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BIG SPENDERS vs. BIG SAVERS

Who would you rather emulate?

Provided by Frank DeMaio*

You stand at your window and look across the street. Nice house, you think. Nice landscaping. Nice sports car. Nice driveway. New bikes for the kids. Wow, your neighbors are really well off. If only you had that kind of money.

That plain home down the street with the older model sedan parked out front pales in comparison. A couple in their seventies lives there, and the front yard hasn't been spruced up in a decade. Who knows, maybe they struggle just to get by.

If you could somehow look into the financial lives of those two households, you might be surprised. The couple with all the toys might not be as wealthy as the neighborhood perceives, while the vanilla exterior on that humble rancher might hide a multimillionaire next door.

Remember that affluence does not = net worth. When you look across the street at the house of that well-to-do family, you are not necessarily gazing at a portrait of wealth. You are seeing a portrait of their spending habits.

What are they spending their money on? Perhaps, quite literally, a façade; their house may be the best house in the neighborhood, but what of kind of mortgage payment are they grappling with? Are they making payments on that sports car? That vehicle is a depreciating asset (unless they keep it garaged for a few decades). The flat-screen, the pool, the home audio system ... they have put their dollars into things that their neighbors can see. They may be engaging in all-too-common financial behavior: thinking of wealth in terms of material items, spending money on toys instead of their lives.

Real wealth may not be advertised. Perhaps the older couple down the street isn't interested in the hottest new luxuries. Decades ago, they put extra money toward their mortgage; even with housing values currently depressed, their residence is still worth much more than they paid for it. Most importantly, it is paid off.

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Maybe they are good savers, always have been. When they were the age of the flashy couple up the street, they directed money into things that their neighbors couldn't see – their investments, their retirement accounts, their bank accounts.

Years ago, they could have lived ostentatiously like that high-earning couple up the street – but instead of living on margin, they chose to live within their means. They saw some of their friends "rent" a luxury lifestyle for a few years, only to lose homes and cars they couldn't really afford. Sometimes the economy or fate had a hand in it, but too often their friends simply made poor decisions.

It could be that it was just more important for them to think about the future rather than the moment. Parenting reinforced that philosophy. Their good financial habits kept their family away from a bunch of bad debts, and helped them build wealth slowly. Indirectly, it also helped their kids, who grew up in a household with less financial stress and with an appreciation and understanding of key financial principles. Now, they are applying those principles to build wealth in their own lives.

Roughly every fortieth American is a millionaire. There are nearly 8 million people with a net worth of $1 million or more in the U.S., and their financial characteristics may differ slightly from what you expect.[1]

Fidelity's 2012 Millionaire Outlook survey (which polled 1,000 households with $1 million or more in investable assets) notes that 86% of millionaires are self-made. Not so amazing, perhaps, but here is a striking detail. Among the self-made millionaires, the top sources of assets were 1) investments and/or capital appreciation, 2) compensation and 3) employee stock options or profit sharing. Millionaires born into wealth were the most likely to cite entrepreneurship and real estate investing as key factors behind their fortunes.[2]

According to the survey, the average U.S. millionaire is 61 years old with $3.05 million in investable assets. Fidelity also found that with regard to the financial future, more than (30%) of these millionaires were focused on preserving wealth, rather than growing it (20%).[2]

What will you spend your money on, tomorrow or today?

As Thomas J. Stanley and William D. Danko noted in their classic study *The Millionaire Next Door,* the typical millionaire lives on 7% of his or her wealth. That was in 1997; the percentage could be lower today. Call it frugal, call it boring, but such financial conservation may help promote lifetime wealth. Today, with so many enticements to spend your money as soon as you earn it, this mindset may have a lot of financial merit.[1]

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Citations.

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