SATTREX CAPITAL

WEALTH THAT GROWS AND LASTS FOREVER • PRINCIPLE NO. 6

The Personal Balance Sheet & Net Worth Insurance Method

Protection: Building the Foundation of Your Personal Financial Pyramid

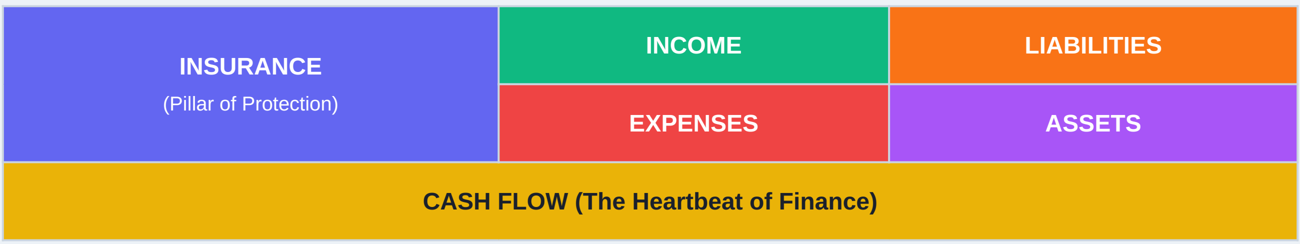
One of the primary methods of assessing the insurance cover a person requires is called the **Net Worth Method**. Net Worth is defined as the mathematical difference between the total assets a person owns and the total liabilities they owe:

> **Net Worth Formula:** Net Worth = Total Assets - Total Liabilities

1. THE 5 ELEMENTS OF PERSONAL FINANCE

Just as Nature is comprised of 5 elements, personal finance is built upon 5 core structural elements:

THE ARCHITECTURE OF PERSONAL FINANCE



The details of income and expenses are shown in the **Profit and Loss (P&L) Account**, while assets and liabilities are reflected in the **Balance Sheet**. These two statements are considered the "eyes of accounts." Cash Flow is the heartbeat connecting both statements.

2. ANATOMY OF A PERSONAL BALANCE SHEET

Assets on a personal balance sheet are acquired in only two ways: 1) By incurring liabilities (borrowing funds via housing/car loans), or 2) By accumulating excess income over expenses (net profits from past years).

What We Own (Assets)	Asset Classification	How Assets Are Funded
Cash, Savings A/C, Fixed Deposits, Insurance Cash Value	**Cash & Equivalents**	**Borrowed Funds (Liabilities)**
Shares, Bonds, Investment Property, Business Investments	**Investments**	--
Residential House, Jewelry, Cars, Home Furnishings	**Personal Assets** *(Not Intended to Sell)*	**Own Funds (Net Profits & Accumulated Wealth)**

3. REAL CASE STUDY: MR. KUMAR (BUSINESSMAN, AGE 42)

Mr. Kumar is a 42-year-old businessman. His wife is a homemaker, and they have two daughters. Let us examine his P&L Account and initial Balance Sheet (in ₹ Lakhs):

Profit & Loss Account (A.Y. 2015-2016)

Profit & Loss Line Item	Annual Value (₹ Lakhs)
Annual Salary + Distributed Business Profits	₹120 Lakhs (₹1.20 Crores)
Annual Living Expenses & Income Taxes	₹96 Lakhs
NET ANNUAL PROFIT (Savings Capacity)	**₹24 Lakhs**

Initial Balance Sheet & Insolvency Deficit Analysis

Accountants record future family commitments as liabilities in personal finance. Mr. Kumar's major life obligations include: Higher Education (₹50L), Marriage (₹50L), Settling Down Daughter's Clinic Setup (₹100L), Emergency Reserves (₹10L), Loans (₹25L), and Spouse Pension Fund (₹100L):

LIABILITIES (Responsibilities)	₹ Lakhs	ASSETS (Current Wealth)	₹ Lakhs
Higher Education	50	Retirement Fund	40
Children's Marriage	50	Equities / Mutual Funds	70
Settling Down (Clinic Setup)	100	Real Estate Property	50
Emergency Reserve	10	Sundry Assets	20
Existing Loans	25	Debt Instruments	15
Spouse Lifetime Pension	100	Cash & Bank Balances	5
TOTAL LIABILITIES	**₹335 Lakhs (₹3.35 Cr)**	**TOTAL ASSETS**	**₹200 Lakhs (₹2.00 Cr)**
NET WORTH DEFICIT (Uncovered Liability Risk)		**- ₹135 Lakhs (- ₹1.35 Crores)**	

4. BALANCING THE SCALE VIA LIFE INSURANCE

To restore balance to an insolvent personal balance sheet, an individual has only two options: 1) Reduce family liabilities (not possible as education and marriage commitments cannot be compromised), or 2) Increase assets.

Since net annual profits are ₹24 Lakhs, it would take over 5.6 years of continuous saving to bridge a ₹1.35 Crore gap. Buying a **₹1.35 Crore Pure Life Insurance Policy** instantly adds ₹1.35 Crores to the asset side, balancing total assets to ₹3.35 Crores.

Balanced Post-Insurance Balance Sheet

LIABILITIES (Responsibilities)	₹ Lakhs	ASSETS (Current Wealth + Insurance)	₹ Lakhs
Higher Education	50	Retirement Fund	40
Children's Marriage	50	Equities / Mutual Funds	70
Settling Down (Clinic Setup)	100	Real Estate Property	50
Emergency Reserve	10	Sundry Assets	20
Existing Loans	25	Debt Instruments	15
Spouse Lifetime Pension	100	Cash & Bank Balances	5
--	--	**LIFE INSURANCE COVER**	**135**
TOTAL LIABILITIES	**₹335 Lakhs (₹3.35 Cr)**	**BALANCED TOTAL ASSETS**	**₹335 Lakhs (₹3.35 Cr)**

FINAL ADVISORY RECOMMENDATION:

Instantly Balance Your Net Worth Gap via ₹1.35 Crore Term Cover

By adding **₹1.35 Crores of Pure Term Insurance**, Mr. Kumar's personal balance sheet achieves 100% equilibrium, guaranteeing that all family liabilities, pension reserves, and children's milestone goals are fully protected regardless of life's uncertainties.