The millionaire next door analysis

Environment, Air

What do you think of when you hear the word millionaire? Do you envision fancy cars, expensive attire, sparkly jewelry, an elaborate mansion? I know I did, that is until I read the book " The Millionaire Next Door" by Thomas J. Stanley and William D. Danko. Did you know that your typical millionaire may be living in your neighborhood or sitting at the next table over in your favorite family restaurant?

The book is based on in-depth interviews and research of American millionaires and how they are able to stay wealthy by being frugal and not overspend. American society's expectations are not congruent with the reality of most American millionaires", is directly quoted from the book, and is something I agree with wholeheartedly. Before reading this book just from its title I thought it was going to be about how an average person became a millionaire and now how much different their life is. Boy was I wrong. The whole purpose of this book was to help people understand that to be wealthy does not mean you drive fancy cars or dress lavishly, but to be smart with your money and make that money grow by NOT spending and living sensibly.

There are three categories of wealth accumulation illustrated in this book and they are PAW, or prodigious accumulator of wealth, UAW, or under accumulator of wealth, and AAW, or average accumulator of wealth. The two emphasized in the book are PAW and UAW, to be a PAW you are in the top percentile of wealth accumulation and to be a UAW, you are in the bottom percentile. Your typical millionaire is very frugal, and will not excessively overspend. The big difference between PAWs and UAWs is their environment as a child and their parent's spending habits.

PAWs usually come from family that believed in budgeting and being frugal. UAWs usually “ learn that hyper spending is the main reward for becoming affluent in America” and therefore lower their total net worth. Let me ask you, do you think that these millionaires became millionaires due to family inheritance, or earning these millions? If you answered by inheritance, you would be wrong. In fact according to this book money inherited millionaires are soon to be extinct and millionaires will come from first generation affluent.

You may be saying what do I mean by first generation? First generation millionaires have made this money on their own with little or no help from family and friends. You may also be asking the question of “ Well, how are these people becoming millionaires? ” “ Millionaires become millionaires by budgeting and controlling expenses, and they maintain their affluent status the same way”. Their annual incomes usually are around 70, 000 but they have become millionaires by planning and budgeting their cost and expenses and by spending very little.

The authors’ studies showed that out of every 100 millionaires that do not budget 120 do. According to the book, “ it’s easier to accumulate wealth if you don’t live in a high status neighborhood”. The reason behind this is you won’t have to spend more of your money to maintain the high status appearance and lifestyle, if you are not surrounded by it. PAWs spend nearly twice the amount of time planning all their monthly financial investments than UAWs do, which also plays a huge factor as to why UAWs can never accumulate wealth.

So, let me ask you, on average, where in wealth accumulation do you think doctors fall under? If PAW was you guess, you would yet again, be wrong. Studies in the book showed that for every 1 doctor in PAW there are 2 in UAW. Reasons for this are believed to be because doctors are unselfish and give a lot of their wealth to others and family members, and also neglect to their economic well-being by spending so much time with patients. Most millionaires are married couples, and have a spouse that is usually as frugal as them if not more!

Usually in most cases the man is making the most money and the woman is in charge of the spending and family budget. The woman usually hardly spends any of the money which contributes to their accumulation of wealth. One thing millionaires do believe spending money on is their children’s education. Education is very important to millionaires, although a vast majority of them had little or no college and are small business owners. This book gives so much insight on how to own and operate a small business to start accumulating wealth.

It gives you the opportunity to truly realize that being wealthy does not lie in the material things but the budgeting and planning to ensure your financial future. Making expensive purchases does not help your future finances nor will the value of the items appreciate, they will only depreciate. Stocks are one thing in this book that they showed will definitely help your wealth accumulate.

The authors said that nearly 95 percent of all the millionaires interviewed own stocks. This does not mean that these millionaires are actively involved in the rading of stocks; in fact according to the book over 40 percent have not traded stock in six or more years. This book constantly reminds you to invest and save money! Budgeting and planning is key, always. That is what some people tend to forget and a perfect example used within the book was a physically fit person jogging who does not look like they need to jog yet they still are so they won’t have to worry about getting fat, well the same applies to budgeting and planning to stay financially fit so that you won’t have to worry about becoming broke!

As many people say you can’t judge a book by its cover. You never know that neighbor who runs that lawn mowing service next door, with two different work trucks in the driveway who annoys you may be a millionaire and you won’t ever know! Why? Because we as a society is so quick to jump to conclusions. We have our illusions on how a millionaire should act and look, when in reality a millionaire is just your average person with a great business mindset and awesome budgeting skills!