Assets = Liabilities + Equity

OR

Assets – **L**iabilities = **N**et **W**orth

Example: Car purchase

	Before purchase	Moment of car purchase	Once car is driven off the lot	Line of credit is paid off
Assets:				
Cash	1,000	1,000	1,000	400
Automobile	0	600	300	300
Liabilities:				
Line of credit	0	(600)	(600)	0
Net Worth	1,000	1,000	700	700

Car declines in value once it is ‘off the lot’

How **N**et **W**orth affects your lifestyle

Assets – **L**iabilities = **N**et **W**orth

Net **W**orth	**L**iabilities	Means for you:
Negative	Any amount	Minimal freedom Possibly in default Must continually earn to service your liabilities
Zero	Low	You are living in the present!
Greater than zero	High	Debt servicing must be factored in, but you could always clear your debts and do something else
Positive	Low	You can do just about anything you want!

Credit / Debt / Liabilities / Interest / etc.

A mortgage, line of credit, bond, note, student loan, credit card debt…

All of that (and more) = Money today, in exchange for
A promise to pay money in the future

Money today >= Money in the future

Therefore, the cost of taking money today = Interest

Practical advice

Managing Credit:

- Pay off your credit card debt each month. Always.
- Watch the interest rate
- Don’t let monthly debt payments exceed monthly income
- Have a plan for zeroing your debt

General:

- Think like a minimalist
- Take a periodic personal and financial inventory
- Be mindful and frugal about recurring expenditures
- Balance, balance, balance
- Buy for longevity, buy things that last