

The Millionaire Next Door: Part I of II: General Points



that you make, you have nothing. I believe everyone, no matter where they are in life, should save at least 10% of what they make. Anyone earning 6-figures should save 20% of their income. Physicians, who make an average of \$300,000, should save one-third of their salary. One-third for taxes, one-third for living expenses, including your mortgage, and one-third for savings. One hundred thousand dollars per year x the average physician's career of 25 years, invested at a reasonable rate of return = retirement savings of \$4-5M. Plus your home is paid off and your children are educated and self-supporting. Thrift generates wealth.

Selected facts about millionaires:

- 1) Ninety-seven percent are homeowners, and half have occupied the same home for 20 years. Many years ago, I heard a comment that may sound trite, but is quite accurate: If you want to be rich, keep your first job, your first spouse, and your first home.
- 2) Their wives are planners and meticulous budgeters. Shortly after I entered practice, a physician told me "I married a gold mine. My wife is thrifty."
- 3) Education is extremely important, and they spend heavily on it for their offspring (discussed in detail in Part II of this Editorial).
- 4) The vast majority of the millionaires in the U.S. accumulated their wealth running a business, and 80% are the first in their family to be millionaires. This wealth will often be dissipated sooner rather than later: shirt sleeve to shirt sleeve in 3 generations. Likewise, if one has inherited wealth and remains wealthy, remember that although it's hard to make money, it's almost as hard to hang onto it.

The authors spend a great deal of time discussing vehicles, since after your home and your educations, they are many people's largest expense. Here's one of the most important points of this Editorial; the car you drive to work every day is a depreciating asset. It will eventually be worth zero. Nothing. Your goal is to minimize what you spend on your car. The car you can afford is the one you can buy with cash. You will never accumulate wealth buying a depreciating asset on credit. Leasing a car is doubling down on pain and misery. All of these points apply even more so to boats and other gaudy baubles.

In Part II of this Editorial, I'll review what the authors refer to as Economic Outpatient Care (EOC), how much you should, and shouldn't, help your children.

This and the next Editorial are a review of *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*.¹ The book was published in 1996, so the statistics are a little dated, but the message is unchanged. No matter how much you make, if you spend it all, you have nothing. Live below your means. Thrift creates wealth.

In the U.S., we have a (miss-conceived) perception of what being a millionaire should look like; the home they live in, the vehicles they drive, the clothes they wear. The authors note that many who attempt to look like they are wealthy have very little, or are often in debt, because they have spent all of their money trying to look like they have money. They refer to these people derisively as

Big Hat, No Cattle

Viewed from another perspective, you ask yourself "How can a lower-level manager married to a social worker afford to live in a home in an upper middle-class neighborhood, drive flashy, high-end foreign cars, and go on expensive vacations"? The answer is simple—they can't. How much do they own, and how much does the bank own? The person who lives modestly, who prefers to impress people with their accomplishments rather than their material goods, is much more likely to be "the millionaire next door".

"Wealth is not the same as income...Wealth is what you accumulate, not what you spend". If you spend all

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Disclosure

Dr. Doroghazi is not a registered financial advisor under federal law or any state law. The advice provided is of a general nature, and should not be interpreted as personalized or individualized to your specific portfolio

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1. Stanley TJ, Danko WD. *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*. Longstreet Press; 1996.