THE MILLIONAIRE NEXT DOOR

The Surprising Secrets of America's Wealth

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MAIN IDEA

Historically, people have tended to assume the keys to accumulating wealth in the United States were:

(1). To inherit it from successful parents or relatives.
(2). To earn advanced degrees at the best universities.
(3). To be smarter or more intelligent than competitors.

However, a 20-year study of a group of more than 1,000 real-world millionaires found the keys to building high net worth in the United States were more likely to be:

(1). The market-driven results of solid ongoing work ethics.
(2). The application of consistent, long-term savings habits.
(3). The enduring self-discipline to spend less than is being earned each month and to invest the balance.

In other words, the underlying keys to building wealth are actually fiscal discipline, sacrifice and solid work. Anyone who wants to actually achieve financial independence can use this information to realign their lifestyle to incorporate these same keys.

7 COMMON TRAITS DISPLAYED BY SUCCESSFUL WEALTH BUILDERS

#1: They have conservative lifestyles, spending less than they earn and investing the balance.

#2: They are efficient in allocating resources - time, money and energy.

#3: They place a higher priority on financial independence than on social status.

#4: Their parents did not provide significant financial assistance but they made it on their own efforts - and most likely the same will apply to the next generation as well.

#5: They teach their own family members to become economically self sufficient.

#6: They focus on emerging market opportunities - such as providing products and services to other affluent households.

#7: They chose an occupation in which they can become self employed.

Introduction: Who are the wealthy?

Main Idea

There is a lot of misinformation disguised as fact when people describe the wealthy. To cut through the fog, a 20-year study of more than 1,000 millionaires was carried out in the United States, to find who the successful people were and how they accumulated their wealth.

The following facts became clear as a result of the study:

- By 1996, there was $22 trillion of personal wealth in the United States, with almost 50% of that wealth held by 3.5% of the households.
- Most people focus on income rather than accumulating wealth. However, a person making a high income who spends it all on their lifestyle isn't getting wealthier - just living well. Wealth is what is accumulated, not spent.
- More than 80% of America's current millionaires are first-generation - they've accumulated their wealth rather than inherited it.
- More than 25 million U.S. households have annual incomes exceeding $50,000. Almost one-third of those households (7 million) have incomes greater than $100,000. Yet despite this, the majority of households live from paycheck to paycheck and have little accumulated wealth or other financial assets.
- Of all American households:
  - 23.0% have IRA or KEOGH funds
  - 22.0% have certificates of deposit
  - 18.1% have U.S. savings bonds
  - 15.0% have a money market deposit account
  - 8.4% own rental property
  - 4.2% have funds in a money market fund
  - 3.4% invest in corporate or municipal bonds
  - 2.5% own stock and invest in mutual funds

While there are an infinite number of different ways to generate income in the present day economy, there are seven personality and character traits which those who have been successful in accumulating wealth generally exhibit. These traits are:

#1: They have conservative lifestyles, spending less than they earn and investing the balance.

#2: They are efficient in allocating resources - time, money and energy.

#3: They place a higher priority on financial independence than on social status.

#4: Their parents did not provide significant financial assistance but they made it on their own efforts.

#5: They teach their own family members to become economically self sufficient.

#6: They focus on emerging market opportunities - such as providing products and services to other affluent households.

#7: They chose an occupation in which they could become self employed.

These traits will be expanded on in more detail throughout this summary.

Trait #1: They have conservative lifestyles, spending less than they earn and investing the balance.

Main Idea

Most non-millionaires assume that being a millionaire means having enough money that you never have to worry about how much is spent on maintaining a lifestyle. In reality, most millionaires actually monitor and carefully plan their total lifestyle expenditure, and tend to frugally live below their means. They take more pleasure out of being financially secure than in projecting a lavish lifestyle to their friends and associates.

Supporting Ideas

Lavish lifestyles of the rich and famous command a high degree of market interest - consequently, many people seem to think they can support a high-consumption lifestyle while becoming financially independent in their spare time. In practice, however, most successful accumulators of wealth have a value-for-money, unglamorous lifestyle that wouldn't sell any magazines or form the subject of any TV shows. They tend to live in unremarkable, middle class neighborhoods, and avoid outward appearances of wealth.

By contrast, many under-accumulators of wealth focus on spending tomorrow's dollars today on material possessions. By doing so, they get stuck on a spend-more-than-you-earn treadmill, with corresponding increasing amounts of debt.

The foundation of any wealth accumulation program is defense - focusing on budgets and planning to ensure the entire household consistently spends less than its income. This requires the cooperation of every member of the household, especially spouses.

Instead of allowing your income to determine your household budget, take a pro-active, defensive approach to building wealth. Get into the position where you can candidly answer these questions as a family:

1. Does your household have a written, annual budget?

   A written budget will enable you to foster a "pay yourself first" mindset in which investment for the accumulation of future wealth becomes more important than spending as much as possible of your annual income. Take as a starting point a goal to invest 15% of your annual realized household income each year, and structure your budget around applying the balance of your income to meet all reasonable needs.

2. What is your annual expenditure on the basics: food, housing and clothing?

   Simply keeping track of expenditure in each of these areas will help you control your expenses, instead of having the helpless feeling that expenses are controlling you and rising to soak up all available income. You can then progressively work on ways to live more cost-effectively year by year, freeing up more cash for investment towards financial independence.

3. What are your long-term and near-term goals?

   Most millionaires tend to be very goal oriented. They also seem to often have an above average ability to visualize the future benefits of achieving these goals. Goals don't need to be complicated to be meaningful - a large number of millionaires have a goal to be financially independent, and their achievement of this one goal provides them with a great deal of satisfaction.