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The Not-So-Glamorous Life of the Millionaire Next Door

If I were to pose a question regarding what comes to mind when asked about the characteristics of a millionaire, what would you say? Many people will think of huge homes, luxury cars, expensive jewelry, lavish vacations, and many other aspects that represent a high-consumption lifestyle. The majority of people fail to realize, however, that a millionaire might be living right next door to us, and we would never know. Dr. Thomas Stanley and Dr. William Danko's *The Millionaire Next Door* discusses how the majority of individuals have it all wrong about how people become wealthy in America. Contrary to what many of us believe, typical millionaires stick to modest homes in middle class neighborhoods, they purchase used cars, they prefer Budweiser over 1970 Bordeaux, and they reject a high-consumption lifestyle. After conducting their research, authors Stanley and Danko discovered common traits among those who successfully build wealth. These traits include frugality, the allocation of time and money in ways conducive to building wealth, a stronger focus on financial independence, the absence of economic outpatient care, having economically self-sufficient children, proficiency in targeting market opportunities, and choosing the right occupation.

Many people are confused about what it means to be rich. According to the authors, "The advertising industry and Hollywood have done a wonderful job conditioning us to believe that wealth and hyperconsumption go hand in hand" (Stanley and Danko xiv). Many Americans think they are mirroring the rich by consuming goods after an increase in their cash flow, but in reality, the large majority of the rich live well below their means. The threshold level of being wealthy is having a net worth of 1 million or more (Stanley and Danko 12). Stanley and Danko's research found that the prototypical American millionaire is in his later 50s, married with children, is either retired or self employed, is a meticulous planner and budgeter, and invests nearly 20% of their household realized income (11). When the authors first began studying how people became wealthy, they initially did it by surveying people in upscale neighborhoods across the country, but they soon realized that many people who live in expensive homes and drive luxury cars do not actually have much wealth. They discovered, in contrast, that many wealthy people do not even live in upscale neighborhoods.

Wealth and income are not the same. Wealth is what you accumulate, not what you spend (2). If your annual income is in the upper six figure range but you spend it all on status artifacts, you are not getting wealthier. There are two groups of people on the ends of a wealth continuum: a PAW and a UAW. PAWs, or prodigious accumulators of wealth are builders of wealth and typically have a minimum of four times the wealth accumulated by UAWs (14). UAWs, or an under-accumulator of wealth, are in the bottom quartile of the continuum. These individuals are spenders and have a need for immediate gratification (30). Throughout this paper, we will look at the differences between these two groups and further examine how PAWs excel in building wealth.

One trait that was discovered about a typical American millionaire is that they are frugal. In other words, they live well below their means. The first time the authors interviewed a group of millionaires, they rented out a posh penthouse in Manhattan to fit the presumed lavish lifestyle of millionaires. They hired gourmet food designers, put together a luxury menu, and even displayed an expensive bottle of 1970 Bordeaux. The millionaires, however, seemed uncomfortable in this environment. Instead of enjoying the lavish spread of food, they only ate the crackers and one gentleman even turned down a glass of the 1970 Bordeaux. He stated that "he drinks scotch and two types of beer - free and budweiser" (28). Many of us believe that those who have money spend lavishly, and you cannot be wealthy if you do not own expensive things. Being frugal, however, is the cornerstone of wealth spending (31). Opposite of what the media portrays, people who build wealth in America are not glamorous. According to the authors' research, 50% of the millionaires surveyed never spent above $29,000 on a car. 37% of them indicated that their most recent vehicle was used, and over 57% of the cars they drive come from US car manufacturers - the most popular being Ford (115). These individuals believe that financial independence is more important than displaying high social status. They also believe that the acquisition of status artifacts will push them to change certain behaviors, something they do not wish to do. Many popular NBA players, for example, should be worth around $15 million, but only a tiny fraction of them have actually obtained that much wealth because of their luxurious lifestyle (29). As stated by the authors, "Few could ever support a high consumption lifestyle and become millionaires in the same lifetime" (29).

Along with frugality, many millionaires allocate their time, energy, and money in ways that are advantageous to building wealth. According to the book, "There is a strong positive correlation between investment planning and wealth accumulation" (69). PAWs understand that money is a resource that should never be wasted, and in turn, they allocate nearly twice the number of hours per month to budgeting and planning their financial investments than UAWs (82). UAWs believe, incorrectly, that they do not need to spend time making their own investment decisions. Stanley and Danko discovered that PAWs allocate 40 hours per month managing current investments while UAWs allocate only one (96). According to the authors, "Making investment decisions with little intellectual basis for one's decision translates into major losses" (87). After all, if you are not knowledgeable about the places you are putting your money, you might be in for a dangerous ride.

In addition to their lack of time managing investments, the high consumption habits of UAWs reflect how these individuals do not have appropriate control over their spending. As a result, they spend a considerably higher amount of money on things. According to Stanley and Danko's research, UAWs spend over six times the amount of PAWs on motor vehicles and mortgage payments. The annual mortgage payments for PAWs are $14,600 while UAW's are $107,900 (79). No wonder UAWs have only a quarter of the wealth of PAWs. After all, if you can't control your spending, you're unlikely to accumulate prodigious amounts of wealth (83).

Another reason why millionaires achieve a great amount of success results from the absence of economic outpatient care. As defined by Stanley and Danko, "EOC is the substantial economic gifts and acts of kindness some parents give to their adult children and grandchildren" (142). Many adults who distribute EOC have accumulated wealth and feel obligated to provide economic support for their children and their families (142). As a result, many receivers of EOC are able to live lavishly despite how, "the more dollars they receive, the fewer they accumulate, while those who are given fewer dollars accumulate more (168). This quote demonstrates how individuals handle money inappropriately when it is handed to us rather than when we earn it. Although this relationship is statistically proven, many parents still believe that their gifts can transform their children into successful adults. They are wrong. As Stanley and Danko stated, "discipline and initiative cannot be purchased" (168). Distributors of EOC are also wrong to assume that their gifts will only be needed for a short period of time. After all, their adult children become economically dependent on them (146). Research done by the authors shows that more than 46% of affluent Americans give at least $15,000 worth of EOC annually to their adult children or grandchildren. 43% of the millionaires who have grandchildren pay for all or part of their private school tuition, and 32% fund their adult children's graduate school tuition (145). Individuals who have never received any EOC, on the other hand, are self-sustaining and have grown successful by working hard, investing wisely, and enhancing their productivity (150).

Dr. Thomas Stanley and William Danko's *The Millionaire Next Door* has advanced finance knowledge and practice by highlighting the importance of budgeting and planning investments. Throughout this paper, I have discussed the opposing characteristics of PAWs and UAWs. While PAWs need to achieve, create wealth, and become financially independent, UAWs feel the need to display a high-status lifestyle through the overconsumption of goods and services (241). According to the book, the foundation stone of wealth accumulation is being frugal. Frugal spending should be anchored by budgeting and planning (38). In other words, individuals will learn to accumulate more wealth if they save their money, budget their expenses, and devote a considerable amount of time to managing their investment decisions. Allocating more hours to investing is one of the main reasons millionaires remain wealthy (48). Additionally, while the majority of the millionaires that Stanley and Danko surveyed own stocks, they do not actively trade their stocks. They spend more time studying very few offerings in order to master their understanding of them (101). After all, being a well educated, high income earner is often the result of a lifestyle of hard work and planning.

Works Cited

Stanley, Thomas J., and William D. Danko. *The Millionaire Next Door*. Pocket Books, 1996.