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THE MILLIONAIRE NEXT DOOR

THE SURPRISING SECRETS OF AMERICA'S WEALTHY

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The Millionaire Next Door

The Surprising Secrets of America's Wealthy

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All the names in the case studies contained in this book are pseudonyms.

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For Janet, Sarah, and Brad—a million Christmases,
a trillion Fourth of Julys
–T. J. Stanley

For my loving wife, Connie, and my dear children,
Christy, Todd, and David
–W. D. Danko

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PREFACE

A reporter recently asked me about the changes I have noticed among the American millionaire population since the current economic meltdown. She wanted to know if the millionaire market is dead given the recent reversals in the market value of stocks and homes. I replied that the millionaire next door is still alive and kicking even today in this recession. Since 1980 I have consistently found that most millionaires do not have all of their wealth tied up in their stock portfolios or in their homes. One of the reasons that millionaires are economically successful is that they think differently. Many a millionaire has told me that true diversity has much to do with controlling one's investments; no one can control the stock market. But you can, for example, control your own business, private investments, and money you lend to private parties. Not at any time during the past thirty years have I found that the typical millionaire had more than 30 percent of his wealth invested in publicly traded stocks. More often it is in the low-to-mid-20-percent range. These percentages are consistent with those found in studies conducted by the Internal Revenue Service, which has the best data set on millionaires in the world.

Consider the profile of a millionaire-next-door-type couple, Ms. T and her husband. To most, this couple's lifestyle is boring, even common. This millionaire's brand of watch is a Timex; her husband's is a Seiko (number one among millionaires). The couple buys their clothes at Dillard's, J.C. Penney, and TJ Maxx. They have purchased only two motor vehicles in the past 10 years: both Fords. The current market value of their home is approximately $275,000. Ms. T's most recent haircut cost $18. Yet they are uncommon in the sense that they are financially independent.

When I speak of people like Ms. T and her husband, invariably someone will ask: “But are they happy?” Fully 90 percent of millionaires who live in homes valued at under $300,000 are extremely satisfied with life. And, in my most recent work, I state that there are nearly three times as many households with investments of $1 million or more living in homes valued at $300,000 or less than there are living in homes valued at $1 million or more.

Even most multimillionaires in America don’t live in expensive homes. I recently tabulated the 2007 IRS estate data (the latest data available) for those decedents with an estate valued at $3.5 million or more. I estimated that the median market value of a decedent’s home was $469,021, or less than 10 percent of their median net worth. On average these decedents had more than two-and-one-half times more of their wealth invested in investment real estate than in their own personal homes.

Profiling the millionaire next door population was a cumulative process which continues today. Originally I used a different description to define this segment. I first coined the “wealthy blue collar” segment in a paper entitled “Market Segmentation: Utilizing Investment Determinants,” which I presented on October 10, 1979 at a conference of the Securities Industry Association in New York City. The paper was later published by the American Marketing Association. Earlier in May 1979, the New York Stock Exchange had asked me to develop a set of marketing implications and recommendations based upon its then recently completed national survey of 2,741 households on investment patterns and attitudes and behaviors about money. This provided a base for the above-mentioned paper. A key point I made in this paper was:

> *opportunities exist in segments that the [investment] industry has ignored for years…. [Members of] the really big segment, the wealthy blue collar, do not need to purchase expensive artifacts that are part of the white collar workers’ knapsack….*

At the time of my presentation I realized that the blue-collar/millionaire next door segment did exist, and it was likely to be a sizable one. Not long after I first idenrified this marker, I discovered how very large it indeed was.

In June 1980 I was asked by a large money center bank to conduct a national study of the millionaire population in America. During the planning stage, an event took place which had a major influence upon the direction of my career I encountered my epiphany about the millionaire-next-door segment one morning at a task force meeting with my client and a colleague and friend, Jon Robbin. Jon is a Harvard-trained mathematician who profiled the wealth characteristics of the residents within each of more than 200,000 neighborhoods across America. He said, in passing, "About one-half of the millionaires in America don't live in upscale neighborhoods." That's when the light went on inside my head! The really compelling story was not the millionaire population in general. Rather it was the low-profile millionaires, the ones who lived in modest homes situated in middle-class, even working-class neighborhoods. From that moment on, I intensely began studying and writing about the millionaire-next-door types. The research that I conducted thirty years ago in 1980 was the first comprehensive national study about the size, geographic distribution, and financial lifestyles of millionaires. The key findings were highly congruent with the numerous studies that I have conducted since that time.

I authored "The National Affluent Study 1981-1982" for a consortium of the top fifty financial institutions in America. In addition to designing this study, I traveled the country conducting focus group interviews with millionaires. Later, many of these financial institutions, including seven of the top ten trust companies in America, asked me to conduct focus group interviews and surveys of the affluent on their behalf. As a result, I had the opportunity to meet with more than 500 millionaires face to face. My interpretation of these interviews as well as many others that I conducted is given throughout The Millionaire Next Door. Interestingly, the millionaires I interviewed in Oklahoma and Texas, for example, had the same set of traditional American values as those whom I interviewed in New York City and Chicago. The large majority was keenly interested in being financially independent. That's why they lived below their means.

Prior to writing *The Millionaire Next Door*, I spent nearly an entire year reviewing my survey data and the transcripts of the interviews conducted between 1982 and 1996. This extensive research and analysis, I believe, is what makes The Millionaire Next Door a perennial best seller. For the price of a book, the reader is essentially buying the equivalent of more than $1 million worth of invaluable research and interpretation.

Why do I continue to write about rich people? It is not for the benefit of rich people! What I write is designed to enlighten those who are confused and misinformed about what it means to be rich. Most Americans have no idea about the true inner workings of a wealthy household. The advertising industry and Hollywood have done a wonderful job conditioning us to believe that wealth and hyperconsumption go hand in hand. Yet, as I have said many times, the large majority of the rich live well below their means. Unfortunately, most Americans think that they are emulating the rich by immediately consuming any upward swing in their cash flow.

But the millionaire-next-door types do it differently. As one millionaire woman trained as an engineer told me, "After college my husband (also an engineer) and I both got good jobs. We lived on one income and saved the other. Anytime we got raises we just saved more. We have lived in the same modest 1,900-square-foot home for twenty years…. Sometimes my kids ask if we are poor because I make them order from the $1 value menu."

America is still the land of opportunity. Over the past thirty years I have consistently found that 80 to 85 percent of millionaires are self-made. There is great pride, joy and satisfaction to be derived from building one's own fortune. Countless millionaires have told me that the journey to wealth is much more satisfying than the destination. When they look back over their history of building wealth, they recall constantly setting economic goals and the great happiness gained from achieving them. Yes, in the context of economic achievement, it is the trip, the journey to financial independence about which the millionaires next door most often boast.

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June 2010
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INTRODUCTION

Twenty years ago we began studying how people become wealthy. Initially, we did it just as you might imagine, by surveying people in so-called upscale neighborhoods across the country. In time, we discovered something odd. Many people who live in expensive homes and drive luxury cars do not actually have much wealth. Then, we discovered something even odder: Many people who have a great deal of wealth do not even live in upscale neighborhoods.

That small insight changed our lives. It led one of us, Tom Stanley, out of an academic career, inspired him to write three books on marketing to the affluent in America, and made him an advisor to corporations that provide products and services to the affluent. In addition, he conducted research about the affluent for seven of the top ten financial service corporations in America. Between us, we have conducted hundreds of seminars on the topic of targeting the wealthy.

Why are so many people interested in what we have to say? Because we have discovered who the wealthy really are and who they are not. And, most important, we have determined how ordinary people can become wealthy.

What is so profound about these discoveries? Just this: Most people have it all wrong about wealth in America. Wealth is not the same as income. If you make a good income each year and spend it all, you are not getting wealthier. You are just living high. Wealth is what you accumulate, not what you spend.

How do you become wealthy? Here, too, most people have it wrong. It is seldom luck or inheritance or advanced degrees or evenintelligence that enables people to amass fortunes. Wealth is more often the result of a lifestyle of hard work, perseverance, planning, and, most of all, self-discipline.

How come I am not wealthy?

Many people ask this question of themselves all the time. Often they are hard-working, well-educated, high-income people. Why, then, are so few affluent?

MILLIONAIRES AND YOU

There has never been more personal wealth in America than there is today (over $22 trillion in 1996). Yet most Americans are not wealthy. Nearly one-half of our wealth is owned by 3.5 percent of our households. Most of the other households don't even come close. By "other households," we are not referring to economic dropouts. Most of these millions of households are composed of people who earn moderate, even high, incomes. More than twenty-five million households in the United States have annual incomes in excess of $50,000; more than seven million have annual incomes over $100,000. But in spite of being "good income" earners, too many of these people have small levels of accumulated wealth. Many live from paycheck to paycheck. These are the people who will benefit most from this book.

The median (typical) household in America has a net worth of less than $15,000, excluding home equity. Factor out equity in motor vehicles, furniture, and such, and guess what? More often than not the household has zero financial assets, such as stocks and bonds. How long could the average American household survive economically without a monthly check from an employer? Perhaps a month or two in most cases. Even those in the top quintile are not really wealthy. Their median household net worth is less than $150,000. Excluding home equity, the median net worth for this group falls to less than $60,000. And what about our senior citizens? Without Social Security benefits, almost one-half of Americans over sixty-five would live in poverty.

Only a minority of Americans have even the most conventional types of financial assets. Only about 15 percent of American households have a money market deposit account; 22 percent, a certificateof deposit; 4.2 percent, a money market fund; 3.4 percent, corporate or municipal bonds; fewer than 25 percent, stocks and mutual funds; 8.4 percent, rental property; 18.1 percent, U.S. Savings Bonds; and 23 percent, IRA or KEOGH accounts.

But 65 percent of the households have equity in their own home, and more than 85 percent own one or more motor vehicles. Cars tend to depreciate rapidly. Financial assets tend to appreciate.

The millionaires we discuss in this book are financially independent. They could maintain their current lifestyle for years and years without earning even one month's pay. The large majority of these millionaires are not the descendants of the Rockefellers or Vanderbilts. More than 80 percent are ordinary people who have accumulated their wealth in one generation. They did it slowly, steadily, without signing a multimillion-dollar contract with the Yankees, without winning the lottery, without becoming the next Mick Jagger. Windfalls make great headlines, but such occurrences are rare. In the course of an adult's lifetime, the probability of becoming wealthy via such paths is lower than one in four thousand. Contrast these odds with the proportion of American households (3.5 per one hundred) in the $1 million and over net worth category.

THE SEVEN FACTORS

Who becomes wealthy? Usually the wealthy individual is a businessman who has lived in the same town for all of his adult life. This person owns a small factory, a chain of stores, or a service company. He has married once and remains married. He lives next door to people with a fraction of his wealth. He is a compulsive saver and investor. And he has made his money on his own. *Eighty percent of America's millionaires are first-generation rich*.

Affluent people typically follow a lifestyle conducive to accumulating money. In the course of our investigations, we discovered seven common denominators among those who successfully build wealth.

1. They live well below their means.

2. They allocate their time, energy, 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*, you will study these seven characteristics of the wealthy. We hope you will learn how to develop them in yourself.

THE RESEARCH

The research for *The Millionaire Next Door* is the most comprehensive ever conducted on who the wealthy are in America—and how they got that way. Much of this research was developed from the most recent survey we conducted that, in turn, was developed from studies we had conducted over the previous twenty years. These studies included personal and focus group interviews with more than five hundred millionaires and surveys of more than eleven thousand high-net worth and/or high-income respondents.

More than one thousand people responded to our latest survey,* which was conducted from May 1995 through January 1996. It asked each respondent about his or her attitudes and behaviors regarding a wide variety of wealth-related issues. Each participant in our study answered 249 questions. These questions addressed topics ranging from household budget planning or lack of it to financial fears and worries, and from methods of bargaining when purchasing automobiles to the categories of financial gifts, or "acts of kindness," wealthy people give to their adult children. Several sections of the questionnaire asked respondents to indicate the most they ever spent for motor vehicles, wristwatches, suits, shoes, vacations, and the like. This study was the most ambitious and thorough we have ever undertaken. No other study has focused on the key factors that explain how people become wealthy in one generation. Nor has a study revealed why many people, even most of those with high incomes, never accumulate even a modest amount of wealth.

In addition to our survey, we gained considerable insight into the millionaire next door from other research. We spent hundreds of hours conducting and analyzing in-depth interviews with self-made millionaires. We also interviewed many of their advisors, such as CPAs and other professional experts. These experts were very helpful in our exploration of the issues underlying the accumulation of wealth.

What have we discovered in all of our research? Mainly, that building wealth takes discipline, sacrifice, and hard work. Do you really want to become financially independent? Are you and your family willing to reorient your lifestyle to achieve this goal? Many will likely conclude they are not. If you are willing to make the necessary trade-offs of your time, energy, and consumption habits, however, you can begin building wealth and achieving financial independence. *The Millionaire Next Door* will start you on this journey.

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* For details on how we targeted respondents for our survey, see Appendix 1.

Meet the Millionaire Next Door

These people cannot be millionaires! They don't look like millionaires, they don't dress like millionaires, they don't eat like millionaires, they don't act like millionaires—they don't even have millionaire names. Where are the millionaires who look like millionaires?

The person who said this was a vice president of a trust department. He made these comments following a focus group interview and dinner that we hosted for ten first-generation millionaires. His view of millionaires is shared by most people who are not wealthy. They think millionaires own expensive clothes, watches, and other status artifacts. We have found this is not the case.

As a matter of fact, our trust officer friend spends significantly more for his suits than the typical American millionaire. He also wears a $5,000 watch. We know from our surveys that the majority of millionaires never spent even one-tenth of $5,000 for a watch. Our friend also drives a current-model imported luxury car. Most millionaires are not driving this year's model. Only a minority drive a foreign motor vehicle. An even smaller minority drive foreign luxury cars. Our trust officer leases, while only a minority of millionaires ever lease their motor vehicles.

But ask the typical American adult this question: Who looks more like a millionaire? Would it be our friend, the trust officer, or one of the people who participated in our interview? We would wager that most people by a wide margin would pick the trust officer. But looks can be deceiving.

This concept is perhaps best expressed by those wise and wealthy Texans who refer to our trust officer's type as

Big Hat No Cattle

We first heard this expression from a thirty-five-year-old Texan. He owned a very successful business that rebuilt large diesel engines. But he drove a ten-year-old car and wore jeans and a buckskin shirt. He lived in a modest house in a lower-middle-class area. His neighbors were postal clerks, firemen, and mechanics.

After he substantiated his financial success with actual numbers, this Texan told us:

> *[My] business does not look pretty. I don't play the part… don't act it…. When my British partners first met me, they thought I was one of our truck drivers…. They looked all over my office, looked at everyone but me. Then the senior guy of the group said, "Oh, we forgot we were in Texas!" I don't own big hats, but I have a lot of cattle.*

PORTRAIT OF A MILLIONAIRE

Who is the prototypical American millionaire? What would he tell you about himself?*

♦ I am a fifty-seven-year-old male, married with three children. About 70 percent of us earn 80 percent or more of our household's income.

♦ About one in five of us is retired. About two-thirds of us who are working are self-employed. *Interestingly, self-employed people make up less than 20 percent of the workers in America but account for two-thirds of the millionaires*. Also, three out of four of us who are self-employed consider ourselves to be entrepreneurs. Most of the others are self-employed professionals, such as doctors and accountants.

♦ Many of the types of businesses we are in could be classified as dullnormal. We are welding contractors, auctioneers, rice farmers, owners of mobile-home parks, pest controllers, coin and stamp dealers, and paving contractors.

♦ About half of our wives do not work outside the home. The number-one occupation for those wives who do work is teacher.

♦ Our household's total annual realized (taxable) income is $131,000 (median, or 50th percentile), while our average income is $247,000. Note that those of us who have incomes in the $500,000 to $999,999 category (8 percent) and the $1 million or more category (5 percent) skew the average upward.

♦ We have an average household net worth of $3.7 million. Of course, some of our cohorts have accumulated much more. Nearly 6 percent have a net worth of over $10 million. Again, these people skew our average upward. The typical (median, or 50th percentile) millionaire household has a net worth of $1.6 million.

♦ On average, our total annual realized income is less than 7 percent of our wealth. In other words, we live on less than 7 percent of our wealth.

♦ Most of us (97 percent) are homeowners. We live in homes currently valued at an average of $320,000. About half of us have occupied the same home for more than twenty years. Thus, we have enjoyed significant increases in the value of our homes.

♦ Most of us have never felt at a disadvantage because we did not receive any inheritance. About 80 percent of us are first-generation affluent.

♦ We live well below our means. We wear inexpensive suits and drive American-made cars. Only a minority of us drive the current-model-year automobile. Only a minority ever lease our motor vehicles.

♦ Most of our wives are planners and meticulous budgeters. In fact, only 18 percent of us disagreed with the statement "Charity begins at home." Most of us will tell you that our wives are a lot more conservative with money than we are.

♦ We have a "go-to-hell fund." In other words, we have accumulated enough wealth to live without working for ten or more years. Thus, those of us with a net worth of $1.6 million could live comfortably for more than twelve years. Actually, we could live longer than that, since we save at least 15 percent of our earned income.

♦ We have more than six and one-half times the level of wealth of our nonmillionaire neighbors, but, in our neighborhood, these nonmillionaires outnumber us better than three to one. Could it be that they have chosen to trade wealth for acquiring high-status material possessions?

♦ As a group, we are fairly well educated. Only about one in five are not college graduates. Many of us hold advanced degrees. Eighteen percent have master's degrees, 8 percent law degrees, 6 percent medical degrees, and 6 percent Ph.D.s.

♦ Only 17 percent of us or our spouses ever attended a private elementary or private high school. But 55 percent of our children are currently attending or have attended private schools.

♦ As a group, we believe that education is extremely important for ourselves, our children, and our grandchildren. We spend heavily for the educations of our offspring.

♦ About two-thirds of us work between forty-five and fifty-five hours per week.

♦ We are fastidious investors. On average, we invest nearly 20 percent of our household realized income each year. Most of us invest at least 15 percent. Seventy-nine percent of us have at least one account with a brokerage company. But we make our own investment decisions.

♦ We hold nearly 20 percent of our household's wealth in transaction securities such as publicly traded stocks and mutual funds. But we rarely sell our equity investments. We hold even more in our pension plans. On average, 21 percent of our household's wealth is in our private businesses.

♦ As a group, we feel that our daughters are financially handicapped in comparison to our sons. Men seem to make much more money even within the same occupational categories. That is why most of us would not hesitate to share some of our wealth with our daughters. Our sons, and men in general, have the deck of economic cards stacked in their favor. They should not need subsidies from their parents.

♦ What would be the ideal occupations for our sons and daughters? There are about 3.5 millionaire households like ours. Our numbers are growing much faster than the general population. Our kids should consider providing affluent people with some valuable service. Overall, our most trusted financial advisors are our accountants. Our attorneys are also very important. So we recommend accounting and law to our children. Tax advisors and estate-planning experts will be in big demand over the next fifteen years.

♦ I am a tightwad. That's one of the main reasons I completed a long questionnaire for a crispy $1 bill. Why else would I spend two or three hours being personally interviewed by these authors? They paid me $100,

$200, or $250. Oh, they made me another offer—to donate in my name the money I earned for my interview to my favorite charity. But I told them, "I am my favorite charity."

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"The implication of *The Millionaire Next Door* . . . is that nearly anybody with a steady job can amass a tidy fortune."—*Forbes*

"[A] remarkable book."—*Washington Post*

"Why aren't I as wealthy as I should be?" Many people ask this question of themselves all the time. Often they are hardworking, well-educated middle- to high-income people. Why, then, are so few affluent? For nearly two decades the answer has been found in the best-selling *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*, reissued with a new foreword by the late author's daughter, Sarah Stanley Fallaw.

According to the authors, most people have it all wrong about how you become wealthy in America. Wealth in America is more often the result of hard work, diligent savings, and living below your means than it is about inheritance, advanced degrees, and even intelligence. *The Millionaire Next Door* identifies seven common traits that show up again and again among those who have accumulated wealth. You will learn, for example, that millionaires bargain shop for used cars, pay a tiny fraction of their wealth in income tax, raise children who are often unaware of their family's wealth until they are adults, and, above all, reject the big-spending lifestyles most of us associate with rich people. In fact, you will learn that the flashy millionaires glamorized in the media represent only a tiny minority of America's rich. Most of the truly wealthy in this country don't live in Beverly Hills or on Park Avenue—they live next door.

THOMAS J. STANLEY was an author, lecturer, and researcher who started studying the affluent in 1973. He died in 2015.

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