Episode 6: You're Net Worth It!

Hi and welcome to Jenny-in-the-Corner-Office, Episode number 6: You're Net Worth It! I'll be hosting today's podcast and all of the other ones... Who am I? I'm Jen Schell—an Investment Advisor with CIBC Wood Gundy.

Hi everyone and welcome to this week's 6th episode: You're Net Worth it, where we will be calculating our net worth so that we can make amazing things happen in our lives. Last week we immersed our minds into the wonderful world of financial planning with a special meditation. This week, I will show you how to calculate your personal Net Worth so that you can apply for a loan, invest your money in a portfolio, buy a house or just plain out sing about it.

First off, before we delve into the calculations, I just want to highlight this milestone moment. Now that I have completed episode six, I have a series! I would like to take this opportunity to display my gratitude with a special shout out to Chris, my lyft driver for telling me to have 6 posts ready in my repertoire. Thanks, Chris! I hope that you land an acting gig on a streaming series. Great advice! To get my stronghold of podcasts into podcast land, Chris advised I make up 6 episodes to prevent creativity vultures from impeding on my progress. Being realistic and preparing for stranger danger with potentially negative commentary sheltered my creativity and allowed me to produce my podcasts without worry. Feedback gets generated regardless and so far it has been a lot more constructive than I would have otherwise anticipated..

This podcast is an outlet for my imagination. My brain houses a lot of creative energy and I have to dump it out so that I can focus on boring tasks. To deal with this, I have recently began painting. I needed something modern and abstract for my living room but there was nothing that was satisfactory, so I picked up some acrylic paints and a canvas and painted a blend of colourful candlestick chart partners that were stuck inside my head. I showed it to a relative who works with the Ontario Art and Design college and she called it data-dumping. I wasn't sure if she was calling my piece of art garbage, but I wasn't offended.

Now, that I have explored that outlet, I am dumping all of my thoughts on investing into this podcast series to document my knowledge and to entertain you as well.

I let my imagination loose and now it can't be contained. Since we are living in the digital age, it's about time that finance gets a digital makeover.

My favourite invention of all time is the internet. Because of the internet, I have learned so many amazing things, including how to make a podcast. Because of the youtube contributors, I have been able to produce Jenny in the Corner Office myself. I would like to show you my new skills that I've learned and to continue on my path of learning, I made a song for you. I 'm super proud of my work. Ready for it? It's my 1st single and I call it: You're Net Worth It. This is a duet… or a compilation between a gentleman called Dolla Bill with his track, Old Schoolin' and myself, Jenny in the Corner Office. I chose this song because I'm kicking out the old school mentality of how people perceive finance and I am introducing a New School of thought. So take that, world!

Here it is:

Your net worth it.

Look who's back. It's Jenny

Eh, Eh, Eh, Eh

All of that time and all of that money, You're net worth it, you're just.. Net worth it.

I'm over old school, the past is overrated, like your attitude, instead just show me what you're made of. Work it, build it, reap the rewards . And all that unnecessary bling… sorry guy, that's really not my thing.

Cash, Cars, Home, Luxuries…properties…and RRSPS are my responsibilities.

Why do I need a king, with my pocket aces, I'll raise you, call you all in and I'll take you. Pledge your assets any day, but all your debt won't make me stay, just saying… but hey, you can send your equity my way.

Truth, I'm keen to be queen, but cash is my new king. What do I need with a pool shark when I'm a finance Matriarch? You may be a dolla' bill, but I'm a royal lady.

I'm tired of hanging with the Jones with too many loans, where all you do is brag about what you own. Give me credit where it's due and a mortgage with a decent loan to value.

So you think you're the bees knees with your expensive guccis with actual bees… Thinking that I'll fan girl over you like I do for the fugies like Oh, la, la, la.

But that don't impress me much.

Let me be frank when I say, I’m Jenny from the bank.

([http://freemusicarchive.org/genre/Hip-Hop_Beats/)](http://freemusicarchive.org/genre/Hip-Hop_Beats/)

Since I need some new workout songs, I encourage you to write some songs about Net Worth. To help you do this, I will break it down so that you can write the proper clever lyrics to write your track. Please send them my way and the best ones will be featured on a future episode of Jenny in the Corner Office.

Knowing your net worth is like knowing your name. Once you know it, you can use it to apply for banking, investments, loans and the list goes on.

What is Net Worth?

According to the Stats Canada website, Net worth is the difference between a family's assets and debts. In 2016, the average net worth of Canadian families whose major income earner was under the age of 65 was $616,700.[note69] There was significant variability in net worth by family type (Table 2). Couple families had the highest average net worth, at $700,000 for those with children and $910,000 for those without children. Lone parents had lower net worth on average than couples with children, mostly because of they had fewer assets. However, the average net worth of lone mothers was less than half of that of lone fathers: $240,000 versus $540,000. Unattached women and men had similar average net worth at $250,000 and $230,000, respectively.

So what is the moral of this statistical story? Basically, you will have more money for yourself if you do not have children. However, if you raise your kids right, maybe they will support you in your old age. I’ll leave the childrearing tips to the parenting podcasts.

The disturbing statistic is that single mothers are majorly disadvantaged when it comes to building their Net Worth and in general when it comes to retirement readiness according to gender. This may be because of differences in Financial literacy.

According to data from the Canadian Financial Capability Survey, women had lower scores on financial literacy than men (Chart 10). Specifically, 14.7% of women correctly answered five key financial questions related to interest, inflation, and risk diversification in 2014, compared with 21.5% of men.[Note54] The gender gap in financial literacy tends to increase with age, being greatest among those aged 65 and over at 7.3 percentage points.[Note55] Regardless of age, women were also more likely than men to provide a "don't know" response for at least one of the questions used to evaluate financial knowledge (45.2% versus 32.1%).[Note56] In addition, women have less confidence in their financial skills than men. Specifically, women were less likely than men to consider themselves to be "financially knowledgeable" (31.4% versus 43.2%), and less likely to state that they "know enough about investments to choose the right ones that are suitable for their circumstances" (47.8% versus 62.6%).[Note57] Taken together, these findings suggest that women's greater vulnerability to financial insecurity, particularly during old age, relative to men, may be exacerbated by their lower levels of financial literacy and confidence. Notably, among couples, there is no gender gap in financial knowledge when they share responsibility for the long-term financial management of the household or when women's contribution to household income is similar to that of their male spouse or partner.[Note58] This suggests that women's financial literacy and confidence is greater when they are more involved in household finances (or vice versa).

Gender differences in financial knowledge are problematic because previous research demonstrates that financial knowledge is associated with positive financial behaviours and economic outcomes: individuals with greater financial knowledge are more likely to plan for their retirement, and those who plan generally accumulate more wealth.[Note59] [Note60] Conversely, individuals with less financial knowledge tend to borrow more, and they often report excessive debt loads and borrow against pension accounts.[Note61] [Note62] [Note63] Ultimately, they accumulate less wealth.

Although preparing for retirement is an important determinant of economic well-being for both women and men in old age, there are a number of reasons that women may find doing so more challenging than men. Specifically, gender differences in life expectancy and labour force experiences may require that women and men adopt different strategies for retirement planning. Canadian women can expect to live about four years longer than men[Note64] and they must therefore finance a longer period of retirement. Additionally, their cumulative lifetime savings may be lower than those of men, given discontinuous labour participation over the life course and the gender pay gap. As a result, women's accumulated wealth may be less than men's. This is all according to Statistics Canada.

https://www150.statcan.gc.ca/n1/pub/89-503-x/2015001/article/54930-eng.htm

I am going to inject you with a nice dose of financial confidence. It's not just women who need to increase their financial literacy, it's everyone. As a start, we are going to calculate your net worth. Knowing your net worth is your ultimate starting point.

The net worth calculation is comprised of all that you own and all that you owe. We make two columns, the one on the left contains a list of your assets and the one on the right contains all of your liabilities or debts.

Let's start on the left and list all of your possessions. From here, we categorize them according to liquidity and tangibility. Liquid means that you can obtain cash immediately. The more time an item takes to sell, the least liquid it is. Also, tangibility… even cash is abstract. It only holds value because we say it does. If you can touch it, live in it or feel it, then it's tangible. Homes are cars belong in this category.

Making our list of Assets, at the top of the list, we start with the most liquid items to the least liquid and also from the intangible to the tangible. It will look something like this: Cash, Investments (non-registered, RRSPs and Tax Free Savings Accounts) Cars and Properties. If you are applying for a loan or a mortgage, lenders like cash, investments in non-registered accounts, money in the TFSA and Properties. The RRSPs are protected for your retirement and don't give you a lot of value when you are looking to get financing, mainly because you can't pledge your RRSPS as collateral. Cars depreciate quickly, so they are not great sources of collateral either.

Now on the other side, we have our liabilities. These are broken down into short term debts and long term debts. Short term debts are credit cards, lines of credit and long term debts are longer loans, such as mortgages or car loans. Usually these are obligations that extend for more than one year.

To find out your net worth, you add up all of your assets and subtract your liabilities. This is your net worth figure. A high net worth figure combined with cash flow from your income will allow you to expand and borrow money to buy more properties or to make further into business or investments into the public stock markets.

You can appreciate that if you have a lot of assets but lots of debt that you can think that you are a millionaire but you are really broke if your debts are excessive. This is a good indication that you may have extended your credit a little too far. Seeing this on a sheet can give you an indication of what's weighing you down. You can improve your situation quite substantially if you tackle the debts on the right hand side of the column or else grow your assets on the left side. A nice balance is ideal, but the net worth statement illustrates your financial position very well and it's universally accepted as an indicator of your capacity to borrow.

The higher your net worth figure, the more you can borrow and you have more options for investment.

This is a good gauge to see how your spending behaviors are affecting you, making this a great segway into my transition towards behavioural finance. Behavioural finance is a new field of study that shows that people naturally try to maximize their wealth. They take the information from all sources and try to make as much money as possible, simply said. Emotion and psychology have a lot more to do with this decision making process, which is where power, greed, euphoria and even philanthropy come into effect. This disrupts the efficient market hypothesis because rational people aren't always rational. They can be unpredictable and display irrational behaviour.

Thank you for listening to my first six episodes, I hope you'll be back for some more fun-ance. Now that you know how to calculate your net worth, I expect some new hit singles from you. Thanks for listening and remember, you're Net Worth it.

References:

aldwin, Bob. 2016. "Assessing the retirement income prospects of Canada's future elderly: A review of five studies." C.D. Howe Institute. Available at: https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary%20456_0.pdf.

McKinsey. 2015. "Building on Canada's strong retirement readiness." Montreal: McKinsey and Company. Available at: https://www.mckinsey.com/industries/financial-services/our-insights/building-on-canadas-strong-retirement-readiness.

McKinsey. 2012. "Are Canadians really ready for retirement? Current situation and guiding principles for improvement." Montreal: McKinsey and Company. Available at: http://www.ppforum.ca/sites/default/files/Are%20Canadians%20Ready%20for%20Retirement%20-%20Fabrice%20Morin.pdf.

Financial knowledge and confidence of women and men aged 18 and over, Canada, 2014