The Millionaire Next Door

Thomas J. Stanley and William D. Danko © 1996

Millionaire Women Next Door

Thomas J. Stanley © 2004

Stanley has written several books on the demographics and habits of American millionaires, initially when a university professor and also in his role as a consultant to a luxury goods conglomerate.

The landmark book Millionaire Next Door revealed that most millionaires live modestly, may drive a pick up truck, own a few laundromats and live unassumingly "next door". Stanley seeks to identify who the millionaires are, who they aren't and how you can become one - there are many insights that remain timeless despite being published 10 years ago.

In a follow up book Millionaire Women Next Door the focus (as per the title) is on women, and mainly on successful business owners (who make up the bulk of the wealthy in all cases). Millionaires were identified through detailed demographic analysis and survey, and not as one of Stanley's "C students" suggested, by finding those who drove luxury cars:

- **The information applies to Australians noting 1) we have a higher proportion of the wealthy professional class than entrepreneurs, and 2) tax and housing costs create a greater challenge for us locally.**

The key and obvious lesson from both books is that the type of success described comes from living below your means and directing your energies to creating wealth purposefully

- **Excessive consumption early in life robs future wealth**

Portrait of a US millionaire (circa 1995)

57 year old male, married, never divorced with three children

- **In 70% of the cases, the male earns 80% of the income**
- **High income producer with frugal partner who budgets well**

One in five are retired, 2/3rds of those working are self-employed business owners, the balance are professionals including doctors and accountants, many are entrepreneurs

Half of the wives don't work, #1 occupation of those that do is teaching

Average household (HH) net worth of $3.7m and median of $1.6m (6% > $10m) Average HH income is $131,000 and median $247,000 (5%> $1m)

97% are homeowners, average home value of $320,000; ½ in same home for 20 years; non-millionaires in their neighbourhood outnumber them 3:1

80% are first generation wealthy having not received any inheritance

Live below their means, though spend heavily on children's (and grandchildren's) education and save and invest 15-20% of their income

They are generally 'buy and hold', passive not active investors

4 out of 5 are university graduates (18% masters, 8% law, 6% medical, 6% PhD)

Disproportionately from major ethnic groups Russian*, Scottish, Hungarian* and minor groups Israeli, Latvian, Australian ! (*mainly as entrepreneurs)

note all figures in US$

Millionaires are generally frugal (not cheap)

Most millionaires live modest lives even after reaching this level, not being able to break the habit that made them wealthy:

- **50% never spent more than US$399 for a suit, $140 for shoes, $235 for a watch**
- **Also many are self-employed preferring to reinvest in their business and not broadcast their wealth to their clients**

More than half have a budget, know how much they spend and save before they spend

For those that don't budget they "create an artificial economic environment of scarcity for themselves and the members of their family"

Only a few have specialty credit cards: 3% diners club, 6% AMEX platinum, 21% Neiman Marcus, 25% Saks cards; while 43 and 30% have Sears and Penney's cards

On housing: Half do not live in recognised affluent suburbs (thereby having more cash to invest, avoiding the temptations of a high consumption lifestyle); several buy homes only 2x their household income ***[not easily done in Australia unfortunately]***

On cars: 80% buy not lease, 50% never paid more than US$29,000, 37% bought used; they buy domestic (Ford, Cadillac, Lincoln 1st, 2nd, 3rd) before Jeep, Lexus, Mercedes (tied for 4th), 60% own cars that are less than three years old

This is in direct contrast to the images from popular media and advertisers which teach (including children) that buying expensive items is normal behaviour for the affluent

Most millionaires don’t encourage their children to follow in their footsteps (when it comes to income generation), but in doing so may limit wealth generation

Two thirds of working millionaires are self-employed owners of businesses

- **As an aside, you can’t predict if someone is a millionaire by the type of business they are in. The character of the business owner is the most predictive of success**
- **This is not to suggest that some industries aren’t more rewarding than others**

Given the poor odds of small-business success, it is not surprising that millionaires encourage their children to become self-employed professionals like physicians, attorneys, engineers, accountants and architects

- **Average profits are higher than for small business and the risks are lower**

Indeed most small business owners don’t encourage their children to take over the business, and accordingly only one in five do so

A common multi-generational wealth pattern can emerge

- **First generation affluent are entrepreneurs who lived frugally and beat the odds with respect to business failure or mediocrity**
- **They want more for their children and a safer pathway encouraging and funding them to be high-income professionals**
- **Along the way the children adopt a more costly upper-middle-class lifestyle, save little and may require “economic outpatient care”**

Guidelines for raising children if you're wealthy

Never tell your children you are wealthy

- **"underachieving wealth accumulators" are typically children of high-status, high-consumption parents who emulate early an expensive consumption style**

Teach your children discipline and frugality

- **Including living by example**

Minimise discussions about inheritances

- **Can create future conflicts and dependence**

Treat children as individuals

- **Don't seek to equalize via gifts to "underachievers" as this typically only widens the gap**

Stay out of their family matters

- **Let them run their own lives, ask permission to give advice or gifts**

Emphasize your children's achievements, not symbols of success

- **Teach your children to achieve not consume**

Tell them there are more important things in the world then money

- **Tell them not to chase money but to be the best in their field, if they are then "money will find you"; focus on integrity, reputation, health, family, friends ..**

Portrait of a US millionaire businesswoman (circa 2004)

49 years old, wife and mother

- **Only 5% never married, 50% who are married were divorced, 18% divorced now**

Wake at 6am, retire at 10:30pm work 49 hours a week

Exercise three times a week

Earn 70% of the household income which is US$241,000 (median) and $414,000 (average)

98% are homeowners, one in three have no mortgage, only 4% owe more than $500,000

Have a household net worth of $2.9m (median) and $4.8m (average)

60% are college graduates 50% paid their own tuition, 50% paid for their grandchildren's tuition

More than their male counterparts they track expenses, research investing, hold stocks longer, use services of investment advisors including fee based planners

Donate 7% of income (3.5x average) to noble causes

Are frugal and more frugal then men (median spent less than $400 on a suit, $139 shoes)

Seven in ten took on a leadership role before becoming a teenager

Their main drive to become successful was to be independent and once there many don't want to reveal being rich

Millionaire women (cont.)

Most are a product of a nurturing parental environment that fostered success. Parents …

- **Taught them to have empathy for others**
- **Encouraged them to take initiative and not follow the crowd**
- **Gave them responsibility early in life, incl. earning their own pocket money**
- **Supportive not threatening, punishing or being cold and indifferent.**
  - **(One in five conversely came from a disruptive family environment which they overcame)**

Cite as most important factors for their success

- **Perseverance (51%), education and training (34%), self-reliance (23%), caring/helping (22%), enjoyment (16%), saving/investing (15%), goals (14%), responsibility (14%), integrity (13%), spiritual (12%), advisers (11%)**

In this book Stanley chose to focus only on business owners, however he does offer some ideas about other pathways to wealth for women including

- **sales (emphasizing that rewards are indisputably based on performance and not subject to gender bias, documented as a bigger issue than in Australia)**
- **run the "family office" (i.e. manage the families budget and investments, the latter like billionaire families do)**
- **education (observing that a disproportionate number of wealthy are modestly paid educators, who live with less pressure to consume)**

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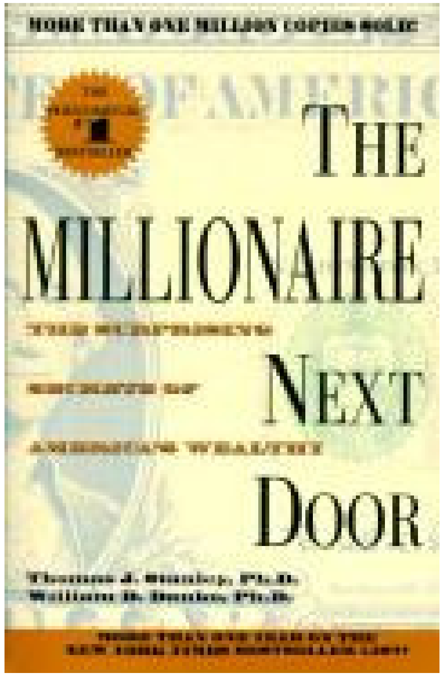

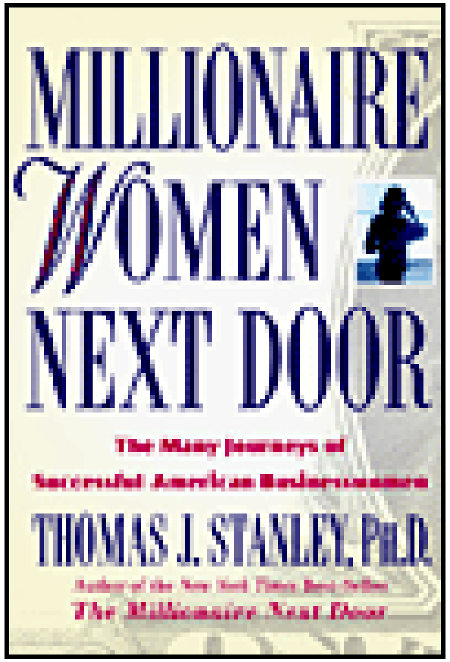

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