

# PERSONAL FINANCE

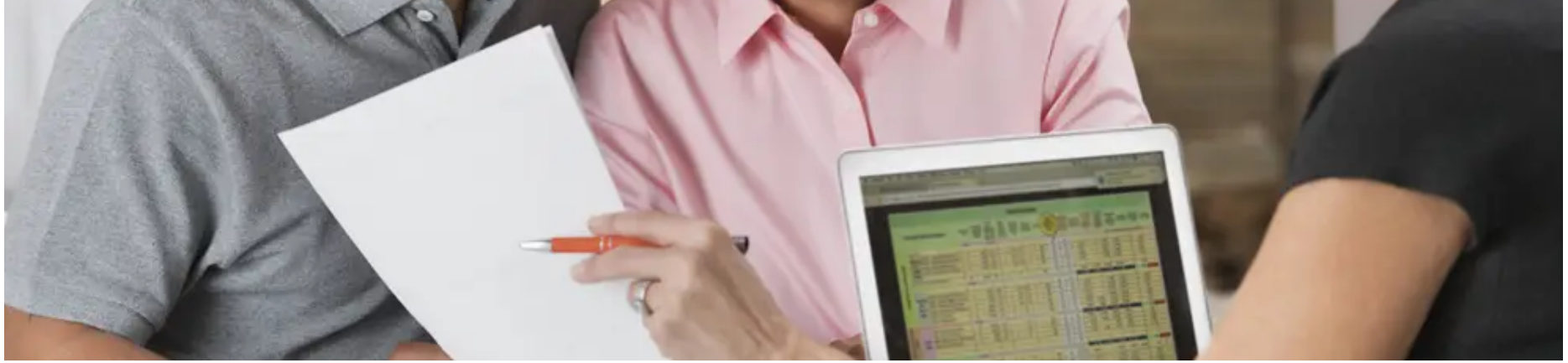
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## What are assets? The building blocks of wealth for individuals and profits for businesses

Choncé Maddox 16 hours ago





Individuals and companies manage their assets with different goals in mind. Ariel Skelley/Getty

- **An asset is anything that an individual or business owns that has monetary value and can be sold for cash.**

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- **There are four main types of assets: liquid, illiquid, tangible, and intangible.**

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- **Knowing what your assets are and their value is the first step in calculating your net worth.**

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When you sit down to calculate your net worth or do a full review of your finances, the first question you're faced with is: "What are your assets?" In the broadest sense of the word, the answer is: anything you own that has monetary value and can be exchanged for cash.

Assets are owned by either individuals or companies. Whether it's a manufacturer with equipment that can be resold, or a person with a high-priced jewelry collection, if it's owned and has value, it's an asset.

The most important feature of assets is that they can be used as resources to generate income today and in the future.

## **Understanding how assets work**

Accumulating assets can mean you are building wealth or acquiring items of value over time. When the things you own have some sort of value, you can always sell them and pocket the cash, whether you're a business or an individual. However, the way individuals manage their assets is different from the way companies do.

People tend to keep assets to build wealth so they can retire or use the assets as a financial resource. "An asset in the form of a dividend stock earns ongoing income for its owner and could be sold if needed, freeing up purchasing power," says Mark Berger, a CFP and Account Executive at [Berger Financial Group](#).

With companies, on the other hand, assets represent items of value that can be used to promote or sustain growth in the business. This could be machinery used for manufacturing, inventory, annual sales, or receivables.

"Assets are listed on a balance sheet to show how they were accumulated," says Berger. "This helps companies keep track of what they own and can sell either within a fiscal year or what can be sold in the future once its value appreciates."

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## Assets are used to calculate your net worth

When you calculate your net worth, the formula is simple: assets minus liabilities. Liabilities are your debts and other financial obligations, while assets are what you own. So for example, if you own a home that is worth \$250,000 but you owe \$150,000 on your mortgage, that asset's value is \$100,000.

It's important to determine the value of all your assets this way so you can use the information to calculate your net worth. If you have more debt than assets, your net worth will be negative. But it doesn't have to stay this way. What's important is knowing what your net worth is and tracking how it changes over time.

**Quick tip:** *Knowing your net worth can be beneficial in situations including applying for a loan or figuring out how to comfortably retire. It can help you with decisions about managing debt and making long-term investments.*

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## What are the main types of assets?

There are four main types of assets:

### Liquid assets

**Liquid assets** are things that can quickly and easily be converted to cash, such as bank accounts, certificates of deposit (CDs), stocks, or bonds. Liquid assets are unique in that not all your assets can be sold right now for cash without incurring some type of loss or fee on the sale.

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## **Illiquid assets**

These are things that take longer to convert to cash, including real estate, antiques, and collectibles. Your home would be an illiquid asset because even if you have a lot of equity in it, the sale could take a while depending on the local market conditions.

## **Tangible assets**

Tangible assets are physical things that you own. A tangible asset could be anything from cash in your bank account, to your car, and the furniture in your home. If you can physically touch and measure it, it's probably a tangible asset.

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## **Intangible assets**

Intangible assets are non-physical items of value. They include things such as patents, copyrights, intellectual property, internet domain names, and a company's brand. You can't physically touch them, but they have value and can be converted into cash.

## **Determining the value of assets**

Assets can be valued in a few different ways. It's easy to determine the value of assets like stocks, bonds, and your 401(k) by simply checking their current market prices. For real estate, an appraisal is conducted which is an inspection of the property that also considers how much nearby homes were sold for in the same real estate market.



If you have antiques or collectibles, you may want to take them to a professional appraiser who can determine their age, condition, and origins.

Another way to determine the value of a real estate asset is with the cost approach. This focuses on replacement value, which is an estimate of the cost to rebuild an equivalent property if it was destroyed. With business assets, it's a little different. Companies keep track of their assets with a balance sheet and might use a formula to determine each asset's value.

"The discounted cash flow approach comes from corporate finance and is also the most flexible since it can be applied to personal finance decisions too," says Nick Borman, a CFP at [Borman Wealth Management](#). "How it works is you use a formula to calculate the value of an investment today based on projections of how much money it could generate in the future."

Borman explains how in personal finance, one example of when the discounted cash flow analysis can be used is when someone is deciding whether they want to sell a house or rent one out by calculating the future rental income compared with the price of the house today if it sells today.

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## The financial takeaway

Whether tangible or intangible, assets are things you own that provide monetary value. No matter what your financial goals are, understanding your assets and knowing their value is very important since they are used to calculate your net worth and can be liquidated for cash. Consider listing out any assets you have currently and determining their value. Use this information to calculate your net worth. Also, explore the option of diversifying your assets among the four main types.



## Choncé Maddox

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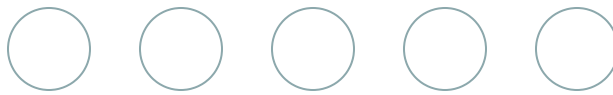


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