1 million dollars in numbers

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Balance uses cookies to provide a great user experience. By using Balance, you accept the use of cookies. No one plans to get stuck on the side of the road with car problems. If that day inevitably comes,... Figuring out how to pay for college can be overwhelming. From federal loans to private lenders, here's what you need... Refinancing a USDA loan with an approved mortgage lender can help you reduce your monthly payment and get more... The most important number when it comes to personal finance is not how much you will need to retire or the current rate of inflation or how well the Dow Jones Industrial Average or the S&P 500 did last year. These numbers are important in many ways, do not miss me, but do not fully express the state of your personal finances. Instead, the most important number for your personal finances is your net worth. That's the only number that matters more than anything else in terms of tracking your financial progress. Assuming you're of working age and have some form of income, your goal should always be to increase your net worth – every month, every year, and every decade. What is equity? In simple terms, your net worth is the total of all your assets minus the total of all your debts. It represents the money you would have left if you paid all your debts at this point. Calculating your net worth is easy. All you do is make two lists. A list has all your accounts that have money in them – such as your savings account, your checking account, your 401(k), your Roth IRA, and so on – and any assets you have that have significant value, such as your home, your automobiles, any collectibles you may have, and so on. For each item in this list, list the current value of that item. The second list is just a list of all your debts, and for each item in that list, write down the current level of that debt. Add each list and subtract the total debts from the total assets. That's your net worth. If you are familiar with using spreadsheet programs, they are basically designed for this type of calculations. I encourage you to calculate this regularly. I currently do this quarterly. In the past, I've done it monthly. I keep my past calculations stored on my computer in a spreadsheet file, and I use a spreadsheet when recalculating my net worth every three months. Why do this regularly? Much of the value in calculating equity is so you can compare it with how you were doing in the past. Sometimes people have a negative net worth – and that's fine. Recent graduates who leave school with a pile of student loans will have a wealth Negative. Sometimes people who are just beginning to really figure out their finances after a period of drastic overspending will have a negative net worth. No, don't be. Stay. worried about it. What really matters is that your net worth increases over time. Why is it important? There are several reasons why I put equity as perhaps the single most important financial number for each person. 1. Provides a very clear and simple picture of your financial status in a number. It's amazing how just one number – and the history of that number over time – can tell you a lot about how you spend your time and your money. The number itself tells you exactly how much you would have emptied all your accounts, liquidated everything, paid off all your debts, and accumulated that money in one place. A friend of mine says it's her breakout money that she would be able to get if she just got tired of it all, which is certainly a colorful way to illustrate that. Over time, the change in that number means even more. Indicates positive (and potentially negative) financial growth in your life. This shows how far you've come when you look back on previous numbers. It can also show the impact of the changes you've made on your life... although it can be a bit noisy since everything in your life impacts that number. 2. Moves you can make that improve your net worth are almost always good. In general, if a financial movement is a good idea, it will have a positive impact on your net worth. If you are frugal, your net worth will rise. This is because you are leaving more money in your checking account instead of spending it on things that have very little or no value in cash (such as travel or food or things that you can't resell without having a big loss). If you work hard and earn more money, your net worth will go up. Again, that's because you're putting more right into your checking account. If you pay the debt, your net worth will increase. This is more of a gradual improvement, however, because what you're doing is just eliminating interest payments, which means more money stays in your checking account. If you invest your money, your net worth will usually go up. Your investments will increase in value and dividends of return, both reinforcing your net worth. 3. Similarly, movements that decrease your net worth are almost always bad in terms of your finances. If you make a move that decreases your net worth, it's usually a bad financial move. This is not perfectly true, of course, because spending money on the basic necessities of life, such as food and hygiene and clothing, causes your net worth to decrease and this is not really a mistake, but most of the other movements that bring a fall in net worth are. If you spend your money on something you simply consume or can't flip, your assets Falls. Again, if it's for basic needs, that's something you have to do, but many expenses in life aren't just basic needs. If you get in debt, get into debt, shareholders' equity (usually) falls. Note that I said generally because there are rare situations where debt can actually increase your net worth, but the vast majority of consumer debt just hurts you. If you lend money to your deadbeat brother who will never reward you, your net worth goes down. Lending money to people who won't pay you is the same as watching it explode in the wind. I never spend money for the family – it's one of my main financial rules. 4. It's a great way to measure your own financial progress over time – and that progress is really the only financial progress that matters. For me, this is the biggest reason why equity is incredibly valuable. Allows you to compare your current state with your past state. Let's just say you calculate your net worth now. So in three months, calculate again. Right here, just by comparing these two numbers, you can check your financial progress over those three months. There's no way to lie or tell yourself that you're doing well. There is no driving error or hiding errors. Assuming you calculate your net worth honestly, it will tell the honest truth about how you are doing, good or bad. I love comparing my net worth year after year, just to see how things have progressed. I also like to do some interesting calculations with it, as I'll discuss below. 5. Puts the focus on your own behavior, as the only person you have to claim victory is yourself. Human competition is natural. We do this instinctively all the time, realizing it directly or not. This competition often puts us in financial trouble. When we see someone else having something, we want to have that something, too. If you keep a history of your net worth, you already have a shining example of someone competing – your past eso. Instead of worrying about keeping up with the Joneses and their shiny new car, you might worry about hitting your net worth last year or the last quarter. Better yet, you can focus on bothering that old net worth. That record gives you competition, and many of us thrive in the competition. This is a great type of competition, too, as it points us to a very healthy financial trajectory. Putting things in the Equity Perspective One of the biggest mental changes I made during my financial turnaround was to start putting all my finances into what I call the equity perspective. An important part of how I judge expenses in my life is in terms of how they will affect my net worth. It's also part of how I judge the ways I spend my time and energy. Here are six simple calculations that I use, based on my net worth, to get a better picture of how I'm spending my time. Assets Alone and Debts Alone Sometimes a very good year for your investments can cover up the fact that you let your debt situation get a one out of control. Or, maybe you threw everything at your debt payments but didn't even bother to replenish the emergency fund after you hit it for a car repair. Looking only at your assets or just your debts can reveal these things, especially when you commin year after year. Normally, your assets should be going up. If they are not, this is a sign that you need to investigate and find out why things happened and if you need to do something about it (probably, you do). At the same time, your debts should fall over a quarter or a year. If they are not, then you have another problem that you need to be looking at and finding out why things are not improving. They are not signs of disaster, but they can be signs that things are out of control and potentially heading for a disastrous situation. Consider this an early warning sign. Years of Debt Freedom This is a valuable calculation to make if you still have debts and want to one day get free of personal debts. Take the total amount of your debts at the beginning of the year and the total amount of your debts at the end of the year. Subtract the final value from the initial value and divide its final value by this new number. This will tell you how many years you should expect to have to spend until you are completely debt-free. For example, let's say his total debt at the beginning of the year was $200,000 and at the end of the year it was $175,000. That's great progress! Now, subtract $175,000 from $200,000 and you get $25,000 – that's the debt you paid out this year. Divide $175,000 – the debt you have now – into $25,000 – the debt you're paying per year – and you get a 7-year result. That's how long it's going to take, at your current pace, until you're debt-free. I used this number as a strong motivator during my years working for debt freedom. My goal every year was to decrease that number by two. So at the end of a year, I could calculate that I had 6 years left until debt freedom. My goal by the end of next year would be to reduce that number to 4 years until debt freedom. It was this kind of lightning focus that led us to total freedom of debt – including our mortgage – in 2011. Improvement of Net Worth Per Hour of Work Let's say, over the course of a year, I see that my net worth has increased by $20,000. However, during that same year, I worked about 50 hours a week for about 50 weeks. That means I've worked 2, 500 hours this year. By making a simple split, I can see that I've only improved my net worth by $8 for every hour I've spent working in the last year. Every hour I spent working on a difficult project or reading emails instead of working, I only with9forewhich I withwent $8 for that effort. Basically the more hours I work, the smaller that number will. The less careful I am with my the lower that number. I can only make it go up year after year if I work and spend smarter. This is really the number I want to increase most nowadays. If I'm really working to build a better financial future for myself while Also involved with my loved ones and closest friends and personal interests, then I want this number to be as high as possible. Every hour I work needs to be a smart, undone and productive hour. Every dollar you spend needs to be a wise dollar spent. Years to destination This calculation requires both your income and the amount you actually spend each year, both are essentially parts of your net worth calculation. Let's say I make $50,000 a year, but I know I save $20,000 off that, so my actual expenses are $30,000 a year. I also know that you can live off your investments for a long time – probably much longer than you will – if you withdraw only 4% of your balance each year, because the growth of your investment should cover that more inflation. Given these two numbers, just divide $30,000 by 0.04 to get how high your net worth would have to be for you to retire – in this case, $750,000. That number isn't perfect. In fact, it's on the low side because it includes things like the value of your house, which you would never sell realistically, so I usually add to that number the value of any asset I wouldn't sell in retirement, like my house and my car. That makes me close to a million dollars. The next thing I do is find out how much my net worth has changed in the last year. Let's say it went from $200,000 to $225,000 – an increase of $25,000. Then subtract my current net worth from my target net worth – subtracting $225,000 from $1 million – to determine how much more I need to save. That's $775, 000. I divide that by how much I'm increasing each year – $25,000 – and I see it's going to take 31 years at this current rate to get where I want to go. I want that number to be smaller – as low as possible, in fact, so I use that number as inspiration to move toward my dreams. I want that number to drop as much as possible every year. The Value of Your Professional Life This is a number I use to remind me of how little I actually earn for the time I've worked in my life. Basically, I do an approximate calculation of the number of hours I've worked in my adult life, starting at my college graduation. You can do this by multiplying the number of years you have been actively employed by 2,000, which is how many hours you would work if you worked 40 hours a week for 50 weeks a year, and adjusting according to your own experiences. I came up with a number in the range of 25,000. Given this, let's say current equity is $100,000. That would mean that for every hour I've worked in my adult life, I only have $4 to show him in this world. World. He. This is really a painful realization of how I have been wasted on my money. All the rest of my income beyond the $4-an-hour mark just disappeared into the ether, into things with little or no value, and memories that are forgotten. It's a great legacy of wasted resources, a legacy I have no interest in continuing. This $4-an-hour fee is a call to do better. I want my professional life to have produced significant value for me, far beyond the minimum wage. $4 an hour means there's a long way to go and, as we've seen with the net worth discussion above, there are many ways to improve things. Time to go to work. Acceleration, or Improving your improvement Let's say that in 2010, I calculated my net worth and it was $100,000. In 2011, I calculated again and it was $115,000. In 2012, I calculated again and it was $135,000. So from 2010 to 2011, my net worth improved by $15,000 and from 2011 to 2012, it improved by $20,000. In other words, in the second year, my improvement in net worth increased by $5,000. I see this kind of change as incredibly valuable. I refer to it as net worth acceleration, because, just like the acceleration of the real world, the more you accelerate, the faster you go. Let's say I make a goal to keep the $5,000 a year accelerating from net worth. That would mean that from 2012 to 2013, I would like my net worth to improve by $25,000 – the $20,000 increase from 2011 to 2012 plus the $5,000 in equity acceleration. I'd like to finish this year at $160, 000. How do you accelerate your net worth? The best way is to improve your income without acquiring new debts or expenses. If you can increase your salary without increasing your standard of living, it is very likely that you will experience some degree of equity acceleration. Final Thoughts The main goal of calculating your net worth and putting that number through these types of numerical gymnastics is so that you can look at your life from many different angles. You can look at your goals. You can identify areas of improvement required. You can identify potential problems. You can see the progress you've made as well as the great distance you still have to go. You can see methods to make the changes you want to happen faster and faster. All it takes is a piece of paper, a pencil, and some time to run the numbers. It also takes some real time and thought about recognizing what these numbers mean. Sometimes they can be uplifting and show how far you've really come and how you're really marching toward your big dreams. Sometimes they can show you how you are making mistakes and really how far you still have to go. They're both valuable. Both are incredibly useful. And both begin with the simple calculation of your net worth. It may be just a number, but it represents a large part of our financial in a simple way. Way.