THOMAS J. STANLEY, Ph.D.

Author of the phenomenal bestsellers
THE MILLIONAIRE NEXT DOOR and *THE MILLIONAIRE MIND*—
more than 3 million copies sold!

STOP ACTING RICH

...AND START LIVING LIKE A REAL MILLIONAIRE

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. . . And Start Living Like a Real Millionaire

THOMAS J. STANLEY, PH.D.

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Summary:“A leading expert on the affluent reveals the real way to build wealth With well over two million of his books sold, and huge praise from many media outlets, Dr.Thomas J. Stanley is a recognized and highly respected authority on the wealthy, their behavior, and their thinking. Now, in Stop Acting Rich, he details how the less affluent have fallen into the elite luxury brand trap that keeps them from truly acquiring wealth and details how to get out of it by emulating the working rich as opposed to the super elite.A defensive strategy for tough times, Stop Acting Rich will show you how to live like Warren Buffett-a rich, happy life-through accumulating more wealth and using it to achieve the type of financial freedom that will create true happiness and fulfillment. Puts wealth in perspective and shows you how to live rich without spending more Details why we spend lavishly and how to stop this destructive cycle Discusses how being “rich” means more than just big houses and luxury cars Other titles by Stanley:The Millionaire Mind and The Millionaire Next Door It’s time to understand why we buy what we buy, so that we can start accumulating, rather than depleting, wealth. Stop Acting Rich shows you exactly what it takes to achieve this elusive goal”—Provided by publisher.

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For Anna, Ryan, and Kate

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Preface

Thirty years ago, I first defined the blue collar affluent, aka the millionaire next door, in a speech and paper that I delivered on behalf of the New York Stock Exchange. This began a lifetime journey of identifying and profiling the myths and realities of the rich.

I discovered that not all millionaires have high social status. In fact, those who are among the least productive in transforming their incomes into wealth are in the higher-status occupations. In a 1980 national study of multimillionaires, I found that half of the millionaires in America do not live in upscale neighborhoods. In 1988, I wrote my first book, *Marketing to the Affluent*, which essentially discussed how to market to the “millionaire next door.” After reading it, one of my colleagues at Georgia State University, Dr. David Schwartz, author of the perennial mega-bestseller *The Magic of Thinking Big*, suggested that I broaden my work to appeal to a much larger general audience. I followed Dave’s advice and wrote *The Millionaire Next Door* (1996), which answered the question: Who is the typical millionaire in America? This bestselling book exploded many common myths about the wealthy in America, revealing that their low-profile and frugal lifestyle were pervasive among this group.

After the success of *The Millionaire Next Door*, I continued my research with *The Millionaire Mind* (2000). In this book, I revealed the factors that millionaires, who had three times the wealth as those in *The Millionaire Next Door*, reported as being most important in explaining their economic success. Among those factors were integrity, discipline, social skills, a supportive spouse, leadership qualities, and having a love

for one's vocation. Among the least important were luck, investing in the stock market, and having high academic achievement. I responded to the numerous queries I received from women about their lack of representation in my books by writing *Millionaire Women Next Door* in 2004. Women in business succeed because they work harder and are more frugal than their male counterparts. Women who fail in business typically love their product but not their business.

In *Stop Acting Rich . . . And Start Living Like a Real Millionaire*, I detail why so many people who are not rich hyperspend on luxuries. Often they think that collecting these expensive toys will enhance their overall satisfaction with life. But, as you will read in detail, happiness in life has little to do with what you wear, drive, eat, or drink. The people with the greatest satisfaction are those who live below their means. Even during the recent peaks of income production, the residential real estate market, and the bull stock market when the main survey for this book was undertaken, these millionaires maintained their habits of thrift and frugality. (See Appendix A for the survey details and Appendix B for the profile of millionaires.) In other words, increasing asset values did not cause the majority of wealthy people to hyperspend.

So who are hyperspenders really emulating? They are merely mimicking the behaviors of people like themselves, who are not rich but act in ways they think the economically successful people act.

Why is it that some people worth $10 million, $20 million, or even $30 million own few or no luxuries whatsoever? They know that satisfaction in life is not a function of what you can buy in a store. As you will come to learn in these pages, these people were conditioned by their parents to live below their means and were taught how to invest and

manage money effectively. Accordingly, the billions of dollars poured into the marketing hype associated with promoting status products have had little effect on their consumption lifestyle. Also these people tend to associate with others who have similar attitudes, interests and activities, and beliefs.

The reason why so many homeowners today are having a difficult time making ends meet goes way beyond mortgage payments. When you trade up to a more expensive home, there is pressure for you to spend more on every conceivable product and service. Nothing has a greater impact on your wealth and your consumption than your choice of house and neighborhood. If you live in a pricey home in an exclusive community, you will spend more than you should and your ability to save and build wealth will be compromised. My research has found that most people who live in million-dollar homes are not millionaires. They may be high-income producers but, by trying to emulate glittering rich millionaires, they are living a treadmill existence. In the United States, there are three times more millionaires living in homes that have a market value of under $300,000 than there are living in homes valued at $1 million or more.

Given the recent reversals in the market value of stocks and homes, you may be asking: Is the millionaire market dead? While completing this book, a newspaper writer called and asked me what I thought about a published study claiming that the number of millionaires had significantly declined during the 2008-2009 period. I told her that I disagreed with these findings. Since 1980, I have consistently found that most millionaires do not have all of their wealth tied up in their stock portfolios or in their homes. When the investment gurus talk about diversification, they show how very parochial they are. Real safety is not in a diversified stock portfolio. One of the

reasons that real millionaires are economically successful is that they think differently. Many a millionaire has told me that true diversity has much to do with controlling one's investments; no one can control the stock market. But you can, for example, control your own business, private investments, and money you lend to private parties. Not at any time during the past 30 years have I found that the typical millionaire had more than 30 percent of his wealth invested in publicly traded stocks. More often it is in the low to mid-20 percent range.These percentages are consistent with those found in studies conducted by the Internal Revenue Service, which has the best data set on millionaires in the world.

In a way, the credit crisis of 2008-2009 is serving as something of an intervention. But for the treatment to work, you must take a cold hard look at your balance sheet and at your life, and determine if you would be wealthier if you would stop acting rich. It is my hope to show you that you can stop acting rich and still enjoy life to the fullest by living like a real millionaire.

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This entire project was underwritten by the author. His views and interpretations of the findings may not necessarily be the same as those of the organizations that

market the brands that are mentioned in this work. Except for two speeches given to BMW dealers in the late 1980s and a summer job at a Chevrolet dealership in his youth, the author has never been employed or compensated in any way by these organizations.

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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 NewYork 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,