



NET WORTH

This is a term we all hear a lot about, but not everyone understands what it is and why it is important.

What it Is

Essentially it is a measure of all your assets (Bank accounts, RRSP, TFSA, House, Cars, Art, Jewelry and other property that has a value) minus all your liabilities (Mortgages, Loans, Lines of Credit, Credit Cards) to give you a value of how much you or your household is worth if everything was liquidated today.

Why is it important

In our day to day living, we often get caught up in impulsive purchases or our next paycheck making it easy to drift along without any sense of financial purpose. This drift can be costly as you may not have financial progress if your spending is on consumables and little to no thought is given to value. The best measure we have on financial progress is the Net Worth calculation. Net Worth calculations can show you the progress you have made over a given period of time. I recommend making this an annual benchmark in your household to review and to use as a tool for keeping your fiscal house in order.

Ways to use it

As a starting point calculate your net worth number from one year prior and then the current year. The differences between both years will either be positive or negative making the change measurable.

Example

	January 30, 2019	January 30, 2020
Bank Accounts	\$50,000	\$32,000
TFSA	\$17,500	\$11,500
SUV	\$30,000	\$27,000
Condo	\$330,000	\$345,000
Framed Art	\$5,000	\$5,500
Total Assets	432,500	421,000
Mortgage	\$300,000	\$280,000
Credit Cards	\$25,000	\$35,000
Line Of Credit	\$0.00	\$5,000
Auto Loan	\$20,000	\$15,000
Loan from Sister for new Couch	\$1,000	\$0.00
Total Liabilities	\$346,000	\$335,000
Net Worth	\$86,500	\$86,000

In this example above, because there are so many moving pieces you might think you are better or worse off if you look at any one area, but when you net everything together you determine that you are actually worse off by \$500. There could be lots of reasons for this. For example, if the person just purchased a new home they may have had a lot of extra costs the first year that will not be there in future years or maybe a sudden expense that was not planned for. The key in this circumstance is to determine why the change and to see if it was a one-time situation or if you are actually spending more than you make and dwindling your assets in which case it is time to review your budget. For this reason the Net Worth measurement is an essential tool in helping you being financially accountable.

Often people want to know how they measure up to their peers and if they are “doing okay”. I love reading the Financial Post case studies where you can compare your situation to others and see how you sit. Looking at these statistics can give a ballpark for where you are compared to others in your peer group. Just be careful as you read articles as what the average in Alberta is may not be the average in Ontario, so your Net Worth as a comparison tool can be misleading.

Finally I have detailed a couple links that you may find interesting. The first is comparing Gen-Xers to Millennials (Prepared by Statistics Canada) and the second is a tool that Sunlife offers online that gives you a quick calculation of your net worth online and how it compares to others in Canada and in Alberta for your peer group.

Sources:

<https://www150.statcan.gc.ca/n1/pub/11-627-m/11-627-m2019029-eng.pdf>

https://www.sunlife.ca/ca/Tools+and+Resources/Tools+and+Calculators/Net+worth+calculator?vgnLocale=en_CA

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