

The Millionaire Next Door: The Surprising Secrets of America's Wealthy

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INTRODUCTION

The *Millionaire Next Door* is a bestselling statistical book on America's millionaires since 1996. This is an exceptional book by Stanley and Danko after 20 years of extensive interviews and research on more than 10,000 millionaires during that time. The content reflects the common values and practices of millionaires, which is still very practical today if you want to become one of them. The truth behind this study is beyond time and boundary.

Are you the millionaire next door? When we talk of "who are the millionaires", the first picture that appears in our mind is those who own assets valued more than 1 million, live in luxurious housing areas, drive fancy cars, wear branded clothing, have a high social profile and etc. Ironically, as

per Stanley's findings, these are not the group who have net worth of 1 million and above. You will be surprised that the real millionaires were mostly first-generation rich, very low profile, and live well below their means. They are also proactive to any market opportunity and allocate their time, energy and money efficiently in creating their wealth. They are like average people, staying next door to us but we do not realize it.

Another concept in Chapter 1 is target net worth. The formula given is as follows:

$$\text{Target Net Worth} = \frac{(\text{Annual Income} \times \text{Age})}{10}$$

Prodigious Accumulator of Wealth (PAW) refers to those who are the best in creating their wealth and have a net worth value at least double of

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target net worth. Let's look at one example. For a person aged 40 with an annual income of 120,000, the target net worth is equal to 480,000. He should have at least 960,000 net worth in order to qualify as Prodigious Accumulator of Wealth. If he has a net worth of 240,000 which is below target net worth, then he is **Under Accumulator of Wealth (UAW)**; if his net worth is equal to target net worth, then he is just an **Average Accumulator of Wealth (AAW)**. I find this indicator very useful to examine how efficiently we optimize our wealth excluding any inheritance or windfall received and applicable to whatever currency but this indicator also has its limitation, as it is only applicable to those who have worked for 10 years and above.

Chapter 2 looks at how these target millionaires were able to create their wealth successfully. They were very good at budgeting, controlling expenses, minimizing tax payment and making the full use of every cent they paid while at the same time getting the most value out of it. These few methods are solid fundamentals to financial planning which everyone should practise in their daily lives and therefore avoid falling into the dilemma of "high income but poor man" fake millionaire. Higher expenses require a higher income to make it more sustainable so it is wise to have a lifestyle that you want with very minimum expenses, and only then you will have more free money to save and invest to compound your wealth

over the year. I remember what Warren Buffet said, "If you buy the things you don't need, very soon you have to sell the things you need". It seems that all the millionaires share the same value. Another things to add is, it is better to graduate early and then work (the earlier you start to save and invest), as you are utilizing the most out of the power of compounding over time. This really gave me a shock as I had always thought of working later, after completing obtaining a Master's and a PhD so that I could work for a shorter period.

We must realise that earning ability does not equal to the ability to manage money. The level of education has also nothing to do with wealth and some even say the ability to manage money [or having Financial Quotient (FQ) in today's jargon] is far more important for all. We should put more time and effort into planning our financial goals, keep ourselves aware of government policy, inflation and tax, and manage our financial instruments rather than waste so much time on luxury items. No matter how much you earn, living within our means is the steady and swift path towards financial independence. So, I have echoed what has been shared in Chapter 3: the efficient use of Time, energy, and money. Those who make full use of time, energy and money deserve the title of millionaire.

Chapter 4 tells us: You aren't what you drive. Do not invest in or waste too much money on a fancy car as a car is a

depreciating asset. Get the best bargain from urgent seller or a good discount from car distributor. Prefer a second-hand but good quality car rather than a new car and do not buy a fancy car just to show off. Let me share a quote from Bill Gates to end my review of this chapter: “I want to make full use of every single cent that I spend, which will create value to me and my family’. Sounds good, right?

The title of Chapter 5 is “Economic outpatient care”. This refers to financial help from parent to their kids. Like other parents, I want to give the best to my kids. But do bear in mind that we should not overdo this. This chapter reminds us that the more financial aid or gift we give to our children, the less they save. In other words, whatever financial help parents give their children will encourage their spending habit and will not help them attain financial freedom early. This reflects the popular saying, “Give a man a fish and you feed him for a day; show him how to catch fish, and you feed him for a lifetime”.

When my son was two years old, I told him that your parents own the house you stay in now but it will become yours in the future. My wife disagreed with me. She said as parents we should not mention anything to our kids about how much we have and what we are going to do with our assets. Parents’ assets should be separate from the children’s assets and parent’s assets are not to be an automatic inheritance for

their children. I fully agreed with her only after I read Chapter 6: affirmative action, family style. This chapter gives us the ten rules for affluent parents to raise productive children. I think all parents should read this as a lot of family crises due to money can be avoided by following these rules.

The last two chapters tell us that we should know your career or position well. We must recognise the best opportunities and seize them when the time is right. All the careers connected with millionaires are given in this chapter. With the high chance of working with a millionaire, you will have the advantage of earning a very lucrative advisory fee and quality referrals (the rich will recommend the rich) from them. This is indeed a good reference point for our career planning in order to use less effort and gain more return (career position and advantage).

I wish everyone reads this book, and learns from these millionaires especially how they manage their wealth, family and career. I wish everyone a “millionaire” or “billionaire” mind and life! ■