The Millionaire Next Door Summary

By Thomas Stanley

What do you imagine when you picture the lifestyle of the rich and the famous? Many of us are under the impression that millionaires are conspicuous consumers who purchase high-end designer items, and splash their cash with frivolous abandon.

The Millionaire Next Door, aims to dispel myths about the wealthier sector of society, and it reveals that many of us are misinformed about what it *actually* means to be rich. The authors studied the profiles of the rich, and provide critical insights into achieving financial independence.

The majority of America's wealthy don't live the Hollywood high life, wear designer shades, and have garages full of fancy cars. On the contrary, the typical American millionaire enjoys quite a modest life, in a middle-class suburb. They could even be your neighbor. Authors Thomas Stanley and William Danko, debunk the myths about the millionaire lifestyle, and give us a more accurate, yet *surprising* portrait of the average American millionaire.

Many of us have no idea about the actual inner workings of a wealthy household. Furthermore, the advertising industry, the music industry, and Hollywood, have done an exceptional job convincing us that wealth and hyperconsumption go hand in hand. But, this simply isn't the case. This research is the most comprehensive ever conducted on America's millionaires, and is an important text that shares information on who they are, and how they got to be so wealthy.

During their research process, the authors met over 500 millionaires face-to-face. As part of their research, they threw a penthouse party and invited the typical millionaire-next-door types to attend, to interview them about their journey to wealth. The authors made some significant observations. For example, not one person ordered any delicacies, nor drank the most expensive wine. The only food they indulged in was the crackers. Many were also under-dressed for the occasion, wearing well-worn suits. This insight is the key to this book, because it shows that the millionaire-next-door is usually best described as; frugal.

This summary briefly takes us through wealth management and attaining financial freedom. If you're curious about what it takes to be truly wealthy, who better to take advice from than two renowned social scientists, who have been studying the habits of affluent people for over three decades? In this book, they unpack the millionaire-next-door profile, his or her financial practices, and what we can learn from a frugal mindset. Ultimately, your typical millionaire lives a modest life, and budgets wisely. You might wonder why with all that money, they would be so budget-conscious? Millionaires reach this status, and remain there, mainly by budgeting and controlling their expenses. What's more, if you have children and you want them to have financial freedom, this book offers crucial advice about the importance of raising a financially savvy younger generation.

Live Below Your Means, Save Regularly, and Invest Wisely

There's a popular saying about wealth; 'The first generation makes the money, the second generation builds on this, and then the third generation blows it.' Millionaires next door, tend to be happy with their lifestyle. They live within their means, always saving rather than spending.

As the book’s title implies, the average millionaire isn’t living in Beverly Hills or in a Park Lane mansion. Harvard-trained mathematician Jon Robin says, that about half of the millionaires in America, don’t live in upscale neighborhoods. Rather, they live in modest homes and middle-class neighborhoods. From the studies conducted, these millionaires reported being very happy with their lifestyles. 90% of the millionaires who live in homes valued at less than $300,000, are extremely satisfied with life.

One of the key ways to reach financial freedom, is to live below your means. One of the book’s research subjects, a qualified engineer, told the authors that she’s incredibly frugal. After college, she and her husband both got good jobs, but decided to live on one income and save the other. Every time they received a raise in salary, they saved more. She and her husband have lived in the same modest 1,900-square-foot home, for twenty years. She’s also instilling frugal values into her children. Who sometimes ask if they’re poor, because there are times their parents make them order from the $1 value menu.

The millionaires that the author interviewed, are also frequently investment savvy. It’s not just about investing your wealth in stock markets and fancy properties. The typical millionaire they profiled, had no more than 30% of their wealth invested in publicly traded stocks.

Rather than investing their money in stocks and property, they believe true diversity comes from controlling one’s investments. Many millionaires display caution towards stock market investments. They generally thought they have more control over private investments. For example, money lent to private parties, and owning their businesses.

Interestingly, 80-85% of millionaires are self-made, they're not your typical trust fund babies, and most have created and accumulated their own wealth. This notion of wealth accumulation is crucial, because it gets you one step closer, to that much prized financial freedom.

The average self-made millionaire prizes financial freedom and financial independence. Yes, they're budget-conscious, investment savvy, and self-made, but they also exhibit a positive attitude towards wealth accumulation. They're genuinely passionate and enjoy the journey towards building wealth.

Save, Don't Spend

People who look like they're rich, don't inevitably have the type of wealth we'd expect. These types of people, the "big hat, no cattle" kind of people, value style over substance. Your typical millionaire-next-door prefers to save rather than spend.

The advice from all of the case studies, emphasizes financial independence, rather than ostentatious wealth. Rather than buying into conspicuous consumption, the idea is to strive towards financial freedom. This approach means, that if there's an unforeseen crisis, or if we face unemployment, we would have accumulated enough money to support our current lifestyle for the foreseeable future.

There are two types of people in the world: those who spend their money, and those who deliberately save and build wealth. The first type is prodigious accumulators of wealth - the millionaire-next-door. The second type, is under-accumulators of wealth.

To become a prodigious accumulator, we need to build wealth efficiently, use our time correctly, budget, live below our means, and invest carefully.

How are you currently feeling about your credit or debit card situation?

A lot of us are under-accumulators, because we survive from paycheck-to-paycheck. Many of us might be spenders who ignore budgets and wise investments. Many of us also fall victim to wealth-destroying impulse purchases.

But, it's all very well to accumulate wealth if you already have it, what happens when you're earning a modest income?

Income Versus Wealth

A key distinction needs to be made, and that is that your income is what you earn, but your wealth is what you accumulate.

We need to contextualize our net worth, by looking at factors such as age and income bracket. This contextualization helps us to determine whether we're as wealthy as we should be. To calculate our wealth there's a simple formula: multiply your age, by your annual pre-tax income, and then divide that number by ten.

So, let's look at a 60-year-old doctor who makes $560,000 a year. His net worth is 1.1 million dollars. We might think he's wealthy because his net worth is just over a million dollars. But, relative to his age and income bracket, his net worth should be more. By plugging those numbers into the wealth formula, he should have a net worth of more than 3 million.

This formula is useful, because it tells us that he's an under-accumulator, living a high-consumption based lifestyle, and that, relative to his age and income bracket, he actually isn't wealthy.

On the other hand, a 40-year-old policeman and his wife, a secretary, have a combined income of $50,000 a year. They spend modestly, they are careful savers, they invest strategically, and they have a net worth of $460,000. If we look at these numbers using the formula, their expected net worth for this age and income category comes to $200,000. So, because their net worth is higher than the norm, they're wealthy accumulators.

The key message is that if your net worth is higher than your income and age bracket, you're doing well as a wealth accumulator, you're building wealth, and you're on your way to becoming wealthy. If not, you're spending more than you should, and you should adjust.

Interestingly, millionaires have several other things in common.

The Millionaire-Next-Door Is Budget Conscious and Sets Long-Term Goals

Did you know, that 62% of millionaires-next-door, evaluate their expenses, and stick to monthly budgets? Conversely, the majority of under-accumulators have no idea how much their consumer-oriented lifestyles cost them.

Millionaires-next-door spend less time worrying about the status quo, and more time making wise financial decisions. They're goal-oriented and take a long-term view. For example, when it comes to cars, most don't drive the latest luxury models. Instead, they take time to shop for a used car that has been well-maintained. They avoid loan repayments, and purchase cars using cash instead.

Their goal isn't to spend on luxuries, and to acquire material possessions, but to achieve financial freedom. They want to be able to enjoy life, and retire with financial security. Furthermore, they're motivated by visualizing the long-term rewards of achieving financial independence.

We should consider what long-term goals could motivate us to live more frugally right now?

The Millionaire-Next-Door Identifies Market Opportunities and Chooses the Right Profession

Did you know that 80% of self-made millionaires are self-employed? Also, you might consider most of their small businesses quite dull. Their businesses often provide essential goods and services. So, they aren't too susceptible to economic downturns. While the job may appear to be dull, the money, and security, are often huge incentives

However, this isn't to say that you have to be the entrepreneurial type to accumulate wealth. A common denominator among the many interviews with self-made millionaires is choosing a profession where their skills and services are in demand.

The Millionaire-Next-Door Tends to Avoid

Spending Money on Economic Outpatient Care

Did you know that more than 46% of wealthy Americans support their adult children and grandchildren? Millionaires-next-door, are mindful of how much money they *gift* their children. The average financial gift that wealthy Americans give to their children or grandchildren, is at least $15,000 each year. One in five of these children, are in their forties and fifties.

Furthermore, 61% provided forgiveness loans to their relatives, meaning they weren't expecting the money back. 59% helped their children buy new homes, and 43% paid for their grandchildren's private school tuition.

Although it may seem like excellent parenting, these gifts tend to create dependency. While the money does help their children establish themselves, these gifts tend to go on for decades. As a result, those parents who assist their children and grandchildren, have significantly less wealth than their counterparts within the same income category.

The point is to avoid economic outpatient care, because it diminishes your financial security and your child's financial independence. Children who receive subsidies, tend to be under-accumulators. In other words, the more they receive, the less they accumulate. These gifts or hand-outs often lead to further consumption, because they trigger more spending to keep up with their high-status lifestyle. Children also frequently develop a sense of entitlement to their parents' wealth, and rely on credit to fill the gaps while waiting on gifts. This all, of course, creates a cycle of dependency.

Successful children from wealthy households tend not to get cash gifts from their parents. Their parents have also instilled the values of frugality, discipline, and independence. The idea is to teach your children how to invest well and to spend wisely.

In Conclusion

All of us would like to have financial independence and freedom. We don’t want to have to worry about our retirement. Money is a critical factor in stress and anxiety, so it’s essential to engage with our finances instead of ignoring them and hoping for the best.

This book provides the tools and advice, on how to be better at managing and understanding our finances and economic situations. Using a vast selection of case studies, and rigorous research, the authors demonstrate what most millionaires have in common. The message is, that if we apply some of these lessons and values to how we react to our finances and spending habits, then we will be better off financially. Furthermore, it asks us to redefine our notion of wealth, and adhere to some simple standards to create the same financial freedom that many millionaires enjoy.