# 1 The Difference between Being Rich and Acting Rich

*Anyone who lives within their means suffers from a lack of imagination.*

—Oscar Wilde



While in his early teens, my dad worked as a paperboy, covering two newspaper routes: the blue route and the white route. Most of his "blue" customers lived in working- or lower-middle-class (blue-collar) neighborhoods located to the east and south of his parents' home. The "white" route included middle- to upper-middle-class (white-collar) customers who, for the most part, occupied nice and neat single-family homes to the west and north. Both routes contained roughly the same number of subscribers. Contrary to what you might think, my father found that the "blue" route was the more financially lucrative of the two. Customers were significantly more likely to pay on time, tip their paperboy, and provide him with a Christmas bonus.

Why? My father theorized that many of his "white" route customers were perpetually strapped for cash, as they were supporting expensive homes and all that goes along with them. He felt that many of his customers along his "blue" route lived below their means. As a result, they always seemed to have cash on hand with which to pay him when he collected.

The lesson in this story, according to my father, was there was a difference between *looking* rich and *being* rich, and that most people who looked rich weren't—they lived above their means and therefore usually had little money with which to be generous to others. By and large, my dad was right, though I learned that there are some people—although a small percentage—who are truly glitteringly rich. If you read *The Millionaire Mind* or have ever heard me speak about the rich, you will recall me mentioning a Halloween experience I had when I was 9 years old: Instead of trick-or-treating in our own blue-collar neighborhood, we ventured into Fieldston, one of the wealthiest neighborhoods in New York City. We were rewarded by treats of money from the likes of James Mason, the distinguished British actor, and bags of money from a home with an ill resident who had left coins for groups of children in the milk box. I proudly showed off our loot to my dad, making the counterargument that people who live in big beautiful homes are rich. He maintained that we got lucky and accidentally hit on a few of the cash-rich households that do exist.

Subsequent experiences and much study have shown me that, overall, my dad was right about those who look rich versus those who really are rich. More people look richer than they really are, and the really rich often don't look anything like what we think they should look like.

## Meet the Aspirationals

From the age of 13 to 17, I caddied, carrying a lot of golf bags between early April and mid-September. This helped fund my passion for model airplanes and boats, but I received a lot more than money from caddying.

I learned a great deal about people. In fact, much of the knowledge I gained on the golf course provided a base for my lifelong career studying rich people—and those who only act rich.

As a caddy, I alternated between two distinctly different golf courses. One was a public course; the other was part of a private country club. The public course was not typical of most public courses that were open to anyone. It had a natural terrain that was both demanding and rather spectacular. Half of the holes bordered a large reservoir and horticultural institute forest. Judging golf courses is subjective, but in my view the public course was way above the norm, better even than many private country club courses.

Most of the golfers at the private course were of a different sort from those I worked for at the public course. Most of the private club members were lawyers, physicians, dentists, accountants, and corporate middle-level managers. In the minority were business owners and senior corporate executives. Nearly all private club goers drove prestige makes of cars. At the time, members had to employ and pay for the services of a caddy—even those who drove electric carts. Not all of the members liked that rule.

Things were different at the public course. Golfers there had the option of hiring a caddy or carrying their own bag. About half paid for a caddy. Many of those who did were self-employed types, ranging from craftsmen to owners of small- and medium-size blue-collar businesses such as plumbing firms, hardware stores, contracting, and the like. Some of my best clients were sales and marketing professionals. Few golfers at the public course drove luxury cars or wore top-of-the-line golf attire like those who played at the private club.

As a work environment, there were certain advantages as well as disadvantages associated with each golf course. The fee for a caddy was 25 percent higher at the private club, but it took less time for me to commute (by bicycle) to the public course. This was not the only advantage of caddying at the public course. In my four years caddying, during each loop around the course, each and every customer at the public course offered to buy me a hot dog and a Coke for lunch. Only about one in four players at the private club made such an offer. In addition, about two-thirds of my public course clients tipped. Most of the golfers at the private club never tipped their caddies, although those who did tipped very well.

During my first two years of caddying at the private club, the caddy master never assigned me to a big tipper. Early in my third season, I asked the caddy master why.

"Stanley," he said. "You are not a great caddy. Big tippers demand great caddies."

His comments were perplexing to me, since some of the caddies who regularly got the big tippers were anything *but* great. About halfway through my third season, I figured out what made caddies "great" in the caddy master's eyes. I ran up a sizable tab on the caddy master's IOU ledger for sandwiches, soft drinks, and other snacks. Once my tab exceeded those of all the "great caddies," the caddy master finally saw the light. He discovered that I was the best caddy in the county after all! All of a sudden I was assigned almost exclusively to the country club's small group of big tippers. He nearly wore me out with all the big tipper business he sent my way. Often I carried two bags for 36 holes in one day. Every time I finished a round, I would pay off about 10 percent of my tab. Then the next day that I showed up, I put at least that same dollar amount or more back on my tab. (It is important to maintain—or, even better, enhance—one's reputation as a great caddy.)

Just who were those extraordinarily generous people at the private course, the big tippers? How did they differ from those members who never tipped a caddy or even offered him a hot dog for lunch? Today I have a clearer understanding of both of these types of people.

Most of the big tippers were classic big spenders in the genre of Vanderbilt, Rockefeller, Gould, or any number of modern-day megastars such as Buffett, Soros, Madonna, P Diddy, and thousands of glittering rich names you've never heard of. At the top were very successful owners of privately held corporations. Some were senior corporate executives of public corporations. My best client was a physician and his wife. The couple owned several hospitals and a variety of other commercial real estate. They were always in good spirits, even though neither one could hit a ball very well. And they were certainly generous!

The glittering rich had the economic means required to generate considerable wealth and simultaneously support a high-consumption lifestyle. Paying club-related fees and buying lunches for caddies didn't put even a minor dent in their financial statements.

What about the other type of golfer I encountered at the private course? I believe that a lot of them were, in fashion and retail parlance, "aspirationals"—people who act rich, want to be rich, but actually aren't rich. Aspirationals have two "highs": high occupational status and a high-consumption lifestyle. They often try to imitate the big-spending, glittering rich, but it is nearly impossible to do it all—from home to car to clothing to drinking and dining with an income that is only a fraction of what the typical glittering rich generates. Much of the aspirational income goes toward consumption categories that supposedly denote high occupational status and prestige: homes, cars, clothing, designer-grade golf equipment, and, of course, country club memberships.

But what about those consumption items that are not badges or symbols of socioeconomic success and superiority (real or imagined)? Here is where aspirationals go ultrafrugal. So what if your caddy got soaking wet three times retrieving your balls out of the lake during your round of golf? So what if he gave you some pointers that helped you shoot an all-time low score? No one will know if you stiff the caddy. Tell him you are "just a bit short on cash today" and will "catch up with him next time." It takes a lot of money, relative to income and net worth, to be an aspirational. Perhaps that is why more than two-thirds of those who are country club members are not millionaires.

How very different the aspirationals I encountered were from the business owners I caddied for at the public course. The business owners always seemed to have a good amount of cash with them, often in rolled up wads. They could afford to be generous with their hired help. Most had no interest in emulating the consumption patterns of the big-spending, glittering rich. Unlike the aspirationals, they didn't feel the need to display a variety of expensive badges that are supposed to indicate socioeconomic superiority. They bought what they could afford within their value system of priorities and were happy to pay for it. If they used the services of a caddy, they paid the caddy. If they didn't want to pay a caddy, then they didn't hire one. They didn't pay to belong to a private club when the nearby public course was so much better.

With the knowledge that I have today about wealth, particularly in America, including what I learned from my caddy experiences, what do I conclude? Most people who act rich are not rich!

## The Sobering Statistics

The financial crisis of 2008–2009 has certainly cost many people a great deal of money. A lot of wealth has evaporated, and all of a sudden wallets have slammed shut. Recent statistics indicate that people are saving like they haven't saved in decades. Neiman Marcus sales are plummeting, while Wal-Mart sales are growing somewhat. The *New York Times* publishes stories on trading down in clothing and make up with tips and leads. It's hip to be frugal. For the moment.

Time will tell if society and people have really changed or are simply taking a sick day, if you will. My research indicates that people—for generations—have become so accustomed to consuming that it is second nature, and I am fairly certain that they will resume their spendthrift ways once outward symptoms of the financial flu have passed. In other words, what we are experiencing is fear. Once the fear passes, it will be back to business as usual. In the United States, in particular, we have a long history of spending big and often frivolously. We like stories about people who make gobs of money and then spend it all—usually lavishly and with great aplomb—from the fictional Gatsby to the real-life antics of rappers draped in bling. To look at all the things we have—from iPhones to custom suits to new cars every year—it would seem as though we are rolling in dough, even in these tough times.

But are we really rich, or have we just been acting the part? The numbers tell a sobering story. More than $70 trillion in realized or reported income was generated by U.S. households between 1997 and 2006,[1] yet only 3.5 percent of these households were in the millionaire category (i.e., having investments valued at $1 million or more).

In 2007, about 2.2 million American seniors passed away. What did they do with the more than $2 trillion in income they earned during their lifetimes, given that only 2.6 percent left behind a gross estate (all assets included) of $1 million or more, and 75 percent of these estates were valued at under $2.5 million? What about the other 97.4 percent of decedents? If they did not save their income, invest it, or allocate it to things that appreciate or at least hold some of their value, where did the money go?

The answer: Beyond the basic necessities, an awful lot of it was spent on things, many things that now reside in landfills or thrift shops.

Ours is a culture of hyperconsumerism. Not only can and do we buy nearly anything (except for the truly outrageously expensive), but we seem to have come to believe that we can and should have it all and that who we are is dependent on the ability to live in the right neighborhoods, with appropriately sized homes filled with brand-name appliances, with prestige cars parked in the driveway with expensive golf bags and clubs in the trunk, and so on. And so we spend. We may be spending somewhat less after the 2008 financial crisis, but we are still spending. Savings may have increased to its highest levels in decades, but the reality is that that is not saying much, since the savings rate has been so abysmally low.

We seem to have become fairly good at generating an income, enjoying (for the moment) a very high standard of living. But it is fleeting because we have not accumulated wealth—for our retirement, for our children's educations, for emergencies. What kinds of trade-offs are we making? In America, the proportion of people who owned boats in 2005 exceeded the proportion who left an estate of $1 million or more in 2007 by a ratio of nearly 5 to 1. Even more pronounced is the ratio between the number of cell phone subscriptions and the number of households with $1 million or more in investments: nearly 60 to 1. The cold, harsh reality is that most people live well today, but they will pay for it tomorrow when their standard of living falls off the proverbial cliff due to a lack of resources to pay for retirement, healthcare, or even the cost of a trip to visit the grandkids.

## The True Measure of Wealth

When I use the term "millionaire," I refer to those with investments of $1 million or more. "Investments" include such items as stocks, bonds, mutual funds, equity shares in private businesses, annuities, net cash value of life insurance, mortgages and credit notes held, gold and other precious metals, certificates of deposit (CDs), T-bills, savings bonds, money market funds, checking accounts, cash, and income-producing real estate. Basically, anything of value that is reasonably liquid.

This is not the traditional way of expressing a household's level of wealth. For many years, I defined net worth as the current value of all of one's household assets minus all of its liabilities. But things have changed. I now refer to this measure (assets less liabilities) as augmented net worth, or embellished net worth, or enhanced net worth, or even nominal net worth. Why the change? Embellished net worth includes, for example, the equity in one's home. Home values exploded between 1997 and 2007. As a result, so did the population of enhanced millionaires. What percent of American households had an augmented net worth of $1 million or more due to real estate appreciation? The answer is more than twice the percentage of those with investments of $1 million or more (8 percent versus 3.5 percent) did—but now they don't. So much of their augmented wealth was invisible. If your net worth was $1.5 million with 85 percent of that from your home, and the value of your home depreciated by 50 percent (which it has in many areas), then your wealth wasn't real.

Many people have become experts in exaggerating the value of their assets while underestimating their liabilities, and some assets can be prone to bubble inflation during certain times. In the late 1990s, we saw lots of dot-com millionaires with tremendous assets—at least on paper. Once that bubble burst, many of those millionaires exited the millionaire club. In the latter part of the most recent decade, real estate valuations exploded, only to come back to earth in 2008. Many real estate millionaires are no more. It is as if many people have been filling out loan applications where their lives depended on the bank's approval. It usually takes a certain degree of discipline, proactive planning, prioritizing, and investing to become a true millionaire. Conversely, many of those who reached the $1 million embellished level of wealth did so because of some temporary asset bubble, such as the value of their homes, got them there—for a moment. In both recent cases, the dot-com bubble and the real estate craze, many won the lottery but didn't even have the presence of mind to lock in their gains. In the case of housing, the majority of people who live in expensive homes (valued at $1 million or more) are not millionaires—they are (or were) "house rich." And many of them, as we've come to see all too painfully, are now house poor because their real estate debt exceeds the current value of their property.

My dad had it right.

As I have been writing and lecturing about for over 30 years, studying the ways and means of true millionaires is very enlightening. Think of the millionaire population as a continuum. At one end are the glittering rich. They generate extremely high incomes, have vast sums of wealth at their disposal, and spend accordingly on high-prestige cars, mansions, dinner every night at $300-plus per person restaurants, couture attire, and the like. No matter what they spend their money on, though, it's just a fraction of their overall net worth. In other words, even the glittering rich spend below their means. They are a very small minority, about 2 percent of U.S. millionaire households; no more than 80,000 in total. As of the first quarter of 2007, in order to qualify as glittering rich, one needed to generate an annual realized household income of over $2 million, have a net worth in excess of $20 million, and live in a home valued at over $2 million (at least $3 million in California). At the opposite end of the millionaire continuum are millionaire households that are extremely frugal and live in homes valued at under $300,000. These people became millionaires because of their frugality and their fastidious saving and investing habits. They are at ground zero in terms of their inventory of luxury products. Note that aspirationals are not found anywhere along this continuum; they are not millionaires.

So why are we talking about the glittering rich, and why do they even matter, as they make up such a small percentage of the population? They matter because they are rich, and they act rich—by driving top-of-the-line (usually European) makes of cars, by shopping at exclusive stores, by extravagantly vacationing internationally, often to exotic places, and by consuming the most expensive of everything, from watches to vodka to vintage wine. They really matter to us because, sadly, we have become a society that seeks to emulate their consumption lifestyle to the detriment of our financial health. We have been acting rich but we aren't rich—by any means.

But don't we deserve to enjoy the fruits of our labors? Most of us would like to be rich in order to spend like and act like glittering rich people, but we aren't taking steps to become financially secure or financially independent. Why? Because to do so would require a drastic change in our habits. We would have to plan, cut back, be prudent, maybe even shop at Wal-Mart, invest, and even downsize. We lack the discipline, the *guts* it takes to become rich.

Most people will never earn $10 million in their lifetime, let alone in any single year. In fact, most households are unlikely to ever earn even $200,000 or more annually. Currently only about 3 percent of American households are in that category. So what if you will never hit the top 3 percent mark? What if you are unlikely to become rich by playing extraordinary offense (i.e., generating an extraordinarily high realized income), as the glittering rich do? The only way you will become rich is to play extraordinary defense like those millionaires at the other end of the continuum: by living well below your means, by planning, saving, and investing. We need to stop acting rich, and you need to adopt the values and lifestyles of self-made millionaires. Why? To be happy, to achieve the most satisfaction you can get from life. But you say that having that special car will make you happy, that living in a certain home in a specific neighborhood will make you happy. I say: Not so fast. It turns out that what we say and what actually brings us happiness are a bit different.

For years, many of my clients insisted that I ask respondents to my surveys and focus groups about their goals. I tried to discourage them from doing this for one reason: The goals that people report do not discriminate very well between hyperconsuming high-income/low-net-worth types (the aspirationals) and millionaires/soon-to-be millionaires. Both groups will tell you that their goal is to be financially independent someday. But talk is cheap. In studying millionaires and those who merely act rich, I have determined that it is much more productive and insightful to ask people about their actual behaviors, habits, and real lifestyles than to ask them about their stated intentions and conjured goals.

So what if your real goal is to act (or continue acting) rich? I suppose I can help you. I will tell you what the glittering rich buy, then, when making brand choices, you can order off the appetizer menu since you cannot pay for the really expensive entrées. You certainly can at the very least display the brands of vodka consumed by the rich and shop in stores patronized by the "beautiful people."

The buying behaviors of the glittering rich, especially brand selection patterns, are completely opposite to those of the millionaires who may never in their lives have had an annual earned income of $100,000 or more. They invest regularly and wisely. Their entire consumption lifestyle is congruent with the types of home and neighborhoods in which they reside. Bottom line, it is far more attainable to become a millionaire through hard work and saving than it is likely to become a celebrity millionaire, win the lottery, or inherit from a mysterious rich aunt.

However, in a perverse twist on the modern take of the rich, our society gives those who have achieved the greatest success by work and diligence short shrift. We are not interested in emulating the Toyota-driving, modestly attired, bling-less entrepreneur or sales professional. Instead, we take as our role models celebrities and athletes, masters of the universe. Rather than attempt to find their luck, we have come to think that if we *act* like them, look like them, drive the cars they drive, we are glitteringly rich. In the process of buying into the marketing hype, of getting sucked into the brand advertising, we have frittered away our wealth. It's not your fault, in a way, as some of the smartest people in the world seem to be working in marketing and advertising, and with the increased media coming at us every day from every angle—print, broadcast, online—it's difficult to resist the siren song of Grey Goose, Mercedes, Tag Heuer, Hermès, and all the other prestige products around us.

## Poor Richard's Wine Cellar

In a study I conducted of high-net-worth/high-income households in 2005–2006, I uncovered the brand choices of 1,594 respondents, of whom 944 were millionaires. (Appendix A outlines the sample design, and Appendix B profiles these millionaires.) At one end of the millionaire consumption spectrum were respondents such as the fellow who complained that the questionnaire did not have enough space for him to list all five of the $10,000 and over watches he owned and the Ferraris he bought/sold/kept, and the decamillionaire who wanted extra credit for the numerous airplanes he owned ("instead of a yacht"). At the other end were wealthy individuals who were extremely frugal. A word of caution: The data indicates that the glittering rich not only have a very high propensity to purchase certain brands, they tend to buy more of just about everything, from prestige makes of cars to expensive watches to super-premium vodka to expensive suits. In order to emulate them, you might have to allocate more time shopping. The size of one's inventory is telling.

Store patronage habits are among the strongest measures that define glittering. And where do glitteringly rich people shop for their clothing and accessories? Responses to my national survey indicated that Saks Fifth Avenue and Neiman Marcus are the top two retail discriminators that distinguish the glittering from the others. In fact, the correlation between one's position on the glittering rich scale and shopping at Saks is even more substantial than one's choice of makes of automobiles. Stores that also rank high along the scale include Banana Republic, Brooks Brothers, Gucci, high-end independent specialty stores, Nordstrom, and Polo. So if you are not rich, you can fake it by displaying pictures of yourself walking out of Saks and Neiman Marcus overloaded with shopping bags, or by filling up the backseat of your leased prestige make of motor vehicle with shopping bags conspicuously filled with goods purchased at the stores listed above. Then drive around town and give rides to people you are trying to impress! No one will downgrade you because your car is leased; they probably don't know that 84 percent of glittering rich people purchase their cars versus 94 percent of millionaires in general.

It is not enough to drive just any make of vehicle. What are the makes and variety of makes of motor vehicles that scored highest on the glittering rich people scale? The upper-level (higher-price/true luxury) models of Mercedes-Benz and BMW ranked highest. In fairness, even among the glitteringly rich, there were not enough respondents who drove Ferraris, Rolls-Royces, or other very exotic makes to generate stable estimates of their positions on the scale. But keep something else in mind. For the glittering rich people segment, the number of cars owned begins at three and ends in double digits. The glittering rich almost by definition own at least one trophy vehicle—that is, a top-of-the-line BMW, Mercedes, Lexus, etc. Also, most have at least one SUV. Yet many of the SUVs are not in the luxury class. Full-size SUVs produced by Ford and General Motors as well as variety of Jeeps are extremely popular among the glittering rich. So if you currently drive an Explorer, Tahoe, or Wrangler, you may be acting rich.

Because the glittering rich entertain a lot, they purchase a great deal of both spirits and wines. There is a high correlation between one's position on the scale and the number of bottles of both spirits and wines in one's home inventory. Glittering rich people tend to collect wine and many have a well-stocked wine cellar. Plus the higher you are on the scale, the greater the price you paid for the wine served to guests.

If you cannot afford to own a fully stocked wine cellar, but you still want to play act the role of a glittering rich person, here is something you can do. Study wine and begin to give informal speeches about wine. No audience is too small. You may convince some, including yourself, that you are really rich and glitter like gold. Designate a room in your basement as a wine cellar. What if you do not have enough money to stock your wine cellar? Do what Jon-Jon, originally from the Gun-Hill Road section of the Bronx, a perpetually relocating corporate middle manager—did. He provided free wine storage to other aspirationals who did not have the necessary space. So technically Jon-Jon told the truth when he bragged about having a fully stocked wine cellar, even though not all the wine was his.

Glittering rich people keep a wide variety of spirits in their homes. But almost all of the brands they have are of the premium and super-premium type. What brand best discriminates glittering rich from the other types surveyed, that is, occupies the highest position on the glittering rich scale? Grey Goose vodka is the winner. In fact, its discriminant score exceeds those of many of the expensive brands of watches as well as prestige makes of motor vehicles. Absolut and Ketel One are high up on the scale.

What can happen when glitteringly rich people compete against each other in terms of conspicuous consumption? The battle is sometimes fought with bottles. Just how many bottles of premium and super-premium spirits and vintage wines can be put on display at a party hosted by glittering rich people? It is not clear, but in my database, it was Richard S. who had the greatest number of bottles on hand. He and his wife love to host parties for friends, neighbors, clients, and suppliers. Plus they frequently attended parties hosted by other glittering rich people. Richard was not always number one in this war waged with bottles, but he—an extraordinarily competitive multimillionaire—figured out a way to beat all his competition.

When Richard has a party at his home, there are cases upon cases of expensive brands of spirit displayed. The cases are positioned around his 30-meter swimming pool, stacked on a series of 4-foot-by-8-foot wooden plywood boards and supported by sawhorses covered with linen tablecloths. It is not unusual for the number of cases of spirits to exceed the number of guests being entertained.

Some might say that Richard's enormous display of bottles is overdoing it a bit, even for an exceedingly wealthy person. But there is more to Richard's story. For years Richard designated himself as the number-one customer of a neighborhood liquor store. Shortly after he learned that the proprietor was about to sell out, Richard essentially became his own best customer. He bought the store and kept all of its employees. Today, everything is about the same at the store except for one thing. There are a lot of cases moving back and forth between the store and Richard's home! Now Richard no longer has to buy all of those cases he displays. Most of them are just on loan from the store. But no matter. His conspicuous display of high-priced brands and vintages helps him qualify as being "beautiful." Perhaps this is the model for a new type of liquor stores; we need a "rent a bottle" outlet in every town.

Richard may be very successful, but he also has much in common with most of us. He has been conditioned by marketers. Like Richard, too many of us believe that premium and super-premium brands are badges that denote success and that those people who do purchase these brands are successful and, by extension, those who do not purchase those brands are not successful.

Yet from my surveys and studies, I know that this is not true.

It is all right for Richard to display pricey badges, even in grotesque quantities. He is a success, the real deal in terms of both income and wealth. Perhaps he should brag; he certainly can afford to do so. Yet there is a growing danger facing us: What happens when people are conditioned to believe that owning the badge is the achievement? Why work hard to succeed when "success" can be bought (most likely with a credit card)? You can act rich by displaying just the right selection of store-bought symbols.

## A Compromise

I know what you may be thinking:

> Okay, okay, Dr. Stanley. I get your message. I understand that I can't be glittering. I don't have that kind of wealth. But isn't there some sort of minor league glittering division I can be in? I want to be somewhat wealthy and spend some. I want to at least sparkle a little. After all, I have a fairly high income. I work hard, so I want to live, I want to enjoy my money as well. There has to be a compromise. I don't need to live in a $10 million home. But I do want to live in a home valued in the high

> six to low seven figures situated in an upper-middle-class neighborhood, drive luxury motor vehicles, wear expensive suits and accessories, shop at upscale stores, and serve my guests super-premium distilled beverages and vintage wines. I want these types of things. But I also want to be a millionaire even if only of the augmented variety. Is it possible to do so?

In a large part, it depends on your ability to generate income. And, even in the minor leagues, you will need a fairly high income to do both. Those who do both are among the least productive in terms of transforming their income into wealth. I refer to these types as income statement affluent, or IA for short. Yes, they are millionaires, at least of the augmented variety (if we include the value of their homes). But their net worth is, in a statistical sense, significantly lower than what is expected, given their high income. What might happen after you learn just how expensive their high-consumption lifestyle is to sustain? You might not want to be among the IA or even act like one. I hope you may want to follow the ways of those millionaires who are very productive in converting income into wealth: the balance sheet affluent (BA).

## Transforming Income into Wealth

Emulate the behavior of BAs and you will likely become financially secure. But first understand how much you should be worth. In order to do so, I developed the Wealth Equation,[2] which I introduced initially in my first book, *Marketing to the Affluent* (1988):

> Simply stated, your net worth [augmented] should equal 10 percent of your age times your annual realized household income ($0.10 \times$ age $\times$ income $=$ expected net worth). If your actual net worth is above this expected figure, I consider you affluent, given your age and income characteristics.

Interestingly, there is a wide variation, even among the affluent, in terms of what I call the wealth index (WX). Your WX is the ratio of your household's actual net worth (augmented) over its expected or predicted level as computed from the Wealth Equation.[3] The BAs have indices way above the norm. It is just the opposite for the IAs.

The BAs became wealthy by playing great defense via serious financial planning, wise investing, and being frugal. Most never generated high incomes, yet they became wealthy nonetheless. Their objective was to build wealth.

The focus of the IAs is on maximizing their realized incomes. They became wealthy by playing excellent offense. In other words, they generated high earned incomes. Most IAs fit the definition of minor league glittering rich people by earning just enough money to buy almost anything. Even though they hyperconsume and are lacking in budgeting or financial planning, they have become millionaires.

I computed a WX for each of my latest survey's 944 millionaire respondents. But the WX that I was particularly interested in determining was not their current WX. I wanted to know at what age and at what corresponding level of annual realized income they first crossed the millionaire (augmented) threshold. All 944 respondents reported what their age and annual income characteristics were when they hit the mark.

With this information, I computed a WX for each respondent. Then I ranked each respondent according to his WX. In turn, the 944 were divided into three groups or categories. The BA group contained those who ranked in the top 25 percent in terms of their WX. The threshold WX for those included in the BA group was 1.84. The median WX for those in this category was 2.49. In other words, the "typical" member of the BA group had an actual net worth that was 2.49 times the expected figure, given his age and income at the time he first reached the seven-figure wealth threshold.

The IA millionaires ranked in the bottom quartile along the WX continuum. The highest WX within this group was 0.880; the median WX was only 0.665. This means that the typical IA had an actual net worth that was only 66.5 percent of what was expected, given his age and income at the time of hitting the millionaire threshold. When he first became a millionaire (again augmented) 11 years prior, the typical BA respondent was 45 years of age and had an annual realized household income of $89,167. Given this age and income, his expected net worth was only $401,252. But it was actually 2.49 times greater than the expected amount. At the time he first reached the million-dollar plateau, the typical BA generated the equivalent of $11.20 of net worth for every $1.00 of his annual realized household income.

The median age of an IA member when he first reached the affluent threshold was 45 years 5 months while his median annual realized household income was $331,250. Thus the typical IA member needed $1.00 of income to generate the equivalent of $3.02 of net worth. Contrast this figure with the $11.20 of net worth accumulated for every $1.00 of income generated by the typical member of the BA club. It becomes clear that the BAs, those who played great defense, were much more efficient than the offense-minded IAs by a ratio of 3.7 to 1 ($11.20 versus $3.02).

## Why We Buy

Why do so many people hyperspend? Prior to the economic reversals we have recently encountered, most people had similar sets of beliefs about the positive relationship between spending on products and happiness. But in reality, increased spending does not make one more satisfied with life overall. For many people, it actually has the opposite effect. But, conversely, who are those who are happy? Typically they are those who spend below their means while building wealth and ultimately becoming financially secure.

How is it that some people gravitate toward becoming BA types while others emulate the hyperconsuming lifestyles of the IA affluent? The extraordinarily "e-z" credit terms of the recent past, especially in the mortgage market, helped fuel our gluttonous ways, obviously. Yet even during the heyday of the "nothing down" era, some people never overspent or borrowed heavily. Some were millionaires, some were decamillionaires, and others were on their way to becoming wealthy. How did they remain immune to the marketing and social pressures to spend, spend, spend? We'll look at those answers throughout this book but I'll give you a clue: You may be living in the biggest reason of all.

The best and most creative marketers in the world have worked hard to convince many of us that spending heavily will bring us all sorts of joy—we'll be more popular and admired. They have also conditioned us into believing that "you are what you purchase" and "you are superior to others if you outspend, out display them." And, accordingly, "the products you own supposedly define you and your achievements in life." So, why not buy now? Why wait to become financially secure, a genuine socioeconomic success before you significantly upgrade your collection of consumer artifacts?

## Nature and Nurture

Most of the BA types had a different socialization process when growing up than those in the IA group did. If you are like most of the high-net-worth and/or high-income producers I have surveyed (more than 9 out of 10, or 92 percent), you will be able to answer the following question with certainty:

> In comparison with all the parents of students you attended middle/high school with, where do you believe your parents ranked at that time in terms of their annual household income?

There is a significant inverse relationship between where the types of respondents thought their parents ranked in income and their WX. Those who thought that their parents produced, relatively speaking, lower income when they were young still bear the scars today. This does not mean that all their parents were poor. Some were middle-income producers. But, as one IA respondent put it, "I went to a high school with a lot of rich kids." In a way, the high-income-producing hyperconsumers of today are making up for the past. Now they think, "I'll do what the rich do; I will spend heavily on products that denote my current or future economic success."

To a considerable degree, it is the uniquely American upward socioeconomic mobility that fuels much of the hyperconsuming engine of the market for luxury goods, prestige products, upscale brands, expensive homes, and so on. In America, it is not at all unusual for children from modest means to become high-income-producing adults. Then they are fooled into thinking that all those with the means to do so hyperconsume. They are wrong. Most rich people become wealthy and stay that way because they are frugal and are investment, not consumption, oriented. Most of those who have high wealth indices said that they came from families that lived well below their means. Their parents purposely avoided living in homes situated in neighborhoods that would constantly remind them that:

> We have financial difficulty living in this environment . . . of making ends meet. Among our neighbors we are on the low end of the economic scale.

It is not the BA who likely encountered this type of environment while growing up. Instead, it is the IA. Plus, the IA types are significantly less likely than the BAs to say: "My parents taught me how to invest and manage money."

What happens when your children attend school and/or interact otherwise with kids who display an abundance of expensive consumer products? Your children are likely to ask you why you do not supply them with the same collection of products. Tell them essentially what the parents of the BA types told their children:

- Never judge the true quality, the caliber of a person, by what can be purchased.
- Often people who dress and drive as if they are rich are not. (Show your children the data given in this book.)
- Try Shakespeare if all else fails: "All that glitters is not gold."

For some, hyperspending is an attempt to somehow change their humble beginnings, in essence to change the past. But it is futile. One cannot change history. Look at increases in income first as opportunities to invest more and to become financially independent. If the need to spend on high-status products arises, one should wait to spend until after one is wealthy, not before. Otherwise one may never become financially secure.

## It's Only Money

One of the most memorable focus group interviews I ever conducted was with eight highly compensated professionals. All were IA types with mid- to high-six-figure annual incomes. Four were physicians and the others were attorneys.

One respondent dismissed the notion of budgeting. But he did mention that his wife owned 187 pairs of shoes. Then he said approvingly that when she couldn't decide which color of shoe to buy, she bought three pairs. Then a surgeon, who earned over $400,000 annually, reported that he had three boats and five cars; but he had not gotten around to developing a pension plan. He said of his colleagues: "I don't know even one guy who hasn't been beaten to death in the financial markets. As a result, they don't have anything. At least I'm going to enjoy spending my money."

Later this same surgeon summed up his financial philosophy: "Money," he said with a wave of his hand, "is the most easily renewable resource." Even today, too many people spend as if money (their earned income) is the most easily renewable resource. Now a growing number are shocked to realize that they were mistaken. Highly compensated physicians, attorneys, and managers of public corporations tend to have low wealth indices; that is, they are highly concentrated in the IA segment. Managers of private corporations are not. They tend to be quite frugal and invest heavily in their own businesses.

What other occupational groups have significantly higher wealth indices than the norm? Two of the more revealing are engineers (discussed in detail in later chapters) and educators, such as teachers and professors. The financial lifestyles of educators, often the lowest-income-generating professions, actually have high wealth indices that epitomize the BA population in America. Thus, I think it is safe to say that the ways and means to secure wealth building apply to almost everyone who wants to become financially secure.

Indeed, educators as a group are very productive in terms of transforming their household income into wealth. In the survey undertaken as the basis for this book, for every educator who was in the IA category, there were three in the BA segment. This finding is consistent with the other studies I have conducted over the past 30 years.

Another piece of compelling data is illuminating as well: The estate data of recently deceased Americans from the Internal Revenue Service shows that of all people who died in 2004, fewer than 18 in 1,000 (1.76 percent) had a gross estate of at least $1.5 million; of those, about 1 in 12 (8.13 percent) of these wealthy decedents were once educators. Given the proportion of the working population, the expected concentration should have been only about 4.21 percent. In other words, educators are overrepresented by a multiple of nearly two times, given their overall representation in the working population. Many educators do not have the money or income needed to spend lavishly *and* become rich. Income is a correlate of wealth, but it is not wealth. While it is true that most teachers individually do not earn six-figure annual incomes, annual income is nowhere near a perfect predictor of wealth. Plus, most educators are part of a two-income household. In many ways, it is not how much one earns annually that counts: It is how one lives each year. It is how much one saves and invests annually that really matters. For most people, accumulating wealth is a long-distance marathon. It takes years and years of frugality and wise investing to accumulate wealth. If one does not earn a six- or seven-figure income today, one can still become wealthy tomorrow if one is financially disciplined and strongly motivated. Many educators possess these very characteristics.

Let's use Laura's mom, Dr. E., whom I profiled in an earlier work, as an example. Dr. E. has been a professor for more than 30 years, and she is still going strong. Says Laura:

> My mother is a classic Balance Sheet Affluent . . . never made much money (college professor—you should know about that—at a small women's college). But [she] always saved religiously, and is going to retire a multimillionaire (if she ever retires). Even now that she has the money, she refuses to spend it. Typical example is the Miata. She lusted after one for 10 years, but refused to buy such a frivolous car. All of that angst, over a $20,000 car, in a world of $50,000 SUVs! She finally gave in and got one six months ago—but only because she found a great deal on a used one.

In fact, Dr. E. is a millionaire today with a net worth in excess of $2.5 million. But, like most of the BAs I have surveyed, she never ever owned a home valued at $400,000 or more before she became rich. Is Professor E. just a rare occurrence within the world of the wealthy? Actually, her profile is pro forma among those millionaires who never earned a high income.

Obviously, something other than income accounts for the presence of so many educators within the millionaire category (alive or dead). I estimate that there are currently more than 350,000 millionaire educators, working or retired. Teachers tend to be a frugal group. They are savers and investors more than they are spenders. In fact, it is considered bad taste among most educators to overdress or to overspend on cars, homes, or so-called appearance-enhancing products and services. Plus, they are anything but credit prone. As an example, in a national survey, I recently profiled the high-income-producing population of two-career couples where at least one partner is an educator. Nearly 7 in 10 have no car loans, no boat loan, no home equity loans, no unpaid credit card balances. Less than half (48 percent) of the doctors, attorneys, and corporate executives with high incomes can say the same.

Most educators work in an environment with certain characteristics that are strong correlates of wealth accumulation. Pension planning, investment seminars, and tax-advantage supplemental investment plans are part of an educator's on-campus socialization process. Adopting a frugal consumption lifestyle and developing good financial and investing skills are all akin to catching a cold. What happens when you consistently come into contact with sick people? You get sick. Work with frugal people, and you may become frugal. Associate with colleagues who are astute investors, and you may become wealthy one day. Many educators become good investors because their jobs require them to research, study, and learn new material on a continuous basis. These processes are easily applied to making investment decisions.

Most BAs, as a group and not just educators, live in moderately priced homes located in nondescript neighborhoods. Few live in mansions or anywhere near homes valued at $1 million or more (excluding those who live in California). It is not hard to avoid emulating the consumption habits of the IAs if you do not live near any of them. And in relations to their neighbors, where do the BAs rank along the wealth (net worth) continuum? Nationwide, outside of the state of California, most rank in the top 5 percent within their respective neighborhoods.

Who are those other millionaire types who live in neighborhoods that contain wealthy educators? In terms of occupational categories, I find engineers, supermarket store managers, discount store managers, owners of small businesses (nonretail), mathematicians, regional planners, writers and chemists, just to name a few.

So who else has been acting rich? Given the consumption, it's more than just millionaires in the IA category. They are rich and can afford to act rich. The reality is that most people who act rich are nowhere near being wealthy. In fact, most of those who live in neighborhoods where the BAs reside are living above their means. The same applies to neighborhoods where the IAs can be found. Why is it that most of the neighbors of millionaires are not rich? They are living well beyond their means. They try to emulate the consumption habits of their rich neighbors. But their rich neighbors, especially those BAs, are able to live comfortably on 80 percent of their household's income. They earn more and accumulate more than most of their neighbors. They have no difficulty buying a new Toyota, for example, every four years. Their neighbors imitate them. They do the same. Yet they can barely make the car payments.

What does this all mean? If you want to become wealthy via the BA way, live in a neighborhood where your household is among the top income generators. For example, what if your household's total realized income is in, say, the high five figures? Then live in a neighborhood where the median market value of a home is less than $300,000. Do so, and the chances are that among your neighbors, your household will likely be in the top 20 percent along the income continuum. Then live and consume as though your household's income was only 80 percent of what it actually generates. Save and invest the rest. Now you are on your way to becoming wealthy.

What is a good rule if you are determined to become wealthy?

The market value of the home you purchase should be less than three times your household's total annual realized income.

It is okay to own a pricey home after you become a millionaire. But most IAs did not wait that long. Two-thirds of the IAs own/occupy primary homes that have a current market value of $1 million or more. Most BA types are not house rich. They became millionaires in part because they adhered to one of the golden rules of wealth building that I wrote about in *The Millionaire Next Door*:

If you're not yet wealthy but want to be someday, never purchase a home that requires a mortgage that is more than twice your household's annual realized income.

## A Good Habit Is Hard to Break

What are some of the habitual differences that distinguish BAs from IAs? Here are a few things you'll come to learn throughout this book:

- BAs are more than three times as likely than IAs to say that their favorite brand of suit is JCPenney private label, Joseph A. Banks, Macy's, Menswear Outlet, or Sears private label. IAs favor Brooks Brothers, Hickey Freeman, Armani, Joseph Abboud, Nordstrom's private label, and Polo.
- BAs are significantly more likely than IAs to purchase apparel (not just suits) from Kohl's, Marshall's, Ross, Sears, Target, and Wal-Mart. IAs are three times more likely than BAs to patronize upscale apparel retailers such as Brooks Brothers, Neiman Marcus, Nordstrom's, and Saks Fifth Avenue.
- Most of BAs wear a watch that cost under $200. In contrast, most IAs wear an expensive prestige make of watch, such as Rolex,

Omega, Breitling, Cartier, and Tag Heuer. Also, most of IAs own multiples of these prestige brands.

- Does your liquor cabinet contain a variety of premium and super-premium brands of distilled beverages? If so, shake hands with a typical member of the IA group. You have something in common. BAs, however, are significantly more likely to purchase middle-of-the-road brands of spirits. More significantly, IAs have many more bottles (three times as many) in their home inventory.
- Over the past 10 years, what make of motor vehicle has been acquired more than any other by each group? IAs like Mercedes-Benz, ranked first, followed closely by Lexus, while the favorite among BAs was Ford followed by Toyota. What about the most popular make in terms of the most recently acquired motor vehicle? Lexus was number one among the IAs; Toyota ranked first among the BAs. Some millionaires, especially those who are most productive in converting income into wealth, drive vehicles well below their means.

## Rendering Unto Caesar

How much more difficult do you think it would be for you to become wealthy and at the same time support your family plus one other? Think of the one other as the typical BA unit. In a way, that is exactly what the IAs do. The average IA paid more in income tax than the typical BA generated in income during a year: $95,847 versus $89,167. Overall, IAs pay nearly six times more in tax than the BAs. IAs pay the equivalent of about 10 percent of their wealth each year in tax. BAs pay less than 2 percent. The large tax burden associated with being an IA is reflected in their less-than-stellar wealth index.

This situation will worsen given federal and state tax increases that high-income earners now face. The road to becoming rich via the IA method is lined with income tax tolls and consumption-inspired roadblocks and detours. If you are determined to hyperspend like most of IAs, a high income is required to buy prestige consumer goods. So is paying high income taxes (to say nothing of sales taxes on the goods purchased).

## Avoiding the Cereal Trap

We have all fallen trap to the brand game, the symbolism, and hype to greater or lesser degree. I admit that I have fallen for the pitch. At one time, my income increased more than fourfold in one year. During this time I went from working as an instructor while earning a doctorate to being an assistant professor. A year later we bought a home, a new car, and our first beagle. But that is not all; I also changed breakfast cereals! Ah, the influence of advertising that capitalizes on the needs of the socio economically mobile. I gave up Cheerios for a competing brand that touted health and nutrition. It was a cereal for sophisticated and discriminating adult consumers. Its brand name sounded like a secret chemical formula. It also cost more than Cheerios, but I was willing to pay extra for a brand, a badge that reflected my recent achievements and success.

This cereal tasted like cardboard, but I suffered with the brand for nearly a year. Then I noticed an article in *Consumer Reports* that dealt with the nutritional content of 44 popular brands of breakfast cereals. According to the study, Cheerios ranked second in the estimated nutritional quality among the brands of cereal tested. And where did my upscale brand rank? It was second from the bottom, in 43rd place.

What does this have to do with acting rich? People who are encountering upward socioeconomic mobility are often most vulnerable to advertising themes that imply: "All rich people, all successful folks buy our brand, 'Chemically enhanced Wheat Dust #127.' It costs more but it is worth it. Don't be the only high-income household in America that is without #127, the symbol of achievement."

If I, who study and analyze the rich, can fall into the symbol trap, is it any wonder that many others have as well, though sadly much more expensively? In a way, it's not your fault: The messages bombard you every day. They are nearly impossible to escape. If you live in an urban, metropolitan area (made worse if you live on either of the coasts), every day is a downpour of marketing, advertising, telegraphing, and now Twitter messages that tell you what success looks like and that practically demands that you act successful *now* because if you are not a success, you are a loser.

If you don't wear X or drink Y, then it almost seems as though the ads are telling you that you are a loser. Who doesn't want to be thought of as discriminating? Everyone wants to be seen as "special" and "deserving." It takes a strong will to beat back the messaging.

It is said that the first step in solving a problem is to identify and name it. Our problem, then, is acting rich. The second step is to understand it, and the third step is to craft a plan. I do not purport to give you specific financial guidance, but I will help you understand that much of what you believe about being successful is almost assuredly wrong. After reading this book and learning how rich people *really* spend their money (and not the glittering rich outliers), you will see the marketing hype for what it is: smoke and mirrors intended to do nothing more than part you from your money. The makers of Grey Goose may not care about your retirement; they care about selling you vodka. I will show you how to avoid falling into the acting rich trap, how to get out of it, and how to start living like a real millionaire—and not a figment of your or, more likely, some marketer's imagination.

Most important, by taking this journey through the numbers that uncover the real behaviors of the rich, you will learn that most rich people do not drive their balance sheets or wear their income statements. In essence, most understate their considerable achievements. Their satisfaction with life has much more to do with becoming a socioeconomic success than having an expensive home filled with upscale brands. Those who think that acting rich must be predicated on hyperconsumption are likely to end up on the short side of both the wealth and the happiness scales.

A study conducted by Ryan Howell, an assistant professor of psychology at San Francisco State University, and presented at the 2009 annual meeting of the Society for Personality and Social Psychology, showed that people are made happier by experiences than by things.[4] So, I suppose, if you are going to spend like you are rich, at least do it on social interactions that will actually make you happy, such as taking vacations or going to the theater. As an added bonus, Ryan's study indicated that cost is not important; just have a life experience—one that has the added benefit of enhancing the lives of loved ones and friends around you.

One of the things that set wealthy people apart from others is that they have a wide variety of interests and activities. In fact, there is a substantial correlation between the number of interests and activities that people are involved in and their level of financial wealth. Some wealthy people feel that owning a vacation home, for instance, would restrict them by obligating them to spend time at that property; if they didn't spend the time there, then the dollars spent on the property would be underutilized. Millionaires value their time. The allocation of their dollars flows accordingly, almost as second nature.

Life experiences, preferably positive ones, will not only enhance your bottom line but will also steer you clear of another problem: your children. The experiences we have as children, the experiences we give children, teach them a lesson they hold for life. Today's children get an average of 70 new toys a year.[5] We may inadvertently be providing the next generation with a foundation for permanent financial dependence and dissatisfaction with life.

The financial crisis of 2008–2009 (and for who knows how much longer) has forced many to stop and think about how they spend. But experience shows that once warmer economic winds blow (and they will come again), we will quickly revert to old ways. In fact, a case could be made that the spending diet has the potential to lead to a wicked binge spending spree later. In the late 1990s, spending was based on inflated stock portfolios. Once that bubble burst, we barely stopped to catch our breath and considered the reduction in our retirement savings before we enjoyed the ultimate net worth enhancer: inflated real estate values that many were quick to cash in to buy the lifestyles of the glittering rich.