# NINE
# Millionaires

Wal-Mart is the world's largest retailer. Its annual revenues of almost $400 billion are larger than the Gross Domestic Product (GDP) of Saudi Arabia, Greece, and Ireland. It's the largest private employer in the world with over 2 million employees. Every week, about 100 million Americans shop at Wal-Mart. That's nearly one-third of the population. From a single store in Arkansas, Wal-Mart has grown amoeba-like and blanketed the United States.

How did Wal-Mart get so big? It all started with a small-town shopkeeper named Sam Walton. Sam was born in 1918 in Kingfisher, Oklahoma. At the age of 7, he started selling magazine subscriptions. He branched out to newspapers, and worked his way through college by adding routes and hiring helpers. In 1940, he earned a business degree from the University of Missouri. In 1945, Sam used $5,000 of his savings and a $20,000 loan from his father-in-law to open a Ben Franklin five-and-dime store in Newport, Arkansas.

He quickly learned, "By cutting your price, you can boost your sales to a point where you earn far more at the cheaper retail price than you would have by selling the item at the higher price." By the early 1960s, Sam owned 16 Ben Franklin franchises in Arkansas, Missouri, and Kansas. It was the country's largest chain of independently-owned variety stores.

**Birth of a Behemoth**

During this time, discounting was becoming more popular. Faced with competition from Kmart and Woolco, Sam asked Ben Franklin's management to cut its margins by 50 percent. When the company refused, Sam opened his first Wal-Mart in Bentonville, Arkansas on July 2, 1962.

His strategy was simple: cut costs as much as possible, pass the savings on to customers, and offer "everyday low prices." To cut costs, Sam purchased goods wholesale from the lowest-priced suppliers. As volumes increased, he negotiated even lower prices. To increase volumes, Wal-Mart expanded relentlessly. Sam would survey the land in between small towns in his low-flying airplane. When he found a central spot, he touched down, bought a piece of farmland, and built the next store.

Sam's strategy gave Wal-Mart a virtual monopoly in small towns. Local mom-and-pop stores couldn't compete on price or product variety, and national competitors didn't compete because they were focused on big cities. The combination of low prices and little competition fueled decades of phenomenal growth.

By 1985, Sam was the richest man in America. Even with all his wealth, he stayed true to his frugal roots. He drove an old pickup truck, refused to fly first class, and shared hotel rooms on business trips.

**Financial Freedom**

Wouldn't it be great if you were rich? You wouldn't have to worry about mortgage payments, health insurance, or paying for your kids' education. You could spend winters in the sun, and travel the world in style. Best of all, you could work on things you really care about, even if you're not getting paid.

The purpose of this section is to help you achieve financial freedom as soon as possible. Let's start by investigating the secret life of millionaires.

*Having lots of money doesn't change anything. It just amplifies it. Jerks become bigger jerks, and nice guys become nicer.*
-Ben Narasin

**Millionaires**

Worldwide, there are over 9 million millionaires. Over 3 million of them live in North America. In the United States, about 1 percent of people are millionaires. The table below shows the distribution of millionaires by geography. America truly is the land of opportunity.

| REGION | NUMBER OF MILLIONAIRES (2006) |
|---|---|
| North America | 3.2 million |
| Europe | 2.9 million |
| Asia-Pacific | 2.6 million |
| Latin America | 0.4 million |
| Middle East | 0.3 million |
| Africa | 0.1 million |
| WORLD | 9.5 MILLION |

Where do millionaires put their money? Hint: it's not under a mattress. Their top three investments are stocks, real estate, and fixed income securities such as bonds and Treasury bills. Millionaires spread out their money so that even if one investment goes bad, the others will make up for it.

This diversification is based on the principles of Modern Portfolio Theory (MPT). In the 1950s, Harry Markowitz of City University in New York showed that a diversified portfolio increased returns while reducing risk (it's the financial equivalent of a "free lunch"). For his groundbreaking work, Markowitz won the Nobel Prize for Economics in 1990. The lesson is: don't put all of your eggs in one basket. But how do you get a nest egg in the first place?

| ASSET TYPE | MILLIONAIRE PORTFOLIO ALLOCATION |
|---|---|
| Equities (e.g., stocks) | 31% |
| Real estate | 24% |
| Fixed income (e.g., bonds, Treasury bills) | 21% |
| Cash/Deposits | 14% |
| Alternative investments (e.g., foreign currencies, hedge funds, private equity, venture capital, art and collectibles) | 10% |

**Profile of a Millionaire**

How do millionaires become millionaires? In *The Millionaire Next Door* and *The Millionaire Mind*, Thomas Stanley and William Danko interviewed hundreds of millionaires to discover their secrets. More than 80 percent accumulated their wealth on their own, without the help of a big inheritance. The table below compares some of the key differences between millionaires and average Americans.

| CHARACTERISTIC | MILLIONAIRE | AVERAGE AMERICAN |
|---|---|---|
| College education | 80% | 28% |
| Median annual income | $131,000 | $48,000 |
| Annual savings rate | 20% | 1% |
| Self-employed business owners or entrepreneurs | 67% | 8% |

Millionaires tend to be highly educated. Eighty percent are college graduates, and many hold advanced degrees: 18 percent have Master's degrees, 8 percent have law degrees, 6 percent have medical degrees, and 6 percent have PhDs.

Although it's important to get a college degree, your actual grades don't seem to matter much—higher SAT rankings and GPA scores are not associated with higher net worth or annual income. Instead, millionaires say that the most important lessons they learned in school were "developing a strong work ethic" and "learning how to make accurate judgments about people." In *Chapter 10: Career*, we'll learn how higher education leads to higher salary.

**Money Management**

In terms of spending habits, millionaires typically wear off-the-rack suits and drive old cars. Their homes were constructed an average of 40 years ago, and about half have lived in their current home for more than 20 years. The richest millionaires spend an average of 8 hours a month planning their finances. For those who don't budget, the majority "pay themselves first." They spend only the money that's left over after saving and investing.

Millionaires cut coupons and shop for deals. They usually marry partners who are even more frugal than they are. Millionaires also train their kids to be financially disciplined from an early age. This way, their kids grow up to be self-sufficient adults who aren't looking for handouts.

Warren Buffett is America's richest man. He believes wealthy parents should leave their kids enough money so they feel they can do anything, but not so much that they could do nothing. He says, "The idea that you get a lifetime supply of food stamps based on coming out of the right womb strikes at my idea of fairness." Following Warren's advice, Microsoft founder Bill Gates has decided that his three kids will receive an inheritance of $10 million each. The rest of his $56-billion-dollar fortune will go to the Bill & Melinda Gates Foundation, which funds research to cure diseases in the developing world.

With their frugal spouses, frugal kids, and frugal spending habits, millionaires save an average of 20 percent of their annual income. This compares to a measly 1 percent for the average American. In *Chapter 11: Saving and Spending* and *Chapter 12: Investing*, you'll learn how to manage your money like a millionaire.

**Next Generation**

About 17 percent of millionaires are self-employed professionals such as doctors, lawyers, and accountants, while another 50 percent are business owners. Although business owners are the richest millionaires, they usually encourage their kids to become self-employed professionals. Compared to the average American, millionaires are four times more likely to send their kids to law school, and five times more likely to send them to medical school.

Whether you're a doctor or a businessperson, it pays to know how to build a company of your own. In *Chapter 13: Entrepreneurship*, we'll finish off the *Wealthy* section by learning how you can become a successful entrepreneur.