MONEY & INVESTING

The Millionaire Next Door

by Thomas J. Stanley and William D. Danko

Most millionaires look ordinary, live below their means, and quietly save their way to wealth.

BEST POINTS FROM THE BOOK

01 **The typical millionaire is your neighbor, not a celebrity: 80% of America's millionaires are first-generation rich.**

After two decades of surveys, the authors found millionaires clustered in middle-class neighborhoods - and more than half never received even $1 of inheritance.

02 **Wealth is what you accumulate, not what you earn. A big income spent to the last dollar builds nothing.**

The book separates the 'Balance Sheet Affluent' from the 'Income Affluent.' High earners who consume everything are on a treadmill, not a path to wealth.

03 **Run the book's wealth test: multiply your age by your pre-tax income, then divide by 10. That is the net worth you 'should' have.**

Hold at least twice that figure and you are a PAW - a prodigious accumulator of wealth. Hold half or less and you are a UAW, an under accumulator, whatever your salary.

04 **The foundation stone of wealth accumulation is defense, and that defense is anchored by budgeting and planning.**

That is the authors' own summary of their research. Millionaires become - and stay - wealthy by controlling expenses, and a household with one hyper-consumer spouse rarely accumulates anything.

05 **PAWs spend their time on money the way UAWs spend it on shopping: hours each month planning investments, almost none hunting for status goods.**

The authors found a strong link between time spent planning finances and wealth built - and the reverse for time spent buying cars and luxury items.

06 **Financial independence beats social status. The wealthy would rather own a 'go-to-hell fund' than impress the neighbors.**

Surveyed millionaires typically live on less than 7% of their wealth each year, and the financially independent report being happier than equally rich people who are not secure.

07 **You aren't what you drive. Only a minority of millionaires drive the current model year, and very few ever lease.**

Millionaires buy modest, often American-made cars and keep them for years. The luxury car in the driveway usually signals a high income being consumed, not wealth.

08 **Never buy a home that requires a mortgage of more than twice your household's annual income.**

That is the authors' direct rule for the not-yet-wealthy. A high-status neighborhood inflates your house payment, taxes, and every purchase needed to keep up with the neighbors.

09 **Cash gifts to adult children usually shrink their wealth, not grow it. The more dollars adult children receive, the fewer they accumulate.**

The authors call ongoing parental support 'economic outpatient care.' Receivers tend to consume more, borrow more, and invest far less than siblings who get nothing.

10 **Wealthy parents raise producers, not dependents: never tell your children you are rich, and teach them discipline and frugality first.**

Chapter 6's rules for affluent parents: don't discuss what each child will inherit, stay out of adult children's family matters, and let them see wealth only after they have built a disciplined adult life.

11 **Two-thirds of millionaires work for themselves - usually in 'dull' businesses like paving, contracting, or pest control.**

The self-employed are under 20% of American workers but about two-thirds of its millionaires. Many got there by targeting the affluent as customers and serving needs the rich gladly pay for.

THE BOOK, IN SHORT

The big idea: Stanley and Danko spent about twenty years interviewing and surveying America's millionaires, expecting yachts and mansions. Instead they found people in modest neighborhoods driving older cars - and 80% of them were first-generation rich. As wealthy Texans put it, the flashy ones are 'big hat, no cattle': plenty of show, no wealth underneath.

The book measures wealth as net worth, not income, and gives you a benchmark: your age times your pre-tax income, divided by ten, is your expected net worth. Twice that makes you a prodigious accumulator of wealth (PAW); half or less makes you an under accumulator (UAW). Across their research, the same seven factors kept appearing: living well below your means, allocating time, energy and money efficiently, valuing financial independence over status, receiving no economic outpatient care from parents, having economically self-sufficient adult children, targeting market opportunities well, and choosing the right occupation.

The engine is defense. Millionaires budget, know what they spend on food, clothing and shelter each year, and spend far more time planning investments than shopping. They rank freedom above

display - typically living on less than 7% of their wealth a year - buy modest cars they keep for years, and follow the authors' housing rule: never take a mortgage larger than twice your household's annual income.

The warnings run in both directions. High-income professionals - doctors above all - are often UAWs, trapped on an earn-and-consume treadmill by status spending. And parents who keep funding adult children usually produce kids who save and invest less. Wealth in this book is not luck, inheritance or brilliance: it is behavior, repeated for decades, usually inside an ordinary-looking life and an unglamorous business.

DO THIS WEEK

This week, run the book's test on yourself: age times pre-tax income, divided by 10, is your expected net worth. Write down which side of it you are on. Then play one week of defense: track every dollar your household spends, and set one automatic payday transfer into investing before any spending happens.

By Thomas J. Stanley and William D. Danko, first published 1996. Read it if you earn decent money but never seem to keep any.