



Forecast the Potential

Scaled Finance Welcome Course: Episode 5

Forecast the Potential

Part Two: Net Worth

Welcome back!

Last episode, we reviewed net worth: what it is and isn't.

Today's episode is more fun! You'll forecast your net worth.

New Year's Updates

Snapshot Updates

Updating our net worth was something my partner and I did on New Year's Day:

- It's timely to review the previous year
- We have the day off work
- We can do it while recovering from the previous night

A former coworker I showed the net worth forecast had the following initial response:

"I see... Excel."

... which is the only appropriate response to a spreadsheet!

However, she absolutely loved the file once we reviewed it together. She even made some great recommendations on how to extend it.

Forecasting our net worth has been the most empowering part of my wife and my financial journey.

I can't wait to share it with you!

Theoretical

Net Worth Forecast

Let's say it's sometime in the distant future and someone has the following profile:

- Net worth of \$100,000
- Earns \$100,000 a year in base salary
- Also earn a \$20,000 bonus
- Has Restricted Stock Units which vest each year worth \$15,000

Tax Advantaged

Hey, Big Saver!

Fortunately, they're big savers. Specifically, they save the following the first year.

Tax Advantaged:

- Contribute half of their February bonus (\$10,000) to their 401(k)
- Contribute an additional \$12,500 per year to their 401(k)
- Receive a 4% company match on their total salary and bonus of \$4,800
- Max out their Health Savings Account (HSA) at \$3,850
- Fund their child's education savings account (529) with \$1,000

Company Stock

Company Stock:

- Diversify the \$11,700 of Restricted Stock Units they receive after 22% is automatically taken out for taxes
- Contribute the maximum 15% of their salary and bonus to their Employee Stock Purchase Plan (ESPP) to take advantage of the 15% discount. With their bonus, the contribution is bigger in the first half of the year.

Other

Other:

- Invest the \$3,000 of their bonus they receive in cash
- Invest their \$2,000 federal tax refund
- Make an extra payment of \$1,000 toward their credit card balances in a month with three paychecks (since they're paid every other week)
- Pay down their mortgage \$5,000 with their regular housing payments
- Pay down their car loan \$2,000 with their regular loan payments

Portfolio Growth

Their initial \$100,000 balance may grow 8%, adding \$8,000 to their net worth.

I assumed an 8% annual because [according to FINRA](#):

- Stocks have historically returned just over 10%
- Corporate bonds have historically returned about 6%

Portfolio Growth

Using a somewhat cliché 60% stock / 40% bond mix to go along with an emergency fund leads to around an 8% historical return.

The 8% is a nominal term. That is, it includes inflation.
The real (inflation-adjusted) return would be lower.

Net Worth +86% the First Year

Discipline (& Lots of It)

Total Net Worth Growth

With all these changes, net worth would have risen over \$86,000 in a year!

- From \$100,000
- To \$186,000, with love

That's not bad, especially considering they had earned income of \$135,000:

- \$100,000 base salary
- \$20,000 bonus
- \$15,000 Restricted Stock Unit vesting

Of course, it would take a LOT of self-discipline to spend only about \$60,000 with earned income of \$135,000!

Potential Trended Out

However, the real power is what may happen next.

With flat stock vesting, tax refund, debt repayment, and college funding plus 3% inflation for everything else, their potential net worth growth might accelerate.

\$1MM in Eight Years \$2.7MM in 15 Years

Their net worth might grow from \$186,000 at the end of the first year to:

- \$281,000 by the end of the second year
- \$384,000 by the end of the third year...
- Over \$1,000,000 by the end of the eighth year...
- Over \$2,700,000 by the end of the 15th year

Their net worth could grow exponentially because the 8% investment would apply to more assets. (A graph is included in the second Google Sheet.)

Their earned income is projected to grow to \$202,000 in 15 years:

- Salary of \$156,000 (after 3% annual growth)
- Bonus of \$31,000 (after 3% annual growth)
- Restricted Stock Units of \$15,000 (no growth)

1.5x Income 27x Wealth

The upshot? In 15 years:

- Earned income would grow 1.5x from \$135,000 to \$202,000
- Net worth would grow 27x from \$100,000 to over \$2,700,000

They would do it without receiving an inheritance, having a startup go public, or winning the lottery.

IRL

Real Life Updates

While these are not my family's numbers, the process is what we initially used to forecast, track, and update our net worth.

We would:

- Flip estimates to actuals throughout the year as bonus, Restricted Stock Unit vests, Employee Stock Purchase Plan, tax refunds, etc. came in
- Treat changes in net worth I couldn't attribute to another action by year end as investment growth; that lined up well with investment returns

Your Turn!

Action!

Now, it's your turn to forecast your net worth.

Feel free to leverage the [Net Worth Forecast Template Google Sheets](#).

It's best viewed at 90% zoom.

If you use the file, update your:

- Year in cell B5 to the current year
- Net worth from the previous exercise in cell B6
- Savings categories in column A to your specific savings opportunities
- First year savings estimates in column B

What do you feel you could save?

How does your net worth forecast look once you update the values?

Play around with your savings estimates in column B.

How does adjusting your assumptions impact your net worth forecast?

Again, none of this is financial planning or advice.

However, this exercise put a charge into my wife and me to save by showing us what may be possible.

Next Steps

Excellent! I hope you found forecasting your net worth inspiring!

If you know someone who could benefit from this episode, feel free to share the course link with them: scaledfinance.com/welcome-course

Be on the lookout for the next episode in about a week.

Next time, we'll review a framework for evaluating when work might become optional.

If you'd prefer to work ahead, visit the course link.

See you soon!

**Thank You,
Next!**

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