

## Money Matter\$ - 20 January 2022

### By Standard Chartered Bank

## Understanding your net worth analysis

How do you find out what your net worth is? But first, what is net worth?

Net worth is the difference between your total assets and your total liabilities. It is important for one to understand their net worth as an analysis of your net worth can tell you whether you are solvent or have a negative rating.

Total assets can be defined as anything that you own that has some store of financial value. Total liabilities can be defined as anything that you owe to others.

To conduct your net worth analysis, you would need to be well informed and aware of your total assets and your total liabilities- this would include short, medium and long-term liabilities.

To calculate your net worth, you would need to equate both your total assets and liabilities.

### **Calculating your Assets**

Total Assets = Total Cash Savings + Equity/ Fixed Income + TAP / SCP Assets + Personal Assets + Others

Total Cash Savings (liquid assets) will comprise of total savings account balances, all fixed deposits and cash value of insurance. Equity/ Fixed Income is the total of all your bonds, stocks and unit trusts. TAP / SCP Assets is the balance in your Tabung Amanah Pekerja (TAP) account / Supplemental Contribution Pension (SCP) account. Personal Assets is the total of your ownership property, investment property and cars. Others could be investments in businesses.

### **Calculating your Liabilities**

Total Liabilities = Short Term Liabilities + Long Term Liabilities

Short term liabilities can be classified as loans that will be settled within 3 years while long term liabilities can be classified as loans to be settled after 3 years. Some examples of liabilities are mortgage loans, personal loans, car loans, credit cards and overdrafts.

### **Calculating your Net Worth**

Net Worth = Total Assets – Total Liabilities

A negative net worth occurs when total liabilities are more than total assets while a positive net worth occurs when total assets are more than total liabilities.

From the net worth analysis, you can also derive other useful information such as a person's level of debt and solvency ratio.

Level of Debt (Debt to Asset Ratio) = Total Liabilities ÷ Total Assets

Solvency Ratio = Total Net Worth ÷ Total Assets

Both of the above ratios give you a measure of one's liquidity position as well as his/ her ability to pay. For "Level of Debt Ratio" the recommended level is lower than 50%, and for "Solvency Ratio" the recommended threshold is 50% and higher.

When you have negative net worth, it means that you have more loans than assets. This is not uncommon but it is unhealthy. Technically, a person is insolvent if his/her net worth is negative because if he/she does not or cannot make his/her loan repayments, he/she would not have enough assets to cover his/her obligations to lenders. Saying this, there are ways to improve one's net worth.

Negative net worth occurs through a number of factors. Usually, it comes from borrowings for purchases of items or services that are not considered as assets such as a holiday.

So, how can you improve your net worth? This can be done through discipline. If you do not have

sufficient funds, then you need to start saving up for it. This should be your number one priority before anything else because this will be your safety net for whatever eventuality.

Possible solutions include:

- Reassessing and cutting down / reducing on your non-essential expenditures, such as entertainment, shopping costs etc.
- Target yourself to save at least an additional 5% from this exercise if possible.
- Build an emergency funds account to cover about 4 to 6 months expenses.
- Continue building this “asset” and learn about ways to further accelerate the growth through investments that suit your objectives and risk category.
- Avoid looking at quick returns. Hard work and patience brings healthy returns.
- Shop in the market for any opportunities one can earn through refinancing existing loans.

It is important to note that solving this problem requires a lot of hard work and patience. It may take months or even a few years but through those hard work and patience, the end result will be a healthier financial background.

*This article is for general information purposes only and whilst the information in it is believed to be reliable, it has not been independently verified by us. You are advised to exercise your own independent judgment with the contents in this article.*

745 words