



Fact Sheet – Net Worth vs. Net Wealth

Where do you get your sense of self worth?

It is important that we understand that our value is not a product of our net worth. Our self worth should never be based on the value of all the “stuff” we have accumulated, just as it should not be based on our success or fame. However it is important for us to be aware of our financial situation. In fact understanding your current financial situation is the first step in the financial planning process.

What’s the Financial Planning Process?



What is your Net Worth?

Net Worth is the difference between the value of all your assets and your liabilities. It consists of all your assets regardless of whether they provide income or are an ongoing expense. Net Worth includes your home, cars, home contents, boat, sporting goods and jewellery.

What is your Net Wealth?

Net Wealth is a person’s ability to survive a certain number of days forward. In other words, if you stopped working today, how long could you survive? Assets that do not generate income do not directly impact Net Wealth and are therefore excluded from the equation. Therefore, Net Wealth excludes your home, cars, home contents, boat, sporting goods and jewellery. These assets are not income producing but cost time, money and effort to maintain.

Example

Self Worth		Net Worth		Net Wealth	
Inestimable Value		Assets		Assets	
		Home	\$800,000	Investment Property	\$400,000
		Cars	\$80,000	Superannuation	\$150,000
		Contents	\$70,000	Shares	\$100,000
		Boat	\$25,000	Managed Funds	70,000
		Sporting Goods	\$5,000	Total Assets	\$720,000
		Jewellery	\$10,000	Liabilities	
		Investment Property	\$400,000	Mortgage	\$200,000
		Superannuation	\$150,000	Investment Loan	\$200,000
		Shares	\$100,000	Total Liabilities	\$400,000
		Managed Funds	70,000	Total Net Wealth	\$320,000
Total Self Worth	Infinity	Total Assets	\$1,710,000		
		Liabilities			
		Mortgage	\$200,000		
		Investment Loan	\$200,000		
		Total Liabilities	\$400,000		
		Total Net Worth	\$1,310,000		

What should I do?

Focus on Net Wealth rather than Net Worth. Remember the Paradox of Prosperity: the more possessions we have, the more time, money and effort we need to spend managing them. When making spending decisions ask yourself, “Is this decision going to increase my net wealth or distract me from what I could achieve if I saved, invested or used the money to reduce debt?”

Further reading: Robert Kiyosaki’s book Rich Dad Poor Dad.





Cornerstone Wealth

Financial Advice Based on Solid Foundations

Cornerstone Wealth

Level 9, 501 La Trobe Street
Melbourne Victoria 3000

Telephone 03 9642 2268

Facsimile 03 9670 4704

E-mail info@cornerstonewealth.com.au

Website www.cornerstonewealth.com.au



Corporate Authorised Representative

No 306473

Partnership Financial Services Pty Ltd

AFS Licence No 220381

ABN 90 009 015 874

Level 28 Central Park

152-158 St Georges Terrace

Perth WA 6000