

Financially Speaking

With Trisha Arndt

Do you have a Millionaire Next Door?

I work with two couples, similar in age with common interests and backgrounds. One couple lives just outside of Verona on a few acres with a home that they renovated themselves. The other lives in a vacation destination area up north. The couple from Verona drives a vehicle they have had for over ten years and takes vacations in their twenty year old mobile home. The other couple purchases a new luxury SUV every other year, has a vintage Mercedes in the garage and wouldn't dream of staying at anything less than a 4 star resort.

One of these couples has a net worth of over \$1 million. Can you guess which one?

A million dollars isn't what it used to be, but it's still a defining symbol of the American dream. It's one of those milestone moments that I really enjoy sharing with my clients as they attain it. And it is one that you too may be able to attain.

First let's dispel with the notion most people have of millionaires – fancy homes, luxury cars, wine cellars and country club memberships. I call this the “Lifestyles of the Rich & Famous” portrayal of millionaires, fully loaded with conspicuous consumption. Admittedly there are some of these folks (otherwise *Millionaire* magazine wouldn't be advertising \$750 bottles of perfume) but I've been helping people with their finances long enough to know that a lifestyle like that is the exception, not the rule.

In fact, experience has shown me that the common denominator with most millionaires that I work with is their ability to live below their means. After all, most millionaires become so the old fashioned way; saving, investing and managing taxes – not by inheriting it or winning the powerball.

Thomas J. Stanley, Ph.D. and William D. Danko, Ph.D., researchers and co-authors of *The Millionaire Next Door*, found that the typical millionaire leads a surprisingly Spartan existence, coupon clipping and all. According to their research the typical millionaire (defined by their true liquid net worth, not by what they show off) has never spent more than \$399 for a suit and \$235 for a wristwatch and is much more likely to shop at Sears or JCPenney than Nordstrom's or Neiman-Marcus. The average millionaire paid \$24,800 for his or her last motor vehicle and lives in a home worth \$320,000 (a not untypical home value in Verona).

Stanley and Danko also found that the typical millionaire has a median annual household income of \$131,000. While that is still significantly more than most people earn, the book reports that some millionaires never have incomes reaching into the six figures.

So what is the big secret that these people know that help them to reach these financial heights? The secret is that there is no secret. In many cases becoming a millionaire came down to having a plan and the discipline to stick to it.

If a young person were to commit to investing \$4000 a year in a Roth IRA for the 40 years of their working lives and earn an average of just 8 percent a year they would accumulate over \$1,000,000 in their account by the time they retire (which could be taken out free of income taxes assuming all of the applicable guidelines are met – which is a topic for another day). This example does not represent a specific investment and does not take into consideration market fluctuation or any fees associated with investing.

Even if you don't have 40 years to work with it still may be possible to reach that million dollar landmark, or at least move significantly closer to it.

Any good plan starts with a solid understanding of your current situation – what are your expenses and sources of income? Does your budget plan for “paying yourself” by saving for long term goals? And once you've saved the money is it being invested in a tax-efficient manner and growing in real terms? Remember that if inflation is 3% and you are only earning 2% in your savings account your money is actually losing value in real terms each day.

As the new year approaches now may be a perfect time for you to revisit your own plan and make sure it is on course. I'm sure that is what the millionaire couple I described earlier will be doing. Have you guessed which couple it is?

The couple from Verona of course.

If you have a question that you would like answered or a suggestion for a topic that you would like to see in a future issue, e-mail trisha@wealthstrategies.biz.

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