

THE
MILLIONAIRE
THE SURPRISING
SECRETS OF
AMERICA'S WEALTHY
NEXT
DOOR

Thomas J. Stanley, Ph.D.
William D. Danko, Ph.D.

Sentinel of the Times

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*For Janet, Sarah, and Brad—a million Christmases,
a trillion Fourth of Julys*
—T. J. Stanley

*For my loving wife, Connie, and my dear children,
Christy, Todd, and David*
—W. D. Danko

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All the names in the case studies contained in this book are pseudonyms.

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 three 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 even

intelligence 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 don't even come close. By "other 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 "good 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 certificate

of 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 KEOGH accounts.

But 65 percent of the households have equity in their own home, and more than 85 percent own one or more motor vehicles. Cars tend to depreciate rapidly. Financial assets tend to appreciate.

The millionaires we discuss in this book are financially independent. They could maintain their current lifestyle for years and years without earning even one month's pay. The large majority of these millionaires are not the descendants of the Rockefellers or Vanderbilts. More than 80 percent are ordinary people who have accumulated their wealth in one generation. They did it slowly, steadily, without signing a multimillion-dollar contract with the Yankees, without winning the lottery, without becoming the next Mick Jagger. Windfalls make great headlines, but such occurrences are rare. In the course of an adult's lifetime, the probability of becoming wealthy via such paths is lower than one in four thousand. Contrast these odds with the proportion of American households (3.5 per one hundred) in the \$1 million and over net worth category.

THE SEVEN FACTORS

Who becomes wealthy? Usually the wealthy individual is a businessman who has lived in the same town for all of his adult life. This person owns a small factory, a chain of stores, or a service company. He has married once and remains married. He lives next door to people with a fraction of his wealth. He is a compulsive saver and investor. And he has made his money on his own. *Eighty percent of America's millionaires are first-generation rich.*

Affluent people typically follow a lifestyle conducive to accumulating money. In the course of our investigations, we discovered seven common denominators among those who successfully build wealth.

1. They live well below their means.
-
2. They allocate their time, energy, and money efficiently, in ways conducive to building wealth.
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