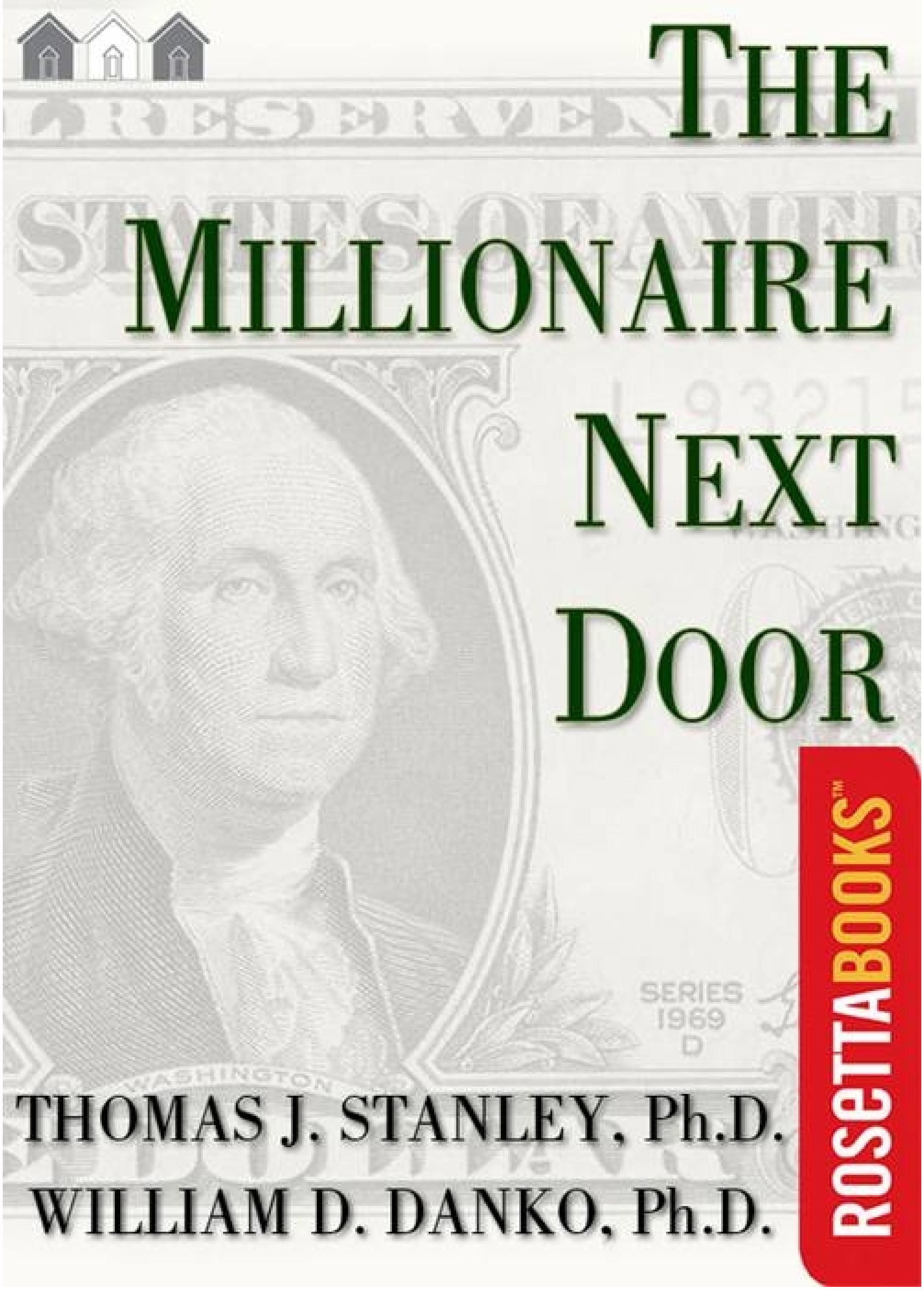

The Millionaire Next Door

The Surprising Secrets of Americaҳ Wealthy

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The Millionaire Next Door

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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— million Christmases,
a trillion Fourth of Julys
—. J. Stanley

For my loving wife, Connie, and my dear children,
Christy, Todd, and David
—. 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 oneҳ 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 coupleҳ lifestyle is boring, even common. This millionaireҳ brand of watch is a Timex; her husbandҳ is a Seiko (number one among millionaires). The couple buys their clothes at Dillardҳ, 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. Tҳ 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: ӂut 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 donȚ 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 decedentҳ 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 ɼealthy blue collarsegment in a paper entitled Ɱarket 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 yearsŮ [Members of] the really big segment, the wealthy blue collar, do not need to purchase expensive artifacts that are part of the white collar workersЌknapsackŮ

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, Ӂbout one-half of the millionaires in America donҴ live in upscale neighborhoods.�Thatҳ 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 Æhe 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 interp�IJetation 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. Thatҳ 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, Ӂfter 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 yearsŮ Sometimes my kids ask if we are poor because I make them order from the $1 value menu.�/p>

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 oneҳ 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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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 Ĵhree 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 donЦ even come close. By ӯther 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 öood 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 KEOG