CHAPTER 3
Money Management Strategy

When you have completed this chapter, you will be able to:

Section 3.1
- Discuss the relationship between opportunity costs and money management.
- Explain the benefits of keeping financial records and documents.
- Describe a system to maintain personal financial documents.

Section 3.2
- Describe a personal balance sheet and cash flow statement.
- Develop a personal balance sheet and cash flow statement.

Section 3.3
- Identify the steps of creating a personal budget.
- Discuss the advantage of increasing your savings.

Reading Strategies

To get the most out of your reading:
Predict what you will learn in this chapter.
Relate what you read to your own life.
Question what you are reading to be sure you understand.
React to what you have read.
In the Real World . . .

Susan Finn and Farrah Shah are good friends and high school classmates. They both work similar hours at a bank after school. However, their financial situations and outlooks are very different. Susan puts a certain amount of her paycheck in savings; she saves the rest in certificates of deposit, which pay higher interest. She does not buy many new clothes but hopes to buy a used car. In contrast, Farrah spends her money on concerts or sporting events every weekend and eats out frequently. She realizes that she is not building up savings but figures she might as well have fun now.

Most people’s money management habits fall between those of Susan and Farrah.

As You Read  Consider whether you would handle your money like Susan or Farrah.

Money When You Need It

Q: Do I need an emergency fund even though I work part time, live at home, and have no bills?

A: There is no guarantee that your job will always be there for you. If you become sick or injured, you may have to take time off from work. Even if you have disability insurance, it may pay only a fraction of what you earn. If you own a car, you may have unexpected repair bills. Emergency funds are for those unexpected things.

Ask Yourself  How much of your monthly income do you think you should put into your emergency fund?

Go to finance07.glencoe.com to complete the Standard & Poor’s Financial Focus activity.
Every time you make a decision, you choose one thing and reject another. This is true no matter how major or minor the decision may be. Perhaps you decide to go to the movies instead of reading a book for your English homework assignment. On a Saturday afternoon, you may choose to play with the neighbor’s dog instead of watching television or playing with your Xbox. Every decision you make represents a trade-off, or opportunity cost.

Trade-offs are especially common when it comes to making decisions about money management. Money management is planning how to get the most from your money. Good money management can help you keep track of where your money goes so that you can make it go farther. In order to manage your money well, you probably consider financial trade-offs. For example, you may consider whether you should spend your paycheck on clothes or put some of it in the bank to earn interest. You might also wonder if you should shop around for a CD or MP3 player at a lower price or if doing that is a waste of time.

How can you be sure of making the right decisions when you are faced with tough opportunity costs? You may never be sure, but you can become a better judge of your options. Consider the factors that influence your decision making by compiling a mental list of your options. Then consider how those options fit your values, your current financial situation, and your goal of effective money management.
By considering your values, your goals, and the state of your bank account, you can make better spending decisions. For example, if your goal is to save as much money as you can for college, then you might borrow a book from a library rather than buy it from a bookstore. On the other hand, if your goal is to put aside only a certain amount of your paycheck each month, you might be able to buy the book with the money you have left.

**Benefits of Organizing Your Financial Documents**

**Why is it important to have a system to organize your financial documents?**

The first step in effective money management is to organize your personal financial documents. The category of “personal financial documents” includes a variety of materials, such as bank statements and paycheck stubs. (The receipt for the shirt you bought is also a document.) These documents tell you how much money you have.

Personal financial documents also include records that are not directly related to your day-to-day use of money. Automobile ownership titles, birth certificates, and tax forms are personal financial documents. Together, these records present a clear picture of your finances.

Creating an organized system for handling your personal financial documents has several advantages. Most obviously, a system helps you quickly find any document you may need in a hurry. Organizing your documents also helps you:

- Plan and measure your financial progress.
- Handle routine money matters, such as paying bills on time.
- Determine how much money you will have now and in the future.
- Make effective decisions about how to save money.

**Where to Keep Your Financial Documents**

**Why should you keep your financial documents in a specific place?**

You can keep your financial documents in different places—in a home file, in a safe-deposit box, or on a computer. See Figure 3.1 on page 62 for a list of the types of financial documents you might keep in these places. To organize your documents as effectively as possible, you may want to use all three. Each method has advantages and disadvantages, depending on the types of documents being kept.

\* \*HALF OFF Some people like to wait until an item they want goes on sale before they buy it. *When might this be a wise money management strategy? When might it make more sense to go ahead and buy the item, even if it is not on sale?*
Home File

1. Personal and Employment Records (Social Security number, employee benefit information, current résumé)
2. Money Management Records (current budget, balance sheet, cash flow statement, list of financial goals, copies of documents in safe-deposit box)
3. Financial Services Records (checkbook, canceled checks, bank statements, location and number of safe-deposit box)
4. Tax Records (W-2 forms, paycheck stubs, copies of income tax returns)
5. Consumer Records (receipts for major purchases, automobile service and repair records, owner’s manuals for cars and major appliances, warranties)
6. Housing Records (lease, if renting; property tax records; home repair and improvement receipts)
7. Insurance Records (original insurance policies; list of insurance premium amounts and due dates; medical information, such as health history, prescription drug information)
8. Investment Records (records of stock, bond, and mutual fund purchases and sales, list of investment certificate numbers, brokerage statements, dividend records)
9. Estate Planning and Retirement Records (will, pension plan information, IRA statements, Social Security information)

Safe-Deposit Box
Birth certificates, mortgage loan papers, title deeds, copy of will, certificates of deposit, checking and savings account numbers, automobile title(s), insurance policy numbers, valuable collectibles

Home Computer
Current and past budgets, summaries of checks written and other banking transactions, tax records, résumé

Safe and Sound
A home file, safe-deposit box, or personal computer will enable you to organize your financial documents.

Name at least three personal financial documents that you might store in a home file.
Home Files

A home file is one place to keep financial documents. This type of file is simple to set up and does not take up much space. You can use a file drawer, several folders, or even a cardboard box. Whatever method you use, your home file should be simple so that you have quick access to your documents.

You may already have the beginnings of a home filing system. For example, you may have been keeping a savings account passbook in the back of a bureau drawer since you were ten years old, or maybe you have an accordion file folder where you store all your receipts. To make good use of a home filing system, sort through all your personal financial records and arrange them according to the type of each document. Next, label all folders or boxes. Train yourself to file your receipts and other financial papers as soon as possible after receiving them.

What types of financial documents should you keep in a home file? If you have a checking account, keep your bank statements so that you can determine how much money you have in your account or verify your checkbook against the statements. However, do not keep hard-to-replace documents, such as a car title or paperwork related to a mortgage loan, in a home file. A cardboard box does not protect against fire, water, or theft.

Safe-Deposit Boxes

You should keep important documents such as car titles and mortgage loan papers locked away in a safe-deposit box—a small, secure storage compartment that you can rent in a bank, usually for $100 a year or less. Other items commonly kept in safe-deposit boxes include rental agreements, birth certificates, adoption papers, a list of insurance policies, stock certificates, and valuable collectibles, such as coins or stamps.

Safe-deposit boxes are usually kept in a locked, fireproof room that is accessible only while the bank is open for business. Each box has two individual locks. You, the holder of the box, have one key; the bank keeps the other key. The box can be opened only when both keys are used together.

Safe-deposit boxes offer more security for your valuables than your home file because at a bank loss from fire and other disasters is extremely rare. Moreover, the financial institution that owns the box usually (though not always) has insurance to cover such losses. Nevertheless, it is probably a wise idea to keep copies at home of all the financial records in your safe-deposit box.

As an alternative, some people use home fire-safe boxes that lock. These “safes” are an inexpensive way to protect against loss due to fire but not due to theft.
Home Computers

Rental agreements and canceled checks cannot be stored on a home computer. However, if you have a personal computer, it can be a great place to keep certain types of financial records. It is also a good tool to use for planning your financial future.

You can use a software program specifically designed to keep a running summary of checks you have written. You enter any checks, and the program automatically calculates the new balance in your account. Some programs also facilitate payments online. By tracking your monthly spending on a computer, you can see at a glance how much money you are spending, and you can easily compare your expenses from one month to the next. You can also generate personal financial documents and statements from the information you have organized by using software.

Section 3.1 Assessment

QUICK CHECK
1. How will organizing your financial documents help you manage your money?
2. What steps would you take to create a home filing system?
3. What are the advantages of using a safe-deposit box to store your personal financial documents?

THINK CRITICALLY
4. List three examples of money-related opportunity costs you have faced in the last two months. Write a sentence explaining what decision you made for each one and why.

USE COMMUNICATION SKILLS
5. Organizing Financial Records To become a member of an Internet DVD library, Maritza has to put down a deposit of $100, using her credit card. When and if Maritza chooses to discontinue her membership, the library will refund her deposit only if she has returned all her rented DVDs, has paid the annual membership fee, and has presented her membership agreement.

Write About It Write a list of some places Maritza might store the agreement to ensure her claim to the deposit.

SOLVE MONEY PROBLEMS
6. Financial Documents Martin is sitting in his bedroom surrounded by dozens of papers—gas receipts for his car, a checkbook, a couple of unopened and unpaid bills, paycheck stubs from his work at a day-care center, and much more. He wants to organize his financial documents in a shoebox, but he is completely overwhelmed by the amount of paper.

Analyze Help Martin prioritize this job. Give him some suggestions about breaking it down into parts, starting with the most important tasks. For example, tell Martin to begin by categorizing his documents by the type of each document.
Section 3.2

Personal Financial Statements

Personal Balance Sheet

How can a personal balance sheet help you find out your current worth?

Most of the documents mentioned in the previous section are issued by banks, federal and state governments, and businesses. However, such documents reveal only part of your financial picture. For a complete look at your financial situation, you should create a personal balance sheet and a cash flow statement. These reports are known as personal financial statements. A personal financial statement is a document that provides information about an individual’s current financial position and presents a summary of income and spending.

Personal financial statements can help you:

- Determine what you own and what you owe.
- Measure your progress toward your financial goals.
- Track your financial activities.
- Organize information that you can use when you file your tax return or apply for credit.

To evaluate your financial situation, you first need to create a balance sheet. A personal balance sheet, also called a net worth statement, is a financial statement that lists items of value owned, debts owed, and a person’s net worth. Your net worth is the difference between the amount that you own and the debts that you owe. Net worth is a measure of your current financial position. To create a personal balance sheet, follow these steps. Figure 3.2 on page 66 shows an example of a personal balance sheet.

STEP 1: Determine Your Assets

Assets are any items of value that an individual or company owns, including cash, property, personal possessions, and investments. To determine your assets, you need to consider four categories of wealth. Wealth is an abundance of valuable material possessions or resources. The categories include: liquid assets, real estate, personal possessions, and investment assets.
Table: A Personal Balance Sheet

<table>
<thead>
<tr>
<th>Assets</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquid Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Checking account balance</td>
<td>$1,450</td>
</tr>
<tr>
<td>Savings account balance</td>
<td>550</td>
</tr>
<tr>
<td>Total liquid assets</td>
<td>$2,000</td>
</tr>
<tr>
<td><strong>Real Estate</strong></td>
<td></td>
</tr>
<tr>
<td>Market value of house</td>
<td>105,000</td>
</tr>
<tr>
<td><strong>Personal Possessions</strong></td>
<td></td>
</tr>
<tr>
<td>Market value of car</td>
<td>$4,250</td>
</tr>
<tr>
<td>Furniture and appliances</td>
<td>2,500</td>
</tr>
<tr>
<td>Electronic equipment</td>
<td>2,000</td>
</tr>
<tr>
<td>Collectibles</td>
<td>750</td>
</tr>
<tr>
<td>Total personal possessions</td>
<td>9,500</td>
</tr>
<tr>
<td><strong>Investment Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Retirement accounts</td>
<td>$15,000</td>
</tr>
<tr>
<td>Stock investments</td>
<td>3,300</td>
</tr>
<tr>
<td>Total investment assets</td>
<td>18,300</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$134,800</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Medical bills</td>
<td>$1,250</td>
</tr>
<tr>
<td>Credit card balances</td>
<td>2,300</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$3,550</td>
</tr>
<tr>
<td><strong>Long-Term Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Mortgage</td>
<td>$92,500</td>
</tr>
<tr>
<td>Student loan</td>
<td>3,500</td>
</tr>
<tr>
<td>Car loan</td>
<td>2,500</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>98,500</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$102,050</td>
</tr>
<tr>
<td><strong>Net Worth (assets minus liabilities)</strong></td>
<td>$32,750</td>
</tr>
</tbody>
</table>

**True or False?**
The Durbins’ personal balance sheet indicates that they have a positive net worth of $32,750.

**Does this net worth figure reflect their true financial situation?**

Explain your answer.
**Liquid Assets**  The first category is called liquid assets. **Liquid assets** are cash and items that can be quickly converted to cash. The money in your savings and checking accounts is a liquid asset. For example, if Bharat has $500 in his savings account and $35 in cash, his liquid assets are worth $535 ($500 + $35 = $535). This money is immediately available for Bharat to spend. He may be able to convert other assets into cash, but the process is not quite as easy or as fast.

**Real Estate**  The second category of wealth is **real estate**, land and any structures that are on it, such as a house or any other building that a person or family owns. The amount recorded on the real estate portion of your balance sheet is the property’s **market value**, or the price at which property would sell. Suppose that the Louis family owns a house and a cottage with market values at $135,000 and $84,000, respectively. They would list the sum of those figures—$219,000—under the heading “Real Estate” on their balance sheet.

**Personal Possessions**  Personal possessions—cars and any other valuable belongings that are not real estate—make up the third category. For example, Joyce might choose to list her new $800 electric guitar, her television, her skis, and several pieces of fine jewelry. Note that the emphasis is on “valuable”; old clothes and used CDs do not count.

You may list personal possessions on the balance sheet at their original cost, but you will get a better idea of your financial situation by recording their current market value. For example, Joyce’s television is worth less now than it was when she purchased it five years ago. In contrast, collectible items, such as old baseball cards and comic books, may increase in value over time. Although determining current values for some items may be difficult, doing so will give you a more accurate picture of your net worth. You may have to look up comparable items in newspaper classified ads or visit thrift stores. You can also check Web sites where people buy and sell such items.

**PLAY TIME**  Many people save favorite toys or other items from childhood. *Which items do you have that might be valuable? How can you find out?*
**Investment Assets**  The fourth category of wealth is investment assets. Investment assets include retirement accounts and securities such as stocks and bonds. Set aside such assets for long-term financial needs, such as paying for college, buying a house, or retirement.

**STEP 2: Determine Your Liabilities**

When you prepare a personal balance sheet, you must also record your liabilities, or the debts that you owe. Suppose that Marlene borrows $200 from her mother to buy a new printer for her computer. She would record the printer as an asset, but she would also have to record $200 as a liability on her personal balance sheet.

**Current Liabilities**  Current liabilities are short-term debts that have to be paid within one year. Most medical bills, cash loans, and taxes fall under this heading.

**Long-Term Liabilities**  Long-term liabilities are debts that do not have to be fully repaid for at least a year. Car loans, student loans, and mortgage loans are examples of long-term liabilities. Note that the term “liabilities” includes only money that you will owe for longer than a month. For example, a telephone bill does not qualify as a liability.

**STEP 3: Calculate Your Net Worth**

Once you know the amounts of your assets and liabilities, you can calculate your net worth. To determine your net worth, subtract your liabilities from your assets; the difference is your net worth.

It is important to understand the meaning of net worth. If the Romano family has a net worth of $62,300, that does not mean they have $62,300 to spend. Much of their wealth may be in stocks, real estate, and personal possessions, which cannot be easily converted to cash. Net worth is only an indication of your general financial situation.
Although you may have a high net worth, you can still have trouble paying your bills. This is especially true when most of your assets are not liquid and you do not have enough cash to meet your expenses. That can happen if you purchase a more expensive car than you can afford or spend all of your savings to buy a house.

If you are unable to pay all your debts, you may experience insolvency. Insolvency is a financial state that occurs if liabilities are greater than assets. Suppose that Brad owes $4,000 and that his assets—a ten-year-old car and an old computer—are worth $1,800. Even if Brad sold all his assets and put his whole $1,500 paycheck toward paying his debts, he would still be insolvent.

**STEP 4: Evaluate Your Financial Situation**

You can use a balance sheet to track your financial progress. Update your balance sheet, or make a new one, every few months to chart changes over time. Is your net worth increasing? Good! Keep doing what you are doing to make that happen. Is it decreasing or just holding steady? Then you might make changes. As a rule, you can increase your net worth by increasing your savings, increasing your investments, reducing your expenses, and/or reducing your debts.

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**Careers in Finance**

**FINANCIAL ADVISOR**  
**Elaine Hawkins**  
**AXA Financial, Inc.**

Elaine has always been good at coming up with solutions to difficult or complicated problems, so handling finances comes naturally to her. In her capacity as a financial advisor, Elaine visits with a wide variety of clients and helps them understand their financial needs. She also helps them create a plan for reaching their goals through financial planning, investment services, and risk management. At a time when people are unsure of the soundness of Social Security and may be financially unprepared for retirement, Elaine is able to provide them with options and comfort. Elaine gains work through word of mouth and enjoys building and assisting a network of friends and acquaintances.

**SKILLS:**  
Finance, math, communication, business, and problem-solving skills

**PERSONAL TRAITS:**  
Entrepreneurial, social, tactful, and goal oriented

**EDUCATION:**  
Bachelor’s degree or higher in law, accounting, banking, or management; certification as a Certified Financial Planner or Chartered Financial Consultant

**ANALYZE**  
What are some financial goals that a financial advisor could help you reach?

To learn more about career paths for financial advisors, visit finance07.glencoe.com.
What is the difference between net worth and cash flow?

**Cash Flow Statement: Income Versus Expenses**

**What kind of information do you get from creating a cash flow statement?**

The money that actually goes into and out of your wallet and bank accounts is called **cash flow**. It is divided into two parts: cash inflow and cash outflow. Cash inflow is the money you receive, or your **income**. That may include a paycheck from a job, an allowance from your parents, or interest earned in your savings account. Cash outflow includes all of the money you spend.

A cash flow statement is simply a summary of your cash flow during a particular period, usually a month or a year. This summary gives you important information and feedback on your income and spending patterns. To create a cash flow statement, such as the one shown in **Figure 3.3**, follow these steps:

1. Record your income.
2. Record your expenses.
3. Determine your net cash flow.

**Figure 3.3  Cash Flow Statement**

<table>
<thead>
<tr>
<th>Amy Grossman</th>
<th>Cash Flow Statement for Month Ending July 31, 20--</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income (Cash Inflow)</strong></td>
<td></td>
</tr>
<tr>
<td>Take-home pay</td>
<td>$450</td>
</tr>
<tr>
<td>Allowance</td>
<td>100</td>
</tr>
<tr>
<td>Savings account interest</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>$562</strong></td>
</tr>
<tr>
<td><strong>Expenses (Cash Outflow)</strong></td>
<td></td>
</tr>
<tr>
<td>Fixed expenses</td>
<td>$ 80</td>
</tr>
<tr>
<td>(cable TV, train commuter tickets, etc.)</td>
<td></td>
</tr>
<tr>
<td>Variable expenses</td>
<td>320</td>
</tr>
<tr>
<td>(recreation, clothing, take-out food)</td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$400</strong></td>
</tr>
<tr>
<td><strong>Net Cash Flow</strong></td>
<td><strong>$162</strong></td>
</tr>
</tbody>
</table>

Amy’s cash flow statement indicates that her net cash flow is $162.

**How might she increase her net cash flow?**
STEP 1: Record Your Income

List all of your sources of income during a given month, and record the amounts as your cash inflow. Make sure that you record the exact amount. Most paychecks include various deductions for federal and state taxes. These taxes are withheld from the total amount of money you have earned, or your gross pay. Your take-home pay, or net pay, is the amount of income left after taxes and other deductions are taken out of your gross pay. For example, Joshua earns $1,000 a month, but he does not receive the entire amount. After taxes, his take-home pay is $700. Your take-home pay plus your interest earnings on investments and savings is your cash inflow.

Some financial experts evaluate the strength of a person’s income by measuring discretionary income—the money left over after paying for the essentials, such as food, clothing, shelter, transportation, and medication. You can spend this amount at your discretion, or according to your wants. The higher your discretionary income, the better off you are.

STEP 2: Record Your Expenses

Expenses can be fixed or variable. Fixed expenses are those that are more or less the same each month. Cable television charges, rent, and bus fare for commuting to work or school are all examples of fixed expenses. Variable expenses may change from month to month. Food and clothing are variable expenses. During some months you may need to buy new sweaters and pants, but during other months, you may not buy any clothing. Electricity, medical costs, and recreation are also examples of variable expenses. The total of your fixed and variable expenses is your cash outflow.

GO FIGURE FINANCIAL MATH

NET CASH FLOW

Synopsis: Computing your net cash flow will help you determine your financial health.

Example: What is Jason’s net cash flow if his income for the month is $1,500 and his expenses add up to $1,350?

Formula: Income − Expenses = Net Cash Flow

Solution: $1,500 − $1,350 = $150.

Jason has a positive net cash flow of $150.

YOU FIGURE

You work 12 hours a week, 3 weeks a month, at a part-time job after school. You get $8 an hour. You pay $40 a month for gas, $60 a month for entertainment (CDs, movies, etc.), and $25 a month toward paying off your new skis. What is your net cash flow?
STEP 3: Determine Your Net Cash Flow

You can determine your net cash flow by subtracting your expenses from your income.

Because Jason’s net cash flow is positive, he has a **surplus**—extra money that can be spent or saved, depending on a person’s financial goals and values. A cash surplus can be placed in an emergency fund savings account for unexpected expenses or to pay living costs if you do not receive a salary. You might also place cash surplus in savings and investment plans.

If Jason’s net cash flow were negative, however, he would have a deficit. A **deficit** is the financial situation that occurs when more money is spent than is earned or received.

A current and accurate cash flow statement can provide the foundation for preparing and implementing your spending, savings, and investment plans.

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**Figure 3.4** Evaluating Your Financial Progress

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Calculation</th>
<th>Example</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt ratio</td>
<td>Liabilities divided by net worth</td>
<td>$25,000 ÷ $50,000 = 0.5</td>
<td>Compares your liabilities to your net worth. A low debt ratio is desirable.</td>
</tr>
<tr>
<td>Liquidity ratio</td>
<td>Liquid assets divided by monthly expenses</td>
<td>$10,000 ÷ $4,000 = 2.5</td>
<td>Indicates number of months you would be able to pay your living expenses in case of a financial emergency, such as the loss of your job. The higher the liquidity ratio, the better.</td>
</tr>
<tr>
<td>Debt-payments ratio</td>
<td>Monthly credit payments divided by take-home pay</td>
<td>$540 ÷ $3,600 = 0.15 = 15%</td>
<td>Indicates how much of a person’s earnings goes to pay debts (excluding a home mortgage). Most financial experts recommend a debt-payments ratio of less than 20 percent.</td>
</tr>
<tr>
<td>Savings ratio</td>
<td>Amount saved each month divided by gross monthly income</td>
<td>$600 ÷ $5,000 = 0.12 = 12%</td>
<td>Most financial experts recommend a savings ratio of at least 10 percent.</td>
</tr>
</tbody>
</table>

**Expert Advice**

You can check your financial progress by figuring different ratios.

**Suppose that you earned $2,200 gross monthly income and you were paid twice a month. What would be your savings ratio if you saved approximately $60 from each paycheck? Would you be saving enough?**
Your Financial Position

How do you calculate your net worth by using personal financial statements?

When your net cash flow changes, so does your net worth. Every time you create a deficit by spending more than you earn, your net worth decreases. To make up for the deficit, you can either borrow money (increasing your liabilities) or draw from your savings (decreasing your assets). In either case, your net worth declines.

On the other hand, if you end a month with a surplus, your net worth will probably go up. You can choose to save the money, adding to your assets, or you can use it to pay off previous debts and reduce your liabilities. Whichever path you select, your net worth will increase. As a general rule, if you have a surplus cash flow, your net worth increases; if you have a deficit, your net worth decreases.

However, net worth does not give you a completely accurate picture of your finances. You can use your balance sheet and cash flow statement to determine your financial situation in other ways as well. See Figure 3.4 for details.

Section 3.2 Assessment

QUICK CHECK
1. How do you calculate your net worth when preparing a balance sheet?
2. How should you record your income on a cash flow statement?
3. If your personal financial statements indicate that you have a deficit, what might you do to change your financial situation?

THINK CRITICALLY
4. List the three most valuable items that you own that would fall into the category of personal possessions.

USE MATH SKILLS
5. Finding the Net  Tameka’s income for the month of January was $2,375. Her fixed expenses during that same month were $750, and her variable expenses totaled $1,750. Calculate What was Tameka’s net cash flow during the month of January? Be sure to indicate whether she had a surplus or a deficit.

SOLVE MONEY PROBLEMS
6. Spending Wisely  Larry’s personal balance sheet shows $1,200 in credit card debts; a savings account of $550; and personal property amounting to $3,700 in rare stamps. Recently he was promoted at his part-time job. Because of that and because he made an effort to reduce his expenses, he had a positive cash flow of $600 last month. He asks what you think he should do with the surplus cash.

Present Evaluate Larry’s possible choices and come up with a specific plan of action for his use of the surplus.
Budgeting for Financial Goals

Preparation a Practical Budget

**What is so important about having a budget?**

A budget is a plan for using money to meet wants and needs. Having a budget is necessary for successful financial planning. By using a budget, you will learn how to live within your income and how to spend your money wisely. You will also develop good money management skills that will help you reach your financial goals.

**STEP 1: Set Your Financial Goals**

As discussed in Chapter 1, your financial goals are the things you want to accomplish with your money. What you do with your money today will affect your ability to achieve your financial goals in the future. To meet those financial goals, you will need to plan your savings, your spending, and your investments.

How should you set your financial goals? That depends on your lifestyle, your values, and your hopes for the future. The type of job you choose will determine your income and your ability to save to reach your financial goals. For example, perhaps you would like to get a pilot’s license after you graduate from college. When setting your financial goals, you will need to take into account the cost of the lessons and the amount of time it will take to obtain the license.

It is important to make your financial goals as specific as possible. Having a definite time frame can also help you achieve your goals. You can separate your goals into short-term, intermediate, and long-term goals.

**STEP 2: Estimate Your Income**

When you have set your goals, you can begin working on a budget that is practical for you. Start by recording your estimated income for the next month. Include all sources of income that you know you will be receiving, such as your take-home pay and income on investments and savings. Do not include money you may or may not get, such as bonuses and gifts.
Estimating income is easier in some cases than in others. For example, because Ryan always works 12 hours each week, he gets paid the same amount every month. In contrast, Rachel works irregular hours at two part-time jobs. During some weeks, she earns only $75, but there are weeks when her earnings are more. Rachel should estimate her income based on her best guess about what will happen in the coming month. She might make her estimate a little lower than she thinks it will actually be. That will help her avoid overspending.

In another example, in Figure 3.5 on page 76, the Thompsons have estimated that their income for next month will be $3,550. Estimate your income and record that amount, using a similar budget form. Remember that a budget should always be a written document.

**STEP 3: Budget for Unexpected Expenses**

The Thompsons have decided to put aside a little money each month for unexpected expenses and savings to reach their financial goals. Every month they place $100 in an emergency fund. One of their financial goals is to save three to six months’ worth of living expenses in case someone in the family becomes unemployed, needs medical attention, or encounters some other financial problem. They keep their emergency fund in a separate savings account that will earn interest.

The Thompsons are also trying to meet three other financial goals, some short-term, others long-term. They deposit money in their vacation fund each month, hoping that they will soon have enough to take a trip to Jamaica. They also have a college fund for their young children and an investment fund to buy stocks. They put $150 into these other special savings accounts each month, bringing their total monthly savings to $250.

**STEP 4: Budget for Fixed Expenses**

The Thompsons then list all their monthly expenses. They start by listing their fixed expenses, or those that do not change from month to month. That includes their mortgage, automobile and student loan payments, and insurance premiums. Their budgeted total for fixed payments totals $1,200.

**STEP 5: Budget for Variable Expenses**

Planning for variable expenses—those that vary from month to month—is not as easy as budgeting for fixed expenses. Such items as medical costs are often unexpected. Heating and cooling costs can vary with the season. You should make your best guesses based on costs from previous months. When in doubt, guess high. The Thompsons budgeted $2,100 for these variable expenses.
### The Monthly Budget

#### Step 1: Set Financial Goals
- **Financial Goals:** Pay off car loan, save for college, take vacation trip, and increase investments

#### Step 2: Estimate Your Income
- **Income:**
  - Salary and interest income: $3,550

#### Outflows:
- **Unexpected Expenses and Savings**
  - Emergency fund savings: 100
  - Vacation savings: 30
  - College savings: 70
  - Investment savings: 50
  - Total savings: 250

- **Fixed Expenses**
  - Mortgage: 700
  - Automobile loan: 200
  - Student loan: 150
  - Insurance premiums: 150
  - Total fixed expenses: 1,200

- **Variable Expenses**
  - Food: 500
  - Clothing: 250
  - Utilities: 250
  - Entertainment: 200
  - Medical: 250
  - Transportation: 450
  - Personal allowances: 200
  - Total variable expenses: 2,100

- **Total outflow:**
  - Budgeted amounts: $3,550
  - Actual amounts: $3,625
  - Variance: $75

#### Step 6: Record What You Spend
- **Step 6: Record What You Spend**

#### Step 7: Review Spending and Saving Patterns
- **Step 7: Review Spending and Saving Patterns**

### Keeping Track
You can use this sample monthly budget form to keep track of your own income and expenses so you can manage your finances and reach goals.

**In this sample, how might the Thompsons’ budget be affected if they had to buy a second automobile?**
How can you determine reasonable expense levels? Financial experts publish guidelines that tell what percentage of income should go for various expenses. The U.S. Department of Labor produces the consumer price index (CPI), which is a measure of the changes in prices for commonly purchased goods and services in the United States. Comparing the CPI to your actual budget can indicate when you are spending too much on various items. A third source of information is your friends and relatives. If you eat out more often than your friends do or buy more clothes than your siblings buy, your budget may be in trouble.

**STEP 6: Record What You Spend**

Your budget is prepared, but your work is still incomplete. You must begin to keep track of your actual income and expenses. Remember, many budgeted items are only guesses. Your old car may continue to run through the month. However, maybe it will break down next week and need $400 worth of repairs. To find out how practical your budget is, you will need to keep track of your expenses during an entire month and then revise your budget if necessary.

In Figure 3.5, the Thompsons have used a second column to record the actual amounts they spent. Some of their expenses were what they had expected, and some were not. Your spending will not always work out as planned. The budget variance is the difference between the budgeted amount and the actual amount that you spend. This figure can be either a surplus or a deficit. It is a surplus if you spend less money than you had expected, and it is a deficit if you spend more. Budget variances can also occur in the income category. Earning more than you anticipated creates a surplus, whereas earning less results in a deficit.

Although the Thompsons have no budget variance on the income side, they have a surplus in their expense section. They spent $50 less than they had expected they would spend on entertainment. However, they spent more than they had budgeted in the other variable expense categories, creating a deficit in those categories. The overall result was a total monthly deficit of $75.

**STEP 7: Review Spending and Saving Patterns**

Budgeting is a continual process. You may need to review your budget each month and consider making changes based on the nature of your expenses.

**Reviewing Financial Progress** If you fall behind on bill payments, or if you are left with a lot of money at the end of the month, you may need to revise your budget. Even if your budget generally seems to be on target, it is a good idea to prepare an occasional budget summary to review your progress. (See Figure 3.6 on page 78.)

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**Savvy Saver**

**Have Fun for Less**

1. Rent movie videos or DVDs or go to a matinee with friends.
2. Call a museum; many offer free admission one day a month.
3. Check with your local parks for free music concerts.
4. Volunteer as an usher at a theater to see plays and concerts for free.
5. Look in your newspaper’s calendar section for free events.

---

**QUESTION**

Prepare a written monthly budget according to Steps 1 to 7. How well does your budget match your financial goals?
Highlight areas where your spending consistently goes over your budget. Also highlight areas where you have spent less than you budgeted. This will help you identify the changes you need to make in your budget.

You can prepare an annual budget summary to compare your actual spending with the amounts that you have budgeted. Completing an annual budget summary will be vital to both successful short-term money management and long-term financial security.

1. Create your own monthly budget document.

2. Record what you spend in each category of your budget during a period of several months.

3. Highlight areas where your spending consistently goes over your budget. Also highlight areas where you have spent less than you budgeted. This will help you identify the changes you need to make in your budget.
Revising Goals and Adjusting Your Budget If you always have deficits, ask yourself where you can cut your expenses. Review your spending patterns carefully to see where the shortfalls occur. Could you rent videos instead of going to the movie theater every week? Could you take a bag lunch to school instead of buying cafeteria food? Perhaps you do not really need a car to get around. Doing without it might sometimes be inconvenient, but it certainly would be cheaper.

To decide which expenses to cut, you might take another look at your financial goals. Which purchases fit into your overall plan for the future? The answer can help you in deciding what to cut. How quickly are you progressing toward your objectives? Are your goals changing or outdated? It may be necessary to revise your goals to meet your needs.

How to Budget Successfully

How can you plan a good budget?

Simply preparing a budget will not solve your financial problems, nor will keeping track of every expense down to the last penny. You have to follow a practical spending plan to make it work.

Money management experts agree that a budget should have several important characteristics:

1. A good budget is carefully planned. Your estimates cannot be wild guesses, and your spending categories must cover all expenses.
2. A good budget is practical. If your first full-time job pays you $1,500 a month, do not expect to buy an expensive sports car soon.
3. A good budget is flexible. As you experience changes in your life—marriage, children, or retirement—you will need to adapt your budget accordingly. You will also encounter unexpected expenses and unexpected shifts in income. Your budget should be easy to revise when life changes such as these occur.
4. A good budget must be written and easily accessible. Use a notebook, folder, or computer to store your budget. Do not try to keep the information in your head or on loose scraps of paper. The odds are you will forget or lose the information.

Ways to Increase Your Savings

Why is it important to have a savings plan?

Increasing your savings is the key to establishing a sound financial future. The more you save, the better you will be able to handle unexpected emergencies and the sooner you will be able to meet your financial goals. If you save large amounts, it may be possible for you to retire comfortably and to send your children to college. Best of all, money that is saved earns interest income.
However, learning to save is not easy. Many people are tempted to buy whatever they want, whenever they want it. Moreover, when income is low, saving anything at all can be especially hard. From 1996 to 2001, Americans saved an average of only 31 cents for every ten dollars they earned. Fortunately, you can improve your savings rate by using several savings strategies.

**Global Financial Landscape**

Standard and Poor’s publishes the globally recognized S&P 500® financial index. It also gathers financial statistics, information, and news, and analyzes this data for international businesses, governments, and individuals to help them guide their financial decisions.

**SOUTH KOREA**

In the last half-century, South Korea has grown into one of the world’s leading high-tech economies. This success is due in large part to the Korean peoples’ willingness to spend great amounts of time and money on education. Fierce competition to attend the country’s best colleges and universities has developed. As a result, there is an extremely high demand for private tutoring, “cram schools,” pre-testing services for college entrance exams, and educational sites on the Internet. Children as young as two can receive 20 minutes of weekly instruction in Korean, English, and math. This type of extra schooling does not come cheap. In a single year, Koreans pay more than $25 billion for after-school instruction. Parents may spend as much as $36,000 on each child per year, as Koreans compete for a position in the global landscape.

**DATABLES**

- **Capital**: Seoul
- **Population**: 47,939,000
- **Languages**: Korean, English
- **Currency**: South Korean won
- **Gross Domestic Product (GDP)**: $855.3 billion (2003 est.)
- **GDP per capita**: $17,700
- **Industry**: Electronics, automobile production, chemicals, shipbuilding, steel, and textiles
- **Agriculture**: Rice, root crops, barley, vegetables, cattle, and fish
- **Exports**: Electronic products, machinery and equipment, motor vehicles, steel, ships, and textiles
- **Natural Resources**: Coal, tungsten, graphite, and molybdenum

**Think Globally**

Why do you think education has been such an important part in South Korea’s growth into a high-tech economic leader?
**Investigate: A Personal Balance Sheet**

A personal balance sheet contains the following information:

- Your assets with a value for each
- Your liabilities with a value for each
- Amount of your net worth

**Your Motive:** A balance sheet shows your financial health at a given point in time. Updating your personal balance sheet from time to time will help you keep track of your financial situation.

**Tanisha Briggs’s Personal Balance Sheet**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash/Checking &amp; Savings</td>
<td>$3,000</td>
</tr>
<tr>
<td>Securities (stocks, bonds, etc.)</td>
<td>15,000</td>
</tr>
<tr>
<td>Real estate/home</td>
<td>125,000</td>
</tr>
<tr>
<td>Other real estate</td>
<td>0</td>
</tr>
<tr>
<td>Automobiles</td>
<td>18,000</td>
</tr>
<tr>
<td>Personal property</td>
<td>23,000</td>
</tr>
<tr>
<td>Personal loans</td>
<td>5,000</td>
</tr>
<tr>
<td>Insurance cash values</td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$204,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>$3,500</td>
</tr>
<tr>
<td>Credit card debt</td>
<td>6,500</td>
</tr>
<tr>
<td>Current monthly bills</td>
<td>2,500</td>
</tr>
<tr>
<td>Mortgage</td>
<td>45,000</td>
</tr>
<tr>
<td>Unpaid taxes</td>
<td>4,500</td>
</tr>
<tr>
<td>Other debt</td>
<td>2,300</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$164,300</strong></td>
</tr>
<tr>
<td><strong>NET WORTH</strong></td>
<td><strong>$39,700</strong></td>
</tr>
</tbody>
</table>

**Key Points:** A balance sheet lists the items of value that you own, the debts that you owe, and your net worth. Personal financial statements such as a personal balance sheet can help you determine what you own and what you owe; measure your progress toward your financial goals; track your financial activities; and organize information for taxes and credit applications.

**Find the Solutions**

1. What are Tanisha’s assets?
2. What are Tanisha’s liabilities?
3. According to the balance sheet, what is Tanisha’s current net worth?
4. Why might a bank be interested in a person’s net worth?
5. How do you figure net worth?
Pay or Save?
Be a smart consumer and pay off your credit card bills before you put money away in a savings account. The interest rate charged on credit cards is usually higher than the interest you can earn from your savings account. How do you determine the interest rate on your credit card?

Pay Yourself First

One method you can adopt is to set aside a fixed amount as savings before you sit down to pay your bills. For example, Tyronne considers his savings as a fixed expense. He writes himself a check for $75 before he pays his bills; then he sends the check for immediate deposit into his savings account. As an alternative to writing a check each month, many banks will automatically deduct a certain amount from your checking account each month and deposit that in your savings account. Tyronne has set a specific dollar amount, but you can also set aside a percentage of your monthly income.

Payroll Savings

Your employer may offer a similar option called a payroll savings deduction. A payroll savings deduction is a portion of your earnings that is automatically taken out of your paycheck and put into your savings or retirement account.
For example, Teresa has authorized her employer to deduct $50 from each paycheck. Although that arrangement reduces her take-home pay to $750, she knows she is on her way to meeting her financial goals.

**Spending Less to Save**

A third way to save is to start small. Make an effort to spend less each day. If you read a magazine in the library rather than buying it in a store, count out the purchase price of the magazine and place it in a jar. If you go to the $4.50 matinee movie instead of the $7.75 evening show, pat yourself on the back and pay the jar the $3.25 difference. Before long you will have enough cash to start a savings account or make a substantial deposit into an existing one.

How you save, though, is less important than the action of saving. The earlier you start, the better. Even small amounts of savings can grow quickly and help you reach your financial goals.

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**Section 3.3 Assessment**

**QUICK CHECK**
1. What are some practical ways to budget for variable expenses?
2. If you continually experience budget deficits, how can you decide which expenses to cut?
3. What are three methods you might use to increase your savings?

**THINK CRITICALLY**
4. List three of your variable expenses. Estimate the amounts for each of these expenses for one month.

**USE COMMUNICATION SKILLS**
5. **No Cuts!** Tara complains that she cannot seem to get ahead financially. Every time she receives a paycheck, it seems to disappear. She also points out that all her expenses, such as her phone bill, car payment, and subscriptions to several magazines, are absolutely necessary.

**Write About It**
Write a paragraph persuading Tara that cutting some of her expenses is not only possible but is also necessary if she wants to meet her financial goals.

**SOLVE MONEY PROBLEMS**
6. **Budgets** Hiroko earns $2,000 a month. Her monthly expenses are about $1,850, leaving $150 for savings. She now has $1,000 in her emergency savings account and another $300 in an account for a new computer. Hiroko has been offered a job that will pay her an extra $200 a month, but she will need to buy a car to travel to the new job.

**Analyze**
What financial factors should Hiroko consider as she decides whether to accept the job?
• There are opportunity costs, or trade-offs, in all decisions. When you make a decision about how to manage your money, you remove the option to use the money in a different way.
• Organizing your financial documents makes it easier to plan and measure progress, handle routine money matters, know how much money is available, and make effective decisions.
• You can organize financial documents in home files, a safe-deposit box, and on a computer.
• A personal balance sheet helps determine your net worth, so you can manage your money to meet your financial goals. A personal cash flow statement helps determine the amount of cash you receive and how you spend it.
• On a personal balance sheet, list the value of all your assets, along with all your liabilities. On a personal cash flow statement, record your income and expenses. Then subtract your expenses from your income to determine your net cash flow.
• To create a budget: (1) Set financial goals; (2) estimate your income; 3) budget for unexpected expenses and savings; 4) budget for fixed expenses; (5) budget for variable expenses; (6) record what you spend; and (7) review your spending and saving patterns.
• Savings are the key to a sound financial future. Savings enable you to handle unexpected emergencies.

Communicating Key Terms

Your best friend has asked you to explain how much he needs to save from each paycheck to buy a digital camera that costs $350. Use 8 to 12 of the terms below to write an explanation.

• money management
• safe-deposit box
• personal financial statement
• personal balance sheet
• net worth
• assets
• wealth
• liquid assets
• real estate
• market value
• liabilities
• insolvency
• cash flow
• income
• take-home pay
• discretionary income
• surplus
• deficit
• budget
• consumer price index (CPI)
• budget variance

Reviewing Key Concepts

1. List at least three examples from your own experience of opportunity costs.
2. Explain the benefits of keeping and organizing financial records and documents.
3. Identify documents to store in home files, safe-deposit boxes, or on a computer.
5. List the steps in preparing a personal balance sheet and a personal cash flow statement.
6. Identify the steps in preparing a personal budget.
7. Explain how you can use your budget to identify ways to increase your savings.
**Social Studies** Many people have difficulty saving money for a variety of reasons. Research some typical roadblocks to saving money.

**Write About It** Write a paragraph explaining at least three reasons and how you would counsel them if they asked you for help.

**Saving for a Club Trip** The school Spanish Club is sponsoring a trip to Mexico that will cost $1,000 per student. Your parents will contribute $300, but you need to save the remaining $700 over the next four months. You currently work seven hours a week babysitting for $10 per hour. The following are your monthly expenses:
- Variable Expenses (clothes, CDs, movie tickets, etc.) $180
- Fixed Expenses (school fees, bus pass) $65

1. **Calculate** your total monthly earnings and expenses.
2. **Compute** by using spreadsheet software to calculate how much you need to earn and/or reduce your expenses to meet your goal.

**Connect with Mathematics** You want to save $2,000 for college by working over the summer. You can find a job that will pay you for 40 hours per week at regular rates plus an average of 10 hours per week at overtime rates at 1.5 times. You can work for 10 weeks. You figure that you need $150 per week to pay miscellaneous variable expenses.

1. **Calculate** How much will you need to earn per hour to save at least $2,000 in addition to meeting your weekly expenses?
2. **Think Critically** Is $150 in weekly expenses a realistic estimate? What are you not including?

**How Much Is Enough?** You have started a job at an annual salary of $32,000. Your take-home pay is about 2/3 of your gross salary.

**Log On** Use an Internet search engine to find Web sites that discuss what proportion of your salary you should spend on fixed expenses. Answer the following questions:
1. What percentage of your take-home pay should be fixed expenses?
2. What percentage of your take-home pay should be discretionary income?

**Newsclip: Ways to Save** Best-selling personal finance authors advise finding ways to save by cutting small luxuries and saving money from summer jobs.

**Log On** Go to finance07.glencoe.com and open Chapter 3. Read the article. Then make a record of expenses. Ask yourself: What are your spending and saving habits?
MONEY MANAGEMENT QUIZ

Imagine you were living on your own. How would you handle your money? On a separate sheet of paper, take this money management quiz.

1. I would create a budget for my income and expenses.
   a. Always
   b. Sometimes
   c. Never

2. I would pay the rent or mortgage payment and utility bills on time.
   a. Always
   b. Sometimes
   c. Never

3. I would keep three months of my living expenses in reserve for emergencies.
   a. Always
   b. Sometimes
   c. Never

4. I would save 10 percent of my take-home pay.
   a. Always
   b. Sometimes
   c. Never

5. I would set money aside for large expenses.
   a. Always
   b. Sometimes
   c. Never

6. I would save to buy what I want.
   a. Always
   b. Sometimes
   c. Never

7. I would use credit only when I have money to cover the charge.
   a. Always
   b. Sometimes
   c. Never

8. I would balance my checkbook every month.
   a. Always
   b. Sometimes
   c. Never

How did you score? Give yourself 2 points for each “Always,” 1 point for each “Sometimes,” and 0 points for each “Never.”

If you scored 12–16, you are practicing good money management skills.
If you scored 6–11, with a little more effort you could improve your money management skills.
If you scored 0–5, it is time to start developing money management skills.
What Is Your Net Worth?

Roberto plans to go to Europe next summer with the school band. He probably will be able to save enough money by working all year at his part-time job. However, he is prepared to sell some of his possessions if he needs to, so he made a list of his assets and liabilities to determine his net worth.

### Roberto’s Balance Sheet as of December 31, 20--

<table>
<thead>
<tr>
<th>Liquid Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking account balance</td>
<td>$150</td>
</tr>
<tr>
<td>Savings accounts</td>
<td>635</td>
</tr>
<tr>
<td>Total liquid assets</td>
<td>$785</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Personal Possessions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market value of automobile</td>
<td>$2,300</td>
</tr>
<tr>
<td>Stereo, TV, and video equipment</td>
<td>1,600</td>
</tr>
<tr>
<td>Computer</td>
<td>1,350</td>
</tr>
<tr>
<td>Watch</td>
<td>330</td>
</tr>
<tr>
<td>Total personal possessions</td>
<td>$5,580</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings bonds</td>
<td>600</td>
</tr>
<tr>
<td>Total investment assets</td>
<td>600</td>
</tr>
</tbody>
</table>

**Total Assets**

| Total Assets | $6,965 |

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance due on car loan</td>
<td>$1,527</td>
</tr>
</tbody>
</table>

**Total Liabilities**

| Total Liabilities | $1,527 |

**Net Worth**

| Net Worth | $5,438 |

### Calculate

Determine your net worth. In your workbook or on a separate sheet of paper, list your assets, personal possessions, and liabilities (what you owe). Are you surprised that your net worth is as much (or as little) as it is? How much would you like your net worth to be in ten years? When you retire?