How to calculate your REAL assets

Forget the bank account - Sometimes your greatest wealth is in the things that can't be measured in a dollars.

By SUSAN MEREDITH

How wealthy are you? I don't mean how much money is in your bank account. I mean REAL wealth. Your financial statement tells part of the story, but, aahh, life is so much more than that. Wealth is defined as riches, abundance. Is your life rich with experiences? with dear friendships? with sights and sounds that bring you ongoing enjoyment? Do you have a wealth of knowledge and ability? How about an abundance of time to enjoy the great outdoors, peaceful time, quality time with the kids?

When I ask how wealthy you are, I mean BOTH the physical and nonphysical aspects. In the "Balance Sheet" of your life, how wealthy are you?
The two main contributors to your wealth are your assets and your liabilities - more assets, and comparatively less liabilities, equals more wealth. Write a list of your assets on one side of a piece of paper, and your liabilities on the other.

Assets are "possessions of value." Material possessions are part of the story, but you have other assets - your skills, abilities and knowledge, your friends and connections, etc. You may have been told "your ability to listen is one of your best assets." You may consider your children to be assets in your life - depending on how they're behaving at the moment. They aren't exactly possessions, but they can enrich your life, so they are a component of your wealth.

Your liabilities are your debts or obligations, those things that detract from your wealth. Besides that mortgage we "buy" along with our houses, and other monetary debts we might incur, you might say that anything that gives you a bad name, slows you down, or ties up your time, attention, or energy is also a liability. Your temper, your enemies, or a grudge might be real liabilities because they keep you restricted. Creating "debts to society" also fits into this category.

Now, how wealthy are you? This may still be tricky. If I asked you to assign a value to MY Balance Sheet, you would probably come up with a very different answer than me. We each have different Values. We try to equalize value by using money to represent a consistent unit of exchange. That still doesn't work very well because a dollar doesn't have the same value for everyone - a dollar is much more important to a homeless person than to a billionaire!

Everything is relative, so when you consider how to increase your wealth, do it relative to what YOU value.

To have more wealth, it's pretty obvious you need to increase your assets and reduce your liabilities. Generally we use our assets to get assets. When you work, you exchange your time for money. You use the asset of money to buy some other asset. You also exchange your time and energy for friendships, knowledge, etc. If you just exchange one asset for another, the overall wealth on your balance sheet stays the same; it just changes form.

However, many assets can actually stay with us and grow. This has always been true for the intangible wealth of our knowledge, creativity and experience - when we give it away, we still have it. Then in the 1930s, the law of nature of exponential growth was applied to money in the form of compound interest.
To understand how exponential growth works, work this out: if you double a penny every day, how much would you have at the end of 30 days? Guess before you look at the answer at the end of this article.

Compound interest is based on a portion or percentage rate of growth instead of doubling. To understand this, consider the growth of populations of people. Consider a 10% growth rate. If there are 100 people, and 10 have children in a year, you now have 110 people. If 10% had children the next year (probably not the same people!) then there would be 11 new children for a total of 121. The rate of growth is slower than the growth of the pennies, but you can see how it quickly mushrooms to a larger and larger population.

When we apply this law to our assets, it's a good thing. That $100 will just sit there on our Balance Sheet, creating wealth for us each period. It increases our assets without us having to do anything.

However, when exponential growth is occurring with a liability, it's increasing our debt, and thus reducing our wealth. We need something to counteract it. That's where biological decay comes in. A portion of a population dies out. If the death rate of our population of 100 was 10%, and each year 10 people were being born and 10 were dying, the population would stay the same. If there are more births than deaths, then the population goes up. If there are more deaths than births, the population goes down.
Now apply this to your financial accounts. If you have a credit card, its balance is the current "population." If the monthly interest rate is 10% your population of debt is growing by 10%. But if you're making a monthly payment equal to that 10% interest, that's like 10% of the population "dying." With these two counteracting factors, the population - the

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credit card balance, never changes. Increase the "death rate" of your debt by increasing your payment.

With an asset, you prefer to have the "population" of money in your account as large as possible. Now let's say you want to live off your investments. If you're getting 10% interest per month on your account, you had better only take a maximum of 10% out of that account each month, or your population of dollars will quickly dwindle.

There's something else to notice about the difference between an asset and a liability. Your financial asset, like a friend, is sitting there waiting to contribute to you. It doesn't take from you, and it has the potential to give.

With a liability, it is constantly taking from you. You have to constantly feed it, until you get rid of it. The longer you have it, the more you have to feed it, and the more it costs you.

I bet I know what parents are thinking - since they constantly have to feed their children, children must classify as a liability. That's because a child poses the same contradiction as a mortgaged house. When you buy a house with a mortgage, it's probably the biggest liability you've got. You've added both an asset AND a liability to your Balance Sheet. However, we get many nonphysical assets in terms of safety, security and the enjoyment a home can bring. Over time, we expect it to grow in value. Plus it's a tax writeoff. A child gives us all of that too.

We expect that we will get at least as much value as the interest we are paying out on our house, and on our children. Of course, there is also an element of risk to investments, as we've seen with recent stock market fluctuations and job disappearing acts…

Sometimes it's your choice whether something is an investment. I have a friend who says "I can cost justify anything!" Buying a car can be an investment if it enables you to get to a job that you need a car for, or it can be a huge expense. The same is true for an education. And while you can't really put a price tag on your child, you can choose to see how much more they give than they cost.

You can even make a liability into an asset by getting more value out of it than it costs. A learning experience can bring tremendous rewards. For a writer, any experience could be an investment because they can write about it! We have choice in how we interact with our world. One more point worth mentioning - look at how your interactions can increase the World's Balance Sheet. Remember when I said that value is relative? There is a saying in the world of garage sale junkies that says "One person's garbage is another person's treasure." So get rid of your junk, and the world gets richer!

In other words, there may be something that has moderate value to you, but when you exchange it with someone, it has more value to them. Your time can be precious to a child. You may give information to someone that they find invaluable. By giving people what they value, you enrich the world.

To increase your wealth, look at how you can increase all assets. Look to see there is Balance on your Sheet. Determine how to reduce all liabilities, those physical and metaphysical debts that are draining you. And remember to do it all based on YOUR Values.

In case you wondered, a penny doubling for one month will be well over 5 million dollars. ($5,368,709.12) Make sure you're doubling what you want. *~HS*

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