



Fisher Funds Investor Education Centre

Making investing understandable,
enjoyable & profitable

Rich are smarter – about how they live 24 July 2011

A recent article in the Wall Street Journal featured an investment adviser who posited the question “are the rich smarter?” He recalled that in his younger years, his mother would often end arguments by saying (hands on hip) “Well, if you’re so darned smart, why aren’t you rich?”

He then went on to say that according to the US Census Bureau there was evidence that indeed rich people are a little smarter. While high school graduates in the US could on average expect to earn \$1.2 million over their working lives, it seems those with a bachelor’s degree could expect to earn \$2.1 million and those with a doctorate could earn \$3.4 million.

But of course it’s not necessarily those who earn the most who are the richest. To determine real wealth you need to look beyond a person’s income and focus instead on their balance sheet i.e. assets minus liabilities.

The article quoted Dr Thomas J Stanley, author of *The Millionaire Next Door* who suggested that the rich are not the stereotypical champagne-drinking, Porsche-driving flash Harries that many imagine. Dr Stanley is an authority on the habits and characteristics of wealthy Americans and he has found that they are just the opposite of what many expect.

Stanley found that the vast majority of millionaires (individuals with a net worth of more than \$1 million) live in a house that cost less than \$400,000, do not own a second home, have never owned a boat, generally pay less than \$15 for a bottle of wine, and spend very little on prestige brands and luxury items.

According to Dr Stanley, the people who buy all the Mercedes convertibles, Louis Vuitton handbags and magnums of champagne are the “aspirational” – the people who act rich, want to be rich but aren’t really rich. These people are insecure about how they rank among their community and their self-esteem is closely tied to how long they can continue to buy and display the trappings of wealth. They believe that all successful people display their success through luxury and prestige products.

However, real millionaires see things differently.

Most of them achieved their wealth by patiently maximising their income while minimising their spending, and saving and investing the difference. Of the 6.7 million Americans with a net worth of at least \$1 million at the end of 2009, very few of them were technology entrepreneurs, actors or sports stars.

They were, for the most part, just hard-working people living within their means.



Fisher Funds Investor Education Centre

Making investing understandable,
enjoyable & profitable

Interestingly, these 'everyday' millionaires are not big spenders but they don't skimp when it comes to educating their children and grandchildren, and they are amongst the most generous Americans when it comes to charitable giving.

The article became a little schmaltzy but the concluding comments were important. It turns out the rich are indeed smart because in summarising their view of success, the millionaires typically cited personal achievement and recognition as being far more important than dollars.

They know that it is how we spend our lives, not our money that makes us rich.