Why Your Net Worth May Not Be as Important as You Think

Description

These days, a lot of investors think of their net worth as being very important. You may have heard people in your own social circles explain certain financial goals they'd like to achieve. Often, these goals will focus on achieving a certain net worth. For those that need a reminder, your net worth is simply a calculation of your assets minus your liabilities.

The issue with that calculation is that there are many liabilities that could be good to have. In fact, taking on certain kinds of liabilities could help you make money. For example, if you're on the hook for an extra mortgage due to owning a rental property, you could still be a lot closer to financial independence than someone with no mortgage but a lot of assets in terms of bonds.

This also means that having a lot of assets that aren't accessible to you isn't really helping you be any more financially independent at that point in time. For instance, if you have a lot of investments that require a certain amount of time to mature, then you'll still need to rely on the income from your job in order to pay for your everyday expenses.

So, if an investor's net worth isn't very important, then what should you focus on? In my opinion, investors should focus on their income. Increasing your income is much more important than having a high net worth. Let's think back to the hypothetical investor with a lot of mortgage debt. Having a mortgage on one's balance sheet will certainly lower their net worth. However, if the rent received is greater than their mortgage payments, then the investor is still getting closer to financial independence, since their total income has increased.

How can stock investors apply this thinking to their portfolio?

Stock investors can turn to dividend stocks in order to increase their income. Dividend stocks are those that pay shareholders a portion of the company's earnings in exchange for holding shares of the stock. Some of the best dividend stocks available are listed as Canadian Dividend Aristocrats. These are companies that have been able to increase dividend distributions for at least five consecutive years.

Fortis (TSX:FTS)(NYSE:FTS) is one company that investors should take note of. It has managed to increase its dividend distribution in each of the past 47 years. That gives Fortis the second-longest active dividend-growth streak in Canada.

Fortis offers investors an attractive forward dividend yield of 3.36%. It should be noted that Fortis's payout ratio was fairly high in 2021 (78.5%). Although this is a lot higher than what I'd like to see in a company's payout ratio, Fortis's long history of intelligent capital allocation allows me to remain confident in this stock. In 2014, Fortis's payout ratio surpassed 90%. However, it dropped to about 55% the following year, even as the company managed to increase its dividend distribution.

Foolish takeaway

Investors shouldn't focus on achieving a high net worth. Instead, look for assets and stocks that will contribute to an increase in your overall income. Once your passive income surpasses the income received from your job, you'll have achieved financial independence. This gives you many freedoms, including the ability to focus on things you care about more.

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