# SUMMARY

# THE MILLIONAIRE NEXT DOOR

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# Summary of “The Millionaire Next Door” by Thomas J. Stanley and William D. Danko

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A behind-the-scenes look at the unglamorous lives of America’s millionaires.

# Introduction

Have you ever been around people who had a lot of money and not realized it? Maybe you were chatting to the new couple down the block or a guy in your local coffee shop and thought, “They’re just an average Joe!” Until, that is, you found out something like where they work, who their family is, or how much their house is worth and discover that they’re actually a millionaire! If you have ever had this experience, then undoubtedly, you remember feeling incredibly surprised. Maybe you wondered why they didn’t behave in a more ostentatious manner or why you didn’t see a fancy car parked in their driveway. Maybe you even felt like their house wasn’t that nice.

But, above all, if you’ve discovered that a friend or acquaintance was a secret millionaire, it’s highly likely that you had one big question on your mind: how? How did they get their money? How did they hang on it? How come they don’t act like a millionaire? And-- perhaps the most pressing question of all-- how can you emulate their wealth and success? Well, question no longer! Because over the course of this summary, we’re going to unpack each of those questions (plus a few more!) and examine the authors’ answers.

## More Money, More Problems

We’re all familiar with the famous song by The Notorious B.I.G. and the classic saying it inspired. But is it really true that more money can lead to more problems? Most of us will never have to worry about a problematic excess of wealth, but the authors’ argue that your secret billionaire buddies’ success is largely due to their acceptance of this fact. That’s because it’s a lot easier to become a millionaire than it is to stay a millionaire. Why? Well, although we tend to conceptualize “a million dollars” as being an infinite sum of money, the truth is that it’s anything but. So, let’s imagine that you really do have a million dollars. You spend at least half of it on a fancy house. You spend more on a luxury car. You spend a little extra on some designer clothes to match your new lifestyle. Now an overwhelming portion of your “infinite amount of money” is gone. How are you going to make your house payment? How will you pay for your flashy car’s insurance or repairs? How can you keep up with your new high-class friends? What are you going to do when something breaks in your house?

The authors observe that self-made millionaires who hang onto their nest eggs are successful because they considered these dilemmas in advance and planned accordingly. Sure, there are a lot of young self-made millionaires and celebrities who are happy to flash wads of cash around and who blow their money trying to maintain their lifestyle, but these are the folks who quickly run out of cash. By contrast, the millionaires who make few expensive purchases and control their budgets carefully are able to hold onto their wealth for a long time to come. And the authors’ research indicates that many millionaires practiced this strategy for a long time before they ever attained their wealthy status. In fact, the penny-pinching strategies they employed are so accessible that pretty much anyone could implement these tips to become a self-made millionaire!

Here’s how it works: you start by simply cutting out all the purchases you don’t need. The things we buy may be different for everyone, but the logic is the same. Because, at one point or another, everyone has thought, “Oh, it’s only $5, $10, or $15! It won't hurt to spend just a little bit!" But every time we employ that logic and spend another "small" amount on something we don't need, we're throwing away another little bit of money. And if we repeat this process multiple times every month, we've thrown away hundreds of dollars before we ever even realize it! But what would happen if we held onto those little chunks of money every time instead? What would happen if we saved them and put them aside? By carefully saving over time, the authors affirm that it's easy to put aside enough money to become a self-made millionaire. In fact, contrary to popular opinion, you don't need to make seven figures to begin with! You don't even need a substantial salary. You can cultivate a fortune of your very own simply by setting a goal, sticking to a budget, and saving money every month!

## What are Your Financial Goals?

As we mentioned in the previous chapter, many millionaires enjoy flaunting their wealth and maintaining an affluent lifestyle. These are probably the "stereotypical" millionaires that we often imagine. So, what makes them different from the unassuming self-made millionaires who might be living in your neighborhood? Well, the authors argue that the key difference is in their financial goals. Identifying your financial goals is crucial for success if you want to become (and stay!) a millionaire because your financial goals determine how you will manage your money. You can start identifying your financial goals by asking yourself a single question: why do I want to become a millionaire? Is it because you want to flash some cash? Is it so you can buy your own private island?

These aren't necessarily bad financial goals to have but if these are your reasons for becoming a millionaire, it does mean that you're likely to run out of money very quickly. That's because your financial goals aren't really geared toward savings and smart investments. But what if your goal is simply to be financially independent? In this case, you aren't driven by the desire to become a millionaire simply for the sake of becoming a millionaire. Rather, you're interested in accumulating enough money to survive a substantial physical, financial, or economic crisis. Simply put, this means that if you were to suffer a severe injury or if the economy tanked, you would have enough money to maintain the quality of life to which you are currently accustomed. So, if this is your goal, you're far less likely to buy a yacht or a Lamborghini so you can flaunt your wealth. Rather, you're going to make smart investments and save the money you have now so that you can build a steady accumulation you can count on for the future.

## Making Smart Investments

In the previous chapter, we affirmed that people who make smart investments are the people who become (and stay) millionaires. But what does a smart investment look like? When you first think about it, investing might seem like a scary and highly involved process that generates a lot of questions. What should you invest in? When should you invest? How can you assess the stability of the stock market? Fortunately, however, the authors assert that these questions aren't quite as pressing as you might think! Instead, they argue that a smart investment is typically characterized by one key thing: how important that investment is to you. That means two things: firstly, that your investments should be specific to you, and secondly, that they should have a positive impact on your life.

So, how does that work in practice? Let's break it down piece by piece, starting with the importance of "specific investments." In this context, a specific investment means that you're going to invest in a certain business or a certain field. But how do you know which field to invest in? How do you make the right choice? In this case, the authors affirm that you shouldn't sink your money into the business that seems most advantageous or most likely to give you a hefty return. Rather, you should invest in the area that you know the most about. So, for example, if you don't have a great deal of expertise in luxury automobiles, you might not want to invest in luxury automobiles. But if you know a lot about rare, first-edition books, then you should invest in books!

The authors observe that you may also find it highly profitable to invest in another area and this brings us to our second point: investing in products that have a positive impact on your life. Of course, your first instinct might be to say that a yacht or a private island would have a very positive impact on your life! But that's not really what we're talking about here. Rather, the authors are referring to investments that are practical rather than flashy. For example, let's say you run a small design business out of your home. You make customizable crafts, mugs, greeting cards, and t-shirts and you design every product by hand. You also rely heavily on your graphic design software and your printer to bring your creations to life. So, in this case, you might consider investing some of your wealth in a top-of-the-line printer. A printer is hardly an exciting or Instagrammable purchase, but it makes a lot of financial sense for your life and business. And that means it's a really good investment.

# Passing on Good Financial Habits

Many of us never learned how to write a check, how to apply for a loan, how to budget, or what constituted a good investment. Our parents didn't teach us that and we didn't learn about it in school. But whether you realize it or not, you inherited a lot of financial knowledge from your parents. In fact, that's true whether they directly told you anything or not. That's because human beings learn a great deal by example. By watching the behavior of others around us, we learn what's considered "normal" and what's considered "weird"; we absorb these standards as pre-schoolers just by watching other kids. And the same is true of the financial knowledge you absorb from your parents. For example, if your parents hoarded every dime, you might have inherited a proclivity for penny-pinching. By contrast, if your parents spent money just because they could (only to wind up in debt later), you might inherit the same tendencies.

The authors acknowledge this and observe that these are important considerations for the children of millionaires. So, just as you need to identify your own financial goals and the effect these goals will have on your life, you also need to consider how your view of money will affect your children. For example, if you communicate, "We're millionaires! We can spend all the money we want!" then your children will grow up believing that money practically grows on trees. This in turn will lead to poor financial choices-- like blowing through all their money too quickly-- or the inability to function on an average income. As a result, they might wind up with a mountain of credit card debt or expect you to financially support them for the rest of their lives.

The authors observe that neither of these options are desirable and that's why they advocate for parents modeling healthy financial choices. In practice, this means that even if you can afford to financially support your adult children, you probably shouldn't. And it doesn't hurt to teach your kids how to save and budget as they're growing up. For example, maybe you can afford to buy your daughter a Ferrari for her 16th birthday. But is that really the best thing for her? Or would it be better to teach her about getting a job and saving her money so she can buy an affordable car for herself? While that's not to say that you should never financially support your children or buy them nice things, it does mean that your actions can encourage them to become financially handicapped or leave them dependent on you.

The authors acknowledge that this happens to the children of many millionaires. Even if their parents made smart investments for themselves, they sometimes fail to do the same for their children and fall into the easy trap of giving them everything they want. As a result, their children develop negative financial habits and their parents' savings are drained by the necessity of supporting helpless adult children. This can also lead to unhealthy disparities in the division of the parents' estate. For example, if one child has become financially independent and is paying their own way in life, they might receive less than a sibling who has dropped out of college and never learned to budget. None of these outcomes are what you want for your family, so that's why it's important to consider your children in your financial planning as well.

# Final Summary

We all have a number of pre-conceived notions that arise when we think about millionaires. But as the authors' research indicates, those stereotypes are often incorrect! In many cases, millionaires blow through their money too quickly and resort to mortgages, loans, and credit card debt in an effort to keep up appearances. But in other cases, very wealthy people live within-- or even well below-- their means and budget carefully to accrue a sizable nest egg.

They then continue to budget and make smart investments that will enable their wealth to grow and thus, they are able to maintain a comfortable quality of life. The best part is that anyone can become a millionaire by following these same simple practices! All you have to do is budget carefully and eschew a flashy lifestyle in favor of smart investments that play to your strengths.