

# MANAGING YOUR PERSONAL BALANCE SHEET

*Summarizing your financial position once a year can help you chart the best course to reach your objectives.*

By Matt Alderton

**B**y definition, a photograph is a visual representation of a single moment in time. Photographers point, shoot and print, then frame their work so they can remember the moment once it's passed.

A personal balance sheet is a lot like a photograph, suggests Paul Hornung, senior credit officer at Wells Fargo. "The balance sheet is nothing more than a snapshot in time," he says. "It's a single moment. It's a snapshot of everything you own and everything you owe as of this minute—as of today."

While a photograph is for looking backward, however, a personal balance sheet is for looking forward. With it, not only can you analyze your current financial portfolio, but also design a future plan with which to sustain and grow your existing wealth.

## Why You Need a Balance Sheet

If you don't already have one, it's critical that you build and maintain a personal balance sheet, says Kim Phillips, senior vice president at Wells Fargo. "Your overall financial goal could be a plethora of things," she says. "It could be reducing your taxes, it could be a gifting strategy, it could be maximizing cash flow—a whole host of directions or philosophies that you would like to achieve, but aren't sure how to. For me, two things—

your balance sheet and your tax returns—are the roadmap to get you there."

Like a good map, Phillips says, a balance sheet doesn't tell you where to go exactly, but rather it allows you to choose your own destination and then easily identify the best route for traveling there. "Putting your financial life on paper enables you to see where your wealth is concentrated and where there might be an opportunity to re-evaluate it," she says.

In other words, a balance sheet helps you turn something cloudy into something clear, says John Barone, senior wealth planning strategist at Wells Fargo. "Once you know where you are at today, and what your goals are, then you can start to use your balance sheet as a place to look and ask yourself, 'Am I moving toward achieving my financial goals?'" he says. "A balance sheet becomes a tracking tool that you can use to see how you're progressing over time."

## How to Build Your Balance Sheet

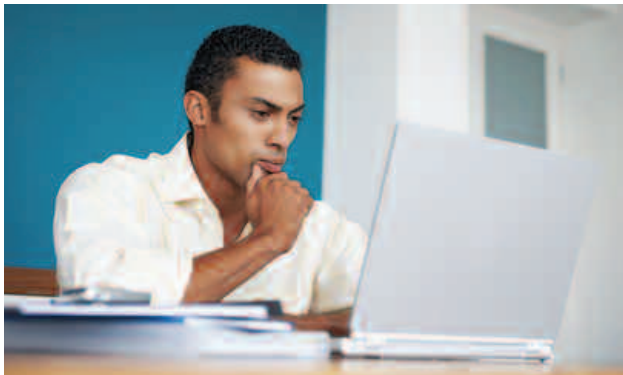
According to Hornung, a personal balance sheet can be as simple or as complex as it needs to be. "Putting a balance sheet together can be as easy as taking out a piece of paper and a pencil and writing it down," he says. "Or, you may decide that you need a big accounting firm and sophisticated accounting software."

Either way, the process is essentially the same: Once a year, list and total the values of all your assets and all your liabilities, then subtract the latter from the former. The resulting number is your net worth, which should grow over time.

“Start with a piece of paper and list the assets that you feel you own,” Phillips advises. “Look around you and

look at what you see—your house, your car, your art. Then ask yourself what you borrowed to buy those assets. That’s the liability side of your balance sheet. Once you start that thought process, you’ll start thinking deeper and adding more things to your balance sheet.”

If you need assistance, your Wells Fargo Private Bank Relationship Manager can help you build your balance sheet by asking questions about your accounts and your estate to help you realize what you actually own.



## BALANCE SHEET BASICS

Not sure what to include on your balance sheet? Start with these fundamental assets and liabilities:

### ASSETS

- Accounts Receivable
- Annuities
- Antiques
- Art
- Bonds
- Business Interests
- Cars
- Cash
- Collectibles
- Furniture
- Homes
- Income
- Intellectual Property
- Investment Properties
- Jewelry
- Life Insurance
- Pensions
- Recreational Vehicles
- Retirement Plans
- Securities

### LIABILITIES

- Accounts Payable
- Alimony
- Auto Notes
- Business Loans
- Child Support
- Credit Card Debt
- Guarantees
- Mortgages
- Promissory Notes
- Student Loans
- Taxes Owed

### How to Use Your Balance Sheet

Of course, a balance sheet should produce more than information. It should produce action, too, says Craig Ratz, CFP, wealth planning analyst at Wells Fargo. “Your balance sheet gives you focus,” he says. “If you think about the average person’s financial life, they continually feel like they have 15 to 20 balls in the air, and they don’t know what to concentrate on. Your balance sheet helps you take some of those balls out of the air so you can concentrate on one or two of them.”

You may notice, for instance, that your retirement savings are on target, but that you aren’t giving much to charity. Or you may notice that you’re too liquid, or not liquid enough, based on your age and risk tolerance. A balance sheet gives you permission to move your attention away from retirement planning and toward gifting, or to reallocate your assets.

“A balance sheet helps you decide, ‘What is it that I want to do with my next dollar?’” Ratz says. “Do you put more money into retirement? Do you pay off your home equity loan? Do you pay off your house? Do you save money for a trip to Mexico? You have to decide what you want your assets to do for you.” **YL**

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### Action Items

- ✓ **Review your assets and liabilities.**
- ✓ **Create your personal balance sheet.**

*For more information, contact your Wells Fargo Private Bank Relationship Manager.*