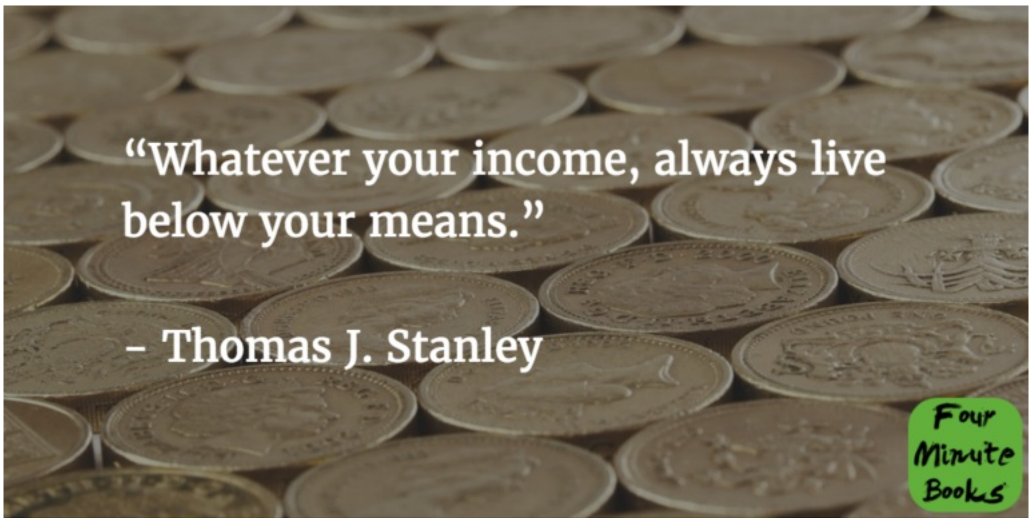
The Millionaire Next Door Summary

1-Sentence-Summary: *The Millionaire Next Door shows you the simple spending and saving habits that lead to more cash in the bank than most people earn in their life while helping you avoid critical mistakes on your way to financial independence.*

Read in: 4 minutes

Favorite quote from the author:



It always makes me sad to hear a great author has died of unnatural causes. In Thomas J. Stanley's case it was a drunk driver, who tried to cut him off in traffic, crashing into his Corvette – one of his few luxuries – and fatally injuring him at 71 years old.

The Millionaire Next Door, which funnily made him and his co-author millionaires, was published in 1996 and has sold over 3 million copies to date. Stanley was obsessed with studying the wealthy, whom he called "the affluent", and what discerns them from those he calls UAWs – under accumulators of wealth.

As it turns out, becoming a millionaire is not rocket science, just a matter of planning well, living below your means and avoiding a few stupid mistakes. Want to know how?

Use these 3 rules to improve your chances of ending up with a million dollars in the bank:

1. Save responsibly from the moment you first start earning more than you need to live.
2. Use this simple formula to calculate if you're falling short of your financial potential.
3. Avoid economic outpatient care to reach your goal.

Committed to making your dream of financial independence come true? Let's see if you can keep these rules!

Lesson 1: Save responsibly from the moment you first start earning more than you need to live.

Most people think the only way to become a millionaire is to earn at least $1 million/year for a couple of years. But even if you're one of the top earners in the world, taxes will eat away roughly 50% of your annual income. Deduct living expenses, maybe a mortgage and a few vacations and you might end up with just $200,000 – if you're lucky.

However, that would indeed make you lucky, because you never even have to earn a million dollars in a year, in order to become a millionaire.

Not with this one rule anyways: **The moment you earn more than you need to live, save as much as you responsibly can and avoid spending cash on things you don't need.**

Budgeting well and living a frugal life is really all you need to build wealth (especially if you're still young). Around 55% of all millionaires attest their wealth simply to being deliberate about their finances and disciplined saving.

Note: For the youngsters: If you're not out of college yet, remember this at *all* costs (haha), so you can instantly start saving half or even more of your income, once you start your first job.

Lesson 2: Calculate if you're not reaching your full financial potential with this simple equation.

Stanley has come up with a simple formula to calculate your expected wealth:

Multiply your age with your pre-tax annual income and divide by 10.

Whatever this number is, it reflects how rich you *could* be right now, if you've already cultivated good spending habits. For example, if you earn $80,000 at age 30, your expected wealth comes out to $240,000.

Take this with a grain of salt, since it takes younger people longer to reach their expected wealth, because of compounding interest – a 50-year old will have reaped the benefits of the interest they get on their interest for much longer, for example.

However, it's still a good indicator of how well you stack up and can keep you from becoming a **big-hat-no-cattle-type**. That's someone who appears wealthy (like a farmer with a big hat), but in reality spends all their money on keeping up this illusion (and thus has no actual cattle).

Try to get closer and closer to your expected wealth over time, not by saving excessively, but by avoiding spending too much.

Lesson 3: Don't fall for economic outpatient care to see your bank account go to seven figures.

Do you know how kids with rich parents often can't handle their finances and never worry about spending?

That's what economic outpatient care (EOC) is all about. Most affluent parents mean well when they support their children with their hard-saved money, **but in reality it hurts their ability to handle money**.

Almost half of all wealthy Americans sponsor their children and grandchildren with over $15k/year, which leads them to acquire the according lifestyles, even though they technically can't afford them.

I'm not American, but in hindsight I think I too have received that much each year and while I never went crazy and invested most of the money into my future (studying abroad, buying books, courses, travel, etc.), I still didn't know how to save and grow my money until I started earning my own.

The problem with regular EOC is that it eventually just fades into your annual income, making you believe you earn more than you do, and even calculating with that money in advance.

What's the lesson?

If you have rich parents, don't waste their money – at least invest it wisely! If you are a rich parent, don't spoil your kids – you won't do them any good.

The Millionaire Next Door Review

The Millionaire Next Door is a great book. It's not one of those "just buy an apartment complex building that doesn't suck" or "just make a business and sell it" type of books. You know, things which are just impossible without skills that take decades to develop. This is much more practical.

Most people could save half of their income or more if they just didn't buy as many useless things as they do, and this is a book about how to make that happen, plain and simple.

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What else can you learn from the blinks?

- How Mr. and Mrs. Rule plan on getting together those $5 million for retirement

- What true millionaires really care about (it’s not a fleet of Rolls’)
- The two things millionaires spend excessively on (and rightfully so)
- Where millionaires invest their money
- Why the most financially dependent children receive the biggest share of their parents’ inheritance (it’s a trap!)

Who would I recommend The Millionaire Next Door Summary to?

The 23 year old, who’s about to take her first job after college, the 39 year old, who’s settled well into his career, but now realizes he’s not as well on his way as he’d like to be, and anyone who never had to take a job as a kid.