

Net Worth: A Millionaire's Yard Stick

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How often do you check your Net Worth? Once a month? Once a year? Never?

When most folks are asked, "Would you like to be a millionaire?" they quickly answer, "I sure would!" But if these same folks were asked, "How would you know if you were a millionaire?" Most folks would say, "I would have a million dollars in the bank."

Actually, very few millionaires have a million dollars in the bank. However, their Net Worth exceeds a million dollars, therefore they are millionaires.

This week I'm writing about Net Worth because of a very interesting meeting I had with a Real Estate Investor a few weeks back. Get this, the Investor I met with was a millionaire – in fact he had been a millionaire for a few years – but until he and I prepared his personal balance sheet at our meeting, he did not have a clue he was a millionaire. Incredible, isn't it? He was a millionaire and didn't even know it!

If your goal is to be a millionaire, you need some type of yard stick that tells you how far away from your goal you are and when your goal has been reached. That yard stick is called your Net Worth.

What is Net Worth? Simply put, it is the total of the FMV (Fair Market Value) of one's assets minus one's total liabilities.

EXAMPLE: If you own a house with a FMV of \$100,000, a car worth \$15,000, and have \$5,000 in the bank, your assets total \$120,000. If you owe \$80,000 on your house and \$5,000 on your car, your liabilities total \$85,000. To find your Net Worth, subtract your total liabilities from your total assets: $\$120,000 - \$85,000 = \$35,000$. Your Net Worth in this example is \$35,000.

At the end of each month, Kim and I prepare a new personal balance sheet to determine our Net Worth. We can't begin to tell you how important this habit is. By keeping your mind focused on increasing your Net Worth each month, it prevents you from spending your money on things that decrease your Net Worth.

For example, right now Kim and I would love to buy a new car. Our 1998 Dodge truck has 220,000 miles and our 2002 Jeep has 125,000 miles. We can afford to buy a new car, so why don't we? First, a new car drops in value by \$5,000 the second you sign on the dotted line. For this reason we only buy vehicles that are at least two years old. Second, both of our cars are paid for, and thanks to Keith Russell at Russell Automotive in Cartersville, they are running well. This means that we aren't making car payments each and every month.

After Kim and I determine our Net Worth at the end of each month, we ask the all important question, "What can we do to increase our Net Worth over the next thirty days?" Boy, talk about an important question. It's a question you should be asking yourself as well.

One of the ways we increase our Net Worth is by owning rental property. With rental property, each month the mortgages on our rental properties decrease. Each month the FMV of our rental properties increase. Each month we get to write-off the mortgage interest, property taxes, and repair costs. Best of all, our tenants are paying for all of this.

Another way we increase our Net Worth is by buying real estate at sixty cents on the dollar, making some minor repairs, and then selling the property for a profit.

These are just two of the things that make real estate such great Net Worth builders.

Please know that Kim and I didn't invent this Net Worth stuff, it's been around for a long time. All we know is that it works. Why not give it a try. Who knows, you may be a millionaire and not even know it!

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