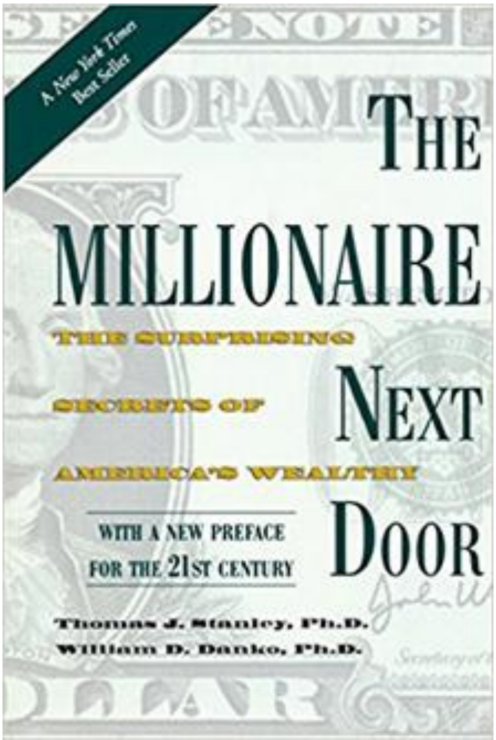
The Millionaire Next Door

By Rod Fraser



In the mid-1990s, I wrote newsletters for clients from time-to-time while operating my accounting practice. One that generated a lot of feedback was a book review of *The Millionaire Next Door*. For months after, during client meetings, Dr. North and Dr. South were often mentioned by clients. Most of them told me they preferred the life choices of Dr.

North.

When the book was reprinted on its twentieth anniversary in 2016, I looked through my archives to see if I could find my earlier book review. Unfortunately not. It was lost in time. So I reread the book and wrote a new review for you to read and enjoy.

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The authors tell us the average millionaire is not a scion of a wealthy family. He is much like Johnny Lucas (age 57), the owner of a small janitorial firm that has prospered over the years.

Johnny is married to his wife of many years, is careful with his money and lives modestly. He has self-sufficient adult children and drives an older car (purchased second hand). He and his wife are worth over $2 million.

Some of the characteristics that millionaires tend to share are set out below:

- They live below their means.
- They make a conscious effort to build wealth.
- They feel that financial independence is worth more than high social status.
- They often choose to be self-employed.
- They don’t help their adult children financially, except for assisting them with their education.

– They tend to be good at identifying economic opportunities.

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As mentioned earlier, two mythical doctors are described in this book — Dr. South and Dr. North. Both doctors are well paid, but Dr. North saves a good portion of his income. When asked if he was (1) frugal; (2) aware of his annual spending on food, clothing and shelter; and (3) careful to plan his financial future, Dr. North answered yes to all three questions.

Dr. North's net worth is substantial — accumulated (much like Johnny Lucas) from years of frugal living in a modest neighborhood, with a wife who shared the same goals.

On the other hand, Dr. South answered no to all three questions. He and his wife spend money at a level equal to a couple that earned "two times more than they did". Not surprisingly, they had few investments and were concerned about their future.

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During my years in the accounting business, I came to the same conclusion as the authors of this book. Some people just have a knack for saving money and accumulating wealth.

The level of income doesn't seem to matter.

Many high income individuals spend all their disposable income. And others with much lower incomes manage to accumulate a tidy nest egg over a few decades.

As a generalization, I think it is safe to say that many families who enjoy high incomes live beyond their means and spend for reasons of social status. Expensive cars, homes, watches, clothing, restaurants and vacations are their watchwords.

Some decisions made by individuals are called '*million dollar choices'* by the authors. For example, the decision to smoke and drink can be costly. Over a period of four decades, the money spent on cigarettes and alcohol, if invested properly, could easily amount to more than $1 million.

For those who might find this hard to believe, consider the opinion of the late Gordon Sinclair. He often used to say that the magic of compound interest was a lesson everyone needed to learn.

Sinclair claimed compound interest worked 24 hours a day, seven days a week. It never complained, took holidays or called in sick. Over a long period of time, it would look after you in your dotage. Where in the world can one find a friend or employee as companionable as compound interest?

I recall Gordon Sinclair making these remarks on his CFRB radio show many years ago. He was a man of pithy wisdom and I am sorry he is no more.

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The authors of *The Millionaire Next Door* suggest readers should have a minimum net worth, depending on their age and income. If you multiply your annual pre-tax income by your age and divide the result by ten, this is what your expected net worth should be.

For example, if John Doe had an annual pre-tax income of $140,000, then at age 60, the above formula suggests his expected net worth should be $840,000.

Of course, it is worth mentioning that many of the millionaires interviewed by the authors had considerably more than the expected net worth using the above formula.

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There is an interesting ethnic observation in the authors' research. They point out that Russians living in America have the highest number of millionaires as a proportion of their population. They are followed by Scots and Hungarians.

The authors' comments on the Scots are worth a mention. In 1996, this ethnic group amounted to only 1.7% of all households in America, but 9.3% of millionaires. Since Scots have a large number of wealthy households, one would expect their incomes, on average, to be higher than other Americans.

This is normally the case. Higher incomes and wealth are correlated. But for some reason — this is not true of Scottish families. Their millionaires come from a smaller number of higher income households (or from families that earn less, but know how to squeeze a dollar).

It seems the old jokes are true. Scots really are more frugal than other people. And these values of frugality, economic achievement and financial independence, passed down from generation to generation, may account for their success.

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I think one other comment might nicely finish my review of this book. The authors take considerable care to argue that giving money to adult children is not a wise thing to do (the one exception being payments for higher education).

In a very short time, these gifts become a form of “perceived income” by adult children, are seldom invested and encourage a life of spending. It is no surprise these children, over time, have “98% of the income and 57% of the net worth” of their counterparts who received no financial aid.

You really must purchase this book. I have only tapped into a few interesting aspects of the research the authors have accumulated over the years. There is much for a thoughtful person to learn from a careful reading of their work.

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