INVESTOR'S EDGE

Book's lessons are still relevant nearly 30 years after publication

"The Millionaire Next Door" outlines how to replicate the success of 350 millionaires.

One person pretends to be rich, yet has nothing; another pretends to be poor, yet has great wealth. — Proverbs 13:7

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Guest columnist

Just under 30 years ago, I was introduced to what I believe is the single best financial book ever written — The Millionaire Next Door: The Surprising Secrets of America's Wealthy, by Thomas Stanley and William Danko. This personal finance classic explores the money habits of America's millionaires and outlines how you could replicate their success and achieve financial independence.

Stanley and Danko conducted an intensive study in the 1990s of 350 millionaires, with an average net worth of close to $4 million, surveying them on their spending patterns, financial behaviors, attitudes, and backgrounds. From this survey, the authors were able to come up with a composite overview of millionaires and how they achieved financial independence.

Now, while being a millionaire today is not as rare as it was 30 years ago, the book's principals are timeless and challenge the conventional ideas about what it means to be rich in the United States.

Here's the "Reader's Digest" version of the book's main points below:

Don't judge a "book" by its cover: The popular perception of America's wealthy usually revolves around business executives, surgeons, lawyers, and the like. While these demographics certainly contain wealthy individuals, the author's study found most millionaires lead more unassuming lives.

In fact, most millionaires in their research lived in modest neighborhoods, drove used cars, and came from humble backgrounds. Many of these individuals also had more ordinary jobs like engineers, mid-level management, and "blue-collar" business owners.

Habits and mindset override status and income: The author's book found that earning a high salary does not correlate with financial freedom. Instead, they found that many high-income earners lived paycheck to paycheck as a result of their pursuit of status and a lavish lifestyle. Those who "appeared rich" (drove nice cars, lived in big houses, and took expensive vacations) often were surprisingly low in assets relative to their income.

On the other hand, what was a far more accurate predictor of wealth than income was the "millionaire mindset." The authors state that the common underlying attitude of most self-made millionaires was a relentless focus on financial freedom — not enhanced consumption. From the homes they owned, to the cars they drove, to their daily spending habits, America's

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wealthy consistently live on less than what they could potentially afford.

Wealthy Americans are compulsive savers and investors: Controlling spending and living frugally are just one side of the equitation for America's millionaires. They also relentlessly save and invest.

The truly financially affluent allocate a significant portion of their income to stocks, real estate, and in some cases, their own small businesses. Many, if not most, put little emphasis in luxury items, but instead build a base of assets structured for total financial freedom.

Millionaires learn, set goals, and are accountable: You have heard me say in this column before that "To earn more, you have to learn more."

The Millionaire Next Door points out that the financially affluent are never complacent with their current status quo. They are constantly looking for ways to increase their assets, to broaden their knowledge base, and to generate better results for themselves, their customers, and for their families.

Millionaires pass on financial literacy to their children: Rather than providing significant financial outpatient assistance to their adult children, millionaires instead focus on providing them values consistent with hard work, frugality, and financial discipline. These traits are, in many ways, far more valuable than any fancy car or bank check.

Now, I understand that with today's inflation and income inequality, attaining "millionaire status" for some is not statistically feasible. However, anyone can embrace the principles proffered in this book and improve their own financial situation.

If you have read my column long enough, you know that I have long proffered many of the core takeaways from The Millionaire Next Door such as living below your means, continuous learning, and, vitally, investing consistently in stocks — the greatest wealth creating vehicle known to man.

THE FORMULA

In fact, here's a simple formula from The Millionaire Next Door you can use to honestly assess your current financial situation. Take your age, multiplied by your pretax income, and divide by 10. This is your expected net worth. If you are significantly below this number, you are considered an underachiever of wealth (UAW). If your net worth is twice this number, you are considered a prodigious accumulator of wealth (PAW).

Let's all work towards being a PAW!

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I've called these actions "Being brilliant at the basics."

If I were to leave you with one quote from Stanley's book it would be this: "It matters less how much more you make than what you do with what you already have."

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com