# How to Calculate Your Net Worth

Net worth is important to know because it's an important gauge of your financial stability.

Thanks in part to the financial clarity it provides, experts recommend you calculate this significant number every year.

By Joanne Cleaver | Sept. 30, 2015 | 9:37 a.m. EDT + More

Feeling richer? The Federal Reserve thinks you are, whether it's trickling down to your mood or not.

Rising real estate values and high employment are boosting our collective net worth, according to the Federal Reserve. All together, American households and nonprofits are worth $85.7 trillion. That includes $256 billion in stocks and pensions owned by U.S. households.

Net worth is important to know because it's an important gauge of your financial stability, financial advisors say.

The classic formula for calculating net worth can be found in the saying, "what you own minus what you owe," but advisors add that it's also about cash flow. Beyond a simple snapshot of what would be left over if you sold everything and paid everything off, net worth can show you how to manage current and potential income, and even your energy.

It's smart to calculate your net worth annually, says Cliff Jurdi, a certified financial planner based in Exeter, New Hampshire, and an adjunct instructor at Boston University. "It's a statement of financial precision," Jurdi says.

Dianne Martin, a financial planner with Marin Group, based in Atlanta, adds that understanding your net worth helps neutralize the emotional fallout from market gyrations. "The market might fall 40 percent, but chances are your net worth hasn't fallen 40 percent," she says.

**Two buckets.** Once you're sorted what you own and what you owe into two columns, advisors recommend that you think through the cash flow implications of each "bucket."

That's where analyzing your net worth sheds light on where you are and where you might gain spendable income, and how much effort it will take to capture that income. On their own, assets are nice to have, but advisors point out that the ultimate point of assets is to support you. That usually involves converting an asset to cash flow in some way.

Todd Tresidder, founder of Reno-based FinancialMentor.com, a financial education site, says most people assume assets are passive. For instance, a passive approach to retirement savings as a salaried worker essentially involves funneling contributions to tax-advantaged retirement accounts and reading your statements. A more active approach, he says, might ratchet up your hands-on management by diversifying into different types of funds and individual stocks and bonds. A very active approach would involve daily investment decisions.

You can take a passive or active approach to either the "own" and the "owe" buckets, Tresidder says. That lets you pour energy and time into active management, where you believe it will make the biggest difference.

For example, if you are determined to pay down student debt, you might contribute the maximum you can to your retirement account structured in brand-name funds and take on a bit of extra work to channel cash to the student loan repayment. It would be less realistic, Tresidder says, to try to both actively manage your investments and work more hours. "Know your assets, but then see how these assets contribute to or deduct from your cash flow," he says.

**Unreal asset?** Real estate is a surprisingly controversial line item in the net worth equation.

At first glance, it looks like an even swap to take $200,000 in savings and use it to buy a property of equal value. An asset's an asset, right? Not when it comes to real estate, advisors caution. Jurdi recommends you think twice before putting your residence in the "asset" column.

He and other advisors point out that while your house is (hopefully) rising in value, it also costs you money along the way. Property taxes, insurance, maintenance and repairs are all baseline expenses you must cover. "The house only generates income if you rent out part of it," Jurdi says.

Martin relates the experience of a client who recently inherited a significant sum and wanted to see if buying a vacation home would affect his future cash flow and his ability to retire at age 50 or 60. Cash, invested, is likely to deliver cash returns, while the second home will definitely be an ongoing expense. This situation illustrates "how the balance of assets affects your net worth," she says.

Jurdi recommends considering your residence in the same non-net-worth bucket as cars, collectibles, art and antiques. The cost of owning and using these assets might or might not eventually outweigh their value. Besides, he adds, art, antiques and collectibles, in particular, are "highly illiquid and highly speculative." Own them and enjoy them, but don't count on converting them at will to significant income.

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