



Depth Perception™

Commentary from Design For Ministry™
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Net worth 15 July 2007

I consider a net worth statement of highest importance for the household. My wife and I keep ours updated annually. This long-term tool helps us honor Jesus' words not to be anxious about tomorrow.

A key advantage to tracking net worth is that it helps a household adjust its monthly budget while keeping in mind any long-term impact on the family estate. When a family does not track its net worth that household will make financial decisions that cause harm to the family estate. For instance:

- ❖ Selling a home for a less expensive rental. While this might free up monthly dollars, no equity is built unless the family intentionally converts the cost savings to an investment.
- ❖ Cashing in a 401k and paying a penalty for early withdrawal in order to pay off a credit card bill. Yes, the bill disappears, but so does a family asset – and at a stiff penalty.
- ❖ Borrowing against a low-yield asset and investing the proceeds elsewhere with a hoped for higher return. Here the problem is that now both assets are at risk via one investment, rather than being risked as separate investments.

Certainly there are times to appropriately draw off an investment, to consolidate investments or to borrow against an asset. In most cases, however, a decision to do so sacrifices the need for long-term accumulation in order to satisfy a short-term desire for consumer goods. Consumer goods do not add to retirement accounts. They take from them.

To figure your net worth, make a sheet with two columns. In the first column write down the estimated value of what you own (even if you have borrowed against it). In the second column write down the payoff loan amounts and any other financial liability. Subtract liabilities from assets to find your net worth. It is that simple. And of course, when you figure this each year you want to see the total rising in relationship to your long-term estate goals. For Lorie and I, our estate goal is to give away our entire estate, however much we accumulate.

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