contained less meat than a 1/4 pound hamburger](#).

Round # Bias

A similar example is round number bias: the tendency to fixate on round numbers. This tendency is especially strong for magnitudes of 10 such as 10, 100, 1,000...

The bias is even worse in personal finance because of wealth titles: millionaire, multimillionaire, billionaire, multibillionaire, trillionaire (eventually). Those who reach these thresholds "earn" a new identity.

My experience is that when people mention how much they "need" to retire, their numbers are shockingly round: \$1,000,000, \$2,000,000, \$3,500,000...

If I Had a Million Loonies

If I Had \$1,000,000

"If I Had a Million Dollars" is a classic song by the band Barenaked Ladies. It was a hit in the United States and is [worth a listen](#).

The band's Canadian. The song's about a million Canadian dollars! Based on the exchange rate, the U.S. version might be: "If I Had \$734,797."

[Brits refer to themselves as millionaires based on £1,000,000 \(pounds sterling\)](#).

Based on the exchange rate, the U.S. song title might be: "If I Had \$1,225,945."

These thresholds are arbitrary. Using them as a financial guide is not best practice.

NOT Self Worth

NOT a Reflection of Self-Worth

Net worth tends to rise with age.

Thanks to child labor laws, most children don't have to start trading hours for money early in life.

Instead, youth in advanced society is spent focused on developing skills to earn money in adulthood.

As a result, most young adults have little net worth before they turn 18. Since many then take on student loans – and possibly other debt – their net worth is often negative.

In the middle of our lives, we tend to trade:

- Human capital (our ability to work) for
- Financial capital (our income)

Consistently spending less than income grows net worth.

The median wealth by age [according to the U.S. Census Bureau](#) is:

Wealth Tends to Grow with Age

< 35	\$22,000
35 to 44	\$97,700
45 to 54	\$166,600
55 to 65	\$230,900
65 to 69	\$285,100
70 to 74	\$326,700
75+	\$292,800

Is a rose anything else before it blooms?

NOT for Comparison

NOT a Tool to Compare with Others

Everyone's path is different.

Comparing net worth is especially suspect.

According to the Social Security Administration, the average income per worker nearly quadrupled from 1984 to 2021.

It was \$15,251 in 1984 and \$58,130 in 2021.

As we saw earlier, this was primarily driven by inflation.

Comparing your income or net worth with those of previous generations isn't an apples-to-apples comparison.

Let's look at a hypothetical example of two 30-year-olds:

<u>Jim, Construction Worker</u>	<u>Joe, General Surgeon</u>
Started working construction full-time after graduating from high school	4 years of undergraduate, 4 years of medical school, 5 years of residency
Had no debt and no student loans	\$240,000 student loans = \$80,000 undergraduate + \$160,000 med school
Initially earned \$30,000 per year, which has grown 5% annually	Earned \$65,000 as a first-year resident, which has grown 5% annually
Saved 10% of income	Saved 10% of income and made minimal student loan payments

Both invested their savings and earned an 8% annual return.

At 30 years old, their net worth could be:

- | | |
|-----------------------------|------------|
| • Jim (construction worker) | +\$75,121 |
| • Joe (general surgeon) | -\$207,331 |

Jim's net worth as a general contractor could be over \$282,000 higher than Joe's net worth as a general surgeon!

See the appendix for more detail.

Jim's Net Worth > \$282,000 Higher?!

Action!

Please estimate your current net worth. It doesn't have to be perfect! A rough estimate is better than nothing.

The [Google Sheets Financial Snapshot Template](#) may be a helpful starting point. It's best viewed at 75% zoom.

Feel free to adapt the file to your situation.

Your Turn!

Use today's market value estimates:

- Home value estimates can be sourced from Zillow, Redfin, etc.
- Vehicle estimates can be sourced from KBB.com, consumerreports.org...
- Loan balances can be found on your latest statements or by logging into your accounts
- The fair market value may be very different than what was paid for the items – perhaps more for real estate and less for automobiles, furnishings, and jewelry. Think: “garage sale” prices for personal items.
- Generally, exclude the value of assets you can't currently sell or spend.
- Don't get too caught up in categorization. Focus on completeness.

Thank You, Next!

Next Steps

Great work today!

It will be especially helpful for the coming weeks.

If you know someone who could benefit from this discussion, flip them the link!

scaledfinance.com/welcome-course

Next week, I'll show how I forecasted my family's net worth for years.

You'll then go through the empowering exercise of forecasting yours!

If – like me – you can't wait, visit the course webpage

See you soon!

Appendix – Jim and Joe’s Net Worth at Age 30

Jim (Construction Worker) would have a *positive* \$75,121 net worth at age 30:

Age	Income	Saves	Beginning	Growth	Ending Net Worth
18	\$30,000	\$3,000	\$0	\$120	\$3,120
19	\$31,500	\$3,150	\$3,120	\$376	\$6,646
20	\$33,075	\$3,308	\$6,646	\$664	\$10,617
21	\$34,729	\$3,473	\$10,617	\$988	\$15,078
23	\$36,465	\$3,647	\$15,078	\$1,352	\$20,077
24	\$38,288	\$3,829	\$20,077	\$1,759	\$25,665
25	\$40,203	\$4,020	\$25,665	\$2,214	\$31,899
26	\$42,213	\$4,221	\$31,899	\$2,721	\$38,841
27	\$44,324	\$4,432	\$38,841	\$3,285	\$46,558
28	\$46,540	\$4,654	\$46,558	\$3,911	\$55,123
29	\$48,867	\$4,887	\$55,123	\$4,605	\$64,615
30	\$51,310	\$5,131	\$64,615	\$5,374	\$75,121

Joe (General Surgeon) would have a *negative* \$207,331 net worth at age 30:

Age	Income	Saves	Beginning	Growth	Ending	Student Loans	Ending Net Worth
18	\$0	\$0	\$0	\$0	\$0	(\$20,000)	(\$20,000)
19	\$0	\$0	\$0	\$0	\$0	(\$40,000)	(\$40,000)
20	\$0	\$0	\$0	\$0	\$0	(\$60,000)	(\$60,000)
21	\$0	\$0	\$0	\$0	\$0	(\$80,000)	(\$80,000)
23	\$0	\$0	\$0	\$0	\$0	(\$120,000)	(\$120,000)
24	\$0	\$0	\$0	\$0	\$0	(\$160,000)	(\$160,000)
25	\$0	\$0	\$0	\$0	\$0	(\$200,000)	(\$200,000)
26	\$0	\$0	\$0	\$0	\$0	(\$240,000)	(\$240,000)
27	\$65,000	\$6,500	\$0	\$260	\$6,760	(\$240,000)	(\$233,240)
28	\$68,250	\$6,825	\$6,760	\$814	\$14,399	(\$240,000)	(\$225,601)
29	\$71,663	\$7,166	\$14,399	\$1,439	\$23,004	(\$240,000)	(\$216,996)
30	\$75,246	\$7,525	\$23,004	\$2,141	\$32,669	(\$240,000)	(\$207,331)

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