The Millionaire Next Door

"Building wealth takes discipline, sacrifice, and hard work"

When Authors Tom Stanley and William Danko went to investigate on how people get wealthy, they found something odd. Many of the people who live in upscale neighborhoods and drive luxurious cars do not have extreme wealth. Many people who have great wealth do not even live in upscale neighborhoods. The book gives insights on what you can do to become wealthy and how wealth is not what you spend but what you accumulate. The millionaires discussed in this book are financially independent. They can live for years without receiving one month's pay check.

Are you wondering who becomes wealthy in our society? The businessman owns a small factory and has lived in the same town for multiple years. He is a compulsive saver and investor. And he has made his money on his own.

During the author's investigation, they discovered seven common denominators among the people who become wealthy

1. **They live well below their means**
2. **They allocate their time and money efficiently, in ways conducive to building wealth.**
3. **They believe that financial independence is more important than displaying high social status.**
4. **Their parents did not provide economic outpatient care.**
5. **Their adult children are economically self-sufficient.**
6. **They are proficient in targeting market opportunities.**
7. **They chose the right occupation.**

In the "Millionaire Next Door" the authors will look into these seven characteristics of the wealthy.

Chapter 1: Meet the Millionaire Next Door

The first part of this chapter examines the prototypical millionaire in the American household. What would the prototypical millionaire in American tell you about himself?

- Many of the types of businesses we own are classified as dull-normal. We are welding contractors, auctioneers, rice farmers, pest controllers, and paving contractors.
- About 80 percent of us are first-generation affluent.
- We have accumulated enough wealth so we wouldn't have to work for ten or more years.
- About two-thirds of us work between forty-five and fifty-five hours per week.
- We are picky investors.
- "I am my favorite charity."

The authors define wealthy differently than most Americans. Most Americans describe wealthy as an abundance of material possessions. Those people whom the authors define as wealthy get mush more pleasure from owning substantial amounts of appreciable assets than from buying and owning many materials.

One way to define if a person is wealthy of not is by their net worth. Net worth is defined as the current value of one's assets less liabilities. More than 90 percent of millionaires in America have a net worth between $1-10 million.

Another way to define if the household is wealthy or not is based on their expected level of net worth. The higher one's income the higher their net worth is expected to be. The longer you are generating income the more wealthy you are likely to become.

Chapter 2: Frugal Frugal Frugal

Frugal is defined as "behavior characterized by our reflecting economy in the use of resources." The opposite of frugal is wasteful.

Being frugal is the cornerstone of being wealthy. Promoters often lavishly enhance the image of millionaires of lavish spender or wasteful people. Where in the real world most of the millionaires are frugal savers.

The lavish lifestyle sells in the entertainment business. People love to watch their peers win materials and money. People want immediate gratification. They don't want scholarships or stocks. That is why the quiz shows do not offer them.

The average lifestyle of the American millionaire is not what the public perceives it to be. The average millionaire is well into his fifties, has been married to the same woman, and lives in a middle-class neighborhood. The average millionaire is more likely to buy a $40 pair of shoes than a $500 pair of shoes although he has the money.

Another aspects of the millionaires in this country are their spouses. More often than not, the spouses of millionaires are more frugal than their counterparts. Most people will never become wealthy in one generation if they are married to people who are wasteful.

Why aren't you wealthy? Could it be your defense and offense? You might have wonderful offense ($70,000-$100,000 income), but do you have good defense? Most of American's millionaires can work both defense and offense to the max. Often their good defense helps them outscore their competition, or those who have superior offense.

Millionaires become "millionaires" because of budgeting and controlling expenses, and they maintain their affluent status the same way.

The typical millionaire in the author's surveys has a total annual realized income of less than seven percent of his wealth. This meaning that that seven percent of his wealth is subject to some form of income tax.

Income tax is the single largest annual expenditure for most households. It is tan income, not on wealth and not on the appreciation of wealth if this appreciation is not realized; that is, if it does not generate a cash flow.

Many high-income households in America are asset poor. The reason being because they maximize their realized incomes, often to support their lavish lifestyles.

The typical American household realize about $35,00 to $40,000 or nearly 90 percent of its net worth. The American household pays 10 percent of its wealth in income taxes each year. The millionaires of America pay around 2 percent. That is how they remain financially independent.

Let's say that you trade in much of your current and future income just to live in a house in a high-income neighborhood. You make $100,000 dollars a year but you are not becoming wealthy because you are forced to maximize your realized income just to make ends meet. Living in cheaper areas of town will give you more money to invest and less to spend.

If your not yet wealthy and want to be someday, never purchase a home that requires a mortgage that is more than twice your household's total annual realized income.

Chapter 3: Time, Energy, and Money

Efficiency is one of the most important mechanisms of wealth abundance. They wealthy American households distribute their time, energy, and money so that it benefits their net worth.

Under accumulators are much more concerned than prodigious accumulators with the prospects of:

- Not being wealthy enough to retire in comfort.
- Never gaining significant wealth.

These questions are very important, but under accumulators spend so much time worrying that they don't take steps towards answering these questions or fixing them.

Planning and controlling are key factors when accumulating wealth. Prodigious accumulators take time when planning their budget. The under accumulators have no control over their family's consumption, other than his household's income limit.

Many wealthy men and women in America are concerned about the government's actions. They are afraid of the forces, which they have no control over. There are four main concerns of the wealthy in America concerning the government.

1. **Paying increasingly high Federal tax income.**

2. **Increased government spending and federal deficit.**
3. **A high rate of inflation**
4. **Increased government regulation of business and industry.**

Chapter 4: You Aren’t What You Drive

A luxury car might be out of place for the factory owner or someone who likes the outdoors. With a luxury car, you might alienate some of your workers. They might get the feeling that their boss is exploiting them. You have to recognize that many status artifacts can be a burden, if not an impediment, to becoming financially independent. Life has its own burdens. We add excess baggage?

About 81 percent of millionaires purchase their own vehicles. Only 23.5 percent own new or recent models. In fact, 25 percent of millionaires have not purchased a vehicle in 4 years.

Fifty percent of most millionaires never spend more than $29,000 in their entire lives on motor vehicles. About one in five never spend $19,000.

What do millionaires drive? The following are listen in rank order according to their respective market shares:

1. **Ford (9.4 percent)**
2. **Cadillac (8.8 percent)**
3. **Lincoln (7.8 percent)**
4. **A three way tie: Jeep, Lexus Mercedes (6.4 percent)**
5. **Oldsmobile (5.9 percent)**
6. **Chevrolet (5.6 percent)**
7. **Toyota (5.1 percent)**
8. **Buick (4.3 percent)**
9. **Nissan and Volvo (2.9 percent each)**
10. **Chrysler and Jaguar (2.7 percent each)**

The top three manufactures are General Motors company with 26.7 percent; Ford Motor Company with 19.1 percent; Chrysler with 11.8 percent.

An increasing number of affluent people are purchasing American made vehicles. The growing number of sport utilities brought out by Chrysler, Ford, and General Motors relates this trend.

Many American millionaires have a propensity to purchase full-sized automobiles that have a low cost per pound. The average per pound price for all new motor vehicles is $6.86.

Chapter 5: Economic Outpatient Care

Economic Outpatient Care (EOC) refers to the economic gifts and "acts of kindness" come parents give their adult children and grandchildren.

Many of today's distributors of EOC have gained wealth early in their lives. Parents feel compelled to provide economic support for their children and their families. The parents who give these "acts of kindness" are considerably less wealthy than their peers who have economically independent children.

EOC is practiced by more than 46 percent of the affluent in America. Nearly half of the adult children of the wealthy who are under thirty-five years of age receive annual cash gifts. When these "children: grow older the giving declines. About one in five adult children in their mid-forties to mid-fifties do not receive such gifts.

Children of the wealthy who sit around and wait for their next gift are typically not very productive. Does this mean all children of the wealthy will end up like this? No, in fact, the more wealth the parent accumulates, the more economically disciplined their adult children are likely to be.

Chapter 6: Affirmative Action, Family Style

Most wealthy people who have adult children want their estates reduced in size before they pass away. Most affluent people have two children making it easy for them (50/50). Some have four children, also, making it easy for them to split it (25). This simple distribution formula becomes more complex when the children mature. Parents often find that some of their children have a greater need for gifts than others.

In America, the odds are against the women earning high incomes. Daughters of wealthy people tend not to have careers of their own. More than 80 percent of married couples with children the wife does not work full time. Giving the daughter a reason not to work because "mommy didn't." Many wealthy parents encourage their daughters not to work, not to have their own careers, and not to be economically and psychologically independent.

The wealthy that have successful adult children gave the author's rules on how they raised them. Here are some of their guidelines:

1. Never tell children their parents are wealthy.

Adult under accumulators tend to be the product of their parents who lived in ways they thought appropriate for wealthy people to act. They lived the high buying lifestyle so popular in America today.

2. No matter how wealthy you are, teach your children discipline and frugality.

The prodigious accumulators of America expose their children to credible role models whose lives were characterized by their discipline and frugality.

3. Assure that your children won't realize you're affluent until after they have established a mature, disciplined, and adult lifestyle and profession.

The prodigious wealthy have set up trust funds for their children. But the plan will not distribute money to their children until they are forty years of age or older.

4. Minimize discussions of the items that each child and grandchild will inherit or receive as gifts.

Never make light or verbal promises.

5. Never give cash or other significant gifts to your adult children as part of a negotiation strategy.

Give because of love, even obligation, and kindness. Adult children lose their respect for their parents who submit to high-pressure negotiation tactics.

Chapter 7: Find Your Niche

There are significant business opportunities for those who target the affluent, the children of the affluent, and the widows of the affluent. Very often, those who supply the affluent become very wealthy themselves.

The frugal of the wealthy are price-sensitive when it comes to many consumer products and services. They are not near as sensitive when it comes to purchasing advice and services, accounting services, tax advice and legal services. Since the majority of the affluent are self-employed business owners and managers, they are also buyers of industrial products and services.

In the next ten years, there will be a growing amount of money in this country than ever before. Opportunities to serve the wealthy will be greater than ever before. Those who are specialists in meeting the demands and solving the problems of the wealthy will be in great demand.

Specialists with the highest skills are more likely to benefit than those who don't have those skills. Specialist who will benefit include

- Dentists
- Plastic Surgeons
- Dermatologists
- Allergists
- Psychologists
- Psychiatrists
- Chiropractors