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# BUILDING YOUR NET WORTH

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## 1. Benefits of Building Your Net Worth

- Freedom – ability to have choices.
- Feelings –
  - good feelings from being able to help others
  - good feeling from knowing that your net worth is increasing faster than your cost of living
  - good feeling from being in control rather than being controlled
- How you spend your time – freedom to spend your time doing what you love to do rather than being forced to work at something you do not enjoy; a reasonable goal is to have sufficient assets that will provide cash flow (3-4% of earnings assets), in addition to other sources such as pension or employment, that will allow you to live comfortably, maintain purchasing power, and help others as desired.

## 2. Definition of Net Worth

- Our definition of net worth includes bank accounts, stocks, bonds, liquidation value of business, 90 percent of value of real estate (i.e. if you had to sell within 6 months), etc. This would not include autos, furniture, personal items, etc.
- Our experience has been that the majority of people who spend less than they earn and see the trend of their net worth increase over time, are generally happy.
- Those who spend more than they earn and see the trend of their net worth decrease over time, are generally unhappy.
- As Charles Carlson said, "Most people are not millionaire investors because investing now means delaying gratification. Spending today and investing tomorrow won't get you a million bucks".

## 3. General Rules

- Avoid debts, except certain business loans and certain mortgages where return on investment has high probability of exceeding cost of loan and there is more than sufficient cash flow from stable sources to service indebtedness.
- Maintain appropriate insurance (health/medical, disability, property, life, liability/umbrella, long-term care).
- Maintain cash reserve of 6 months cash flow needs – this should be in checking, savings, money market, and short-term certificates of deposit; keep a larger cash reserve if you are aware of large expenses coming up (e.g. auto, appliances, remodeling, etc.). If you do not have stable income or if you are retired, you may find it beneficial to maintain 1-3 years cash flow needs.
- Consider maximizing contributions to tax-deferred plans such as 401-Ks, IRAs, SEPs, etc. (coordinate with accountant)
- Living expenses should not exceed 80% of your income (or, 20% of your income should be invested – to build your net worth – to assure you have freedom – choices); spend less than you earn.

- Track your net worth at least annually – this is very important; current snapshot is not important; long-term trend is critical.
- Plan ahead so that you will never have to spend more than 3-4% of your earning assets annually.
- Have an estate plan prepared by your attorney, including appropriate powers of attorney; know what will happen upon your death and on the death of a loved one; keep it current.
- Be prepared for disability or loss of employment; disability often creates greater hardship than death creates.
- The best way to help your children financially is by not helping them financially; be sure personal future is taken care of first, before giving financial assistance to children.
- Keep track of where your money is going, then you can control it; you can get a greater benefit for each dollar spent (review how a business operates).
- It's not what you earn, it's what you keep that makes you wealthy.
- Have a personal philanthropic plan versus gifting out of obligation.
- After you have built your net worth, be sure it is used effectively and efficiently in achieving what is important to you. Don't do something stupid.

## 4. <u>Problems of Inadequate Net Worth</u>

- Lack of freedom – not having as many choices.
- Inadequate control over your life.
- Many people find that when they lose their job or when they retire, they are forced to seek other employment (sometimes more than one job) and reduce their standard of living.
- Depending on the government or others for support is not a good alternative.

## 5. <u>Common Mistakes</u>

- Not having a realistic plan.
- Helping children without considering personal needs.
- Failure to prepare a realistic budget.
- Failure to allow sufficient sum for medical expenses/health care.
- Unreasonable expectations for return on investments.
- Not planning for the impact of inflation (maintaining purchasing power).
- Not planning for longer life expectancies.
- Too large a percentage of assets in non-earning assets (e.g. home, lot, loan to child, etc.).
- Taking social security early without complete evaluation.
- Living off of income in retirement, rather than spending 3-4% of your earning assets each year (Harvard Rule).
- Failure to plan for "what ifs?"
- Thinking that more income will solve the problem.

## 6. <u>Invest Prudently</u>

## 7. <u>Financial Goals and a Well-Balanced Life</u>

In addition to considering your financial goals, it is also important to have a well-balanced life. George Kinder wrote an excellent book titled, The Seven Stages of Money Maturity. He provided the following 3 questions, which everyone should consider:

> *Question #1:* "I want you to imagine that you are financially secure, that you have enough money to take care of your needs, now and in the future. The question is…how would you live your life? What would you do with the money? Would you change anything? Let yourself go. Don't hold back on your dreams. *Describe a life that is complete, that is richly yours."*
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> *Question #2*: "This time you visit your doctor who tells you that you have 5-10 years left to live. The good part is that you won't ever feel sick. The bad news is that you will have no notice of the moment of your death. What will you do in the time you have remaining to live? *Will you change your life and how will you do it?"*
>
> *Question #3*: "This time your doctor shocks you with the news that you have only one day left to live. Notice what feelings arise as you confront your very real mortality. Ask yourself: *What dreams will be left unfulfilled? What do I wish I had finished or had been? What do I wish I had done? What did I miss?"*

Another worthwhile book on this same area is The New Retirementaility, by Mitch Anthony. Identify what is important to you. Write down your priorities.

## 8. **Recommended Reading**

*In addition to 2 books mentioned previously under Financial Goals, consider:*

1) The Millionaire Next Door, by Stanley/Danko, Longstreet Press 1996
2) Stop Acting Rich…And Start Living Like a Real Millionaire, by Thomas J. Stanley, 2009
3) Prince Charming Isn't Coming – How Women Get Smart About Money, by Barbara Stanny, Penguin Books 2007
4) Winning The Loser's Game: Timeless Strategies For Successful Investing, by Charles D. Ellis, $5^{th}$ Edition, McGraw-Hill 2009
5) The Little Book of Safe Money: How to Conquer Killer Markets, Con Artists, and Yourself, by Jason Zwieg, Wiley 2009
6) Inspired Philanthropy by Tracy Gary, with Nancy Adess, 2008
7) The Richest Man in Babylon, by George S. Clason, Classic House Books, 2008

## 9. **Initial Steps We Can Help You Take**

- Develop detailed net worth statement.
- Develop short and long-term objectives and put in writing.
- Review current cash flow and projections.
- Explore and evaluate alternatives.

## 10. **The best time to take action is now. We are anxious to help.**