

The Millionaire Next Door

Chris Gardner

Part 1, Answers to the 5 Questions

1. Explain the following 4 concepts addressed in The Millionaire Next Door:

“Big Hat, No Cattle”: This means that for those people who are truly wealthy, it isn’t necessary for them to flaunt it.

“Go to Hell Fund”: Per the prototypical American millionaire, they have accumulated enough wealth to live without working for 10 or more years; they save at least 15 percent of their earned income.

PAW: If you are in the top quartile for wealth accumulation, you are a “prodigious accumulator of wealth”; PAWs are builders of wealth. They have 4 times the wealth accumulated by UAWs.

UAW: If you are in the bottom quartile, you are a “under accumulator of wealth”; UAWs live above their needs, emphasizing consumption. They have an insatiable need for immediate gratification.

2. In the example of Theodore “Teddy” J. Friend:

Provide 3 reasons why Teddy is considered a UAW: First of all, his net worth is less than ¼ the expected figure given his age and income; he has 6 cars, 2 boats and 1 jet ski; he has a big home and a big mortgage.

What was the message Teddy’s parents sent him about consumer behavior? “One earns to spend. When you need to spend more, you need to earn more.” His parents didn’t

teach Teddy how to save, or how important it is to save, or that material possessions are not true indicators of wealth.

3. **In the example of Mr. W.W. Allan, a self-made multimillionaire:**

He never extended credit to people who exhibited the “Big Hat, No Cattle”

philosophy. Why? Because such people would never be able to repay their debts. These types spend in anticipation of having money before they have even earned it.

Why did he decline the gift of a Rolls-Royce? He didn't feel comfortable with it.

Teddy did not want to change his lifestyle to fit an image consistent with what society thought a millionaire should look like. He didn't want to alienate his workers. Most of all, he wanted to keep fishing!

4. **Regarding Economic Outpatient Care (EOC):**

Define Economic Outpatient Care (EOC): this is the substantial economic gifts and “acts of kindness” some parent give their adult children.

Like the example of James, many EOC receivers (inaccurately) view themselves as self-made.

As illustrated in the example of Henry and Josh, what is the fundamental rule regarding wealth building? Be specific. “Whatever your income, always live below your means.”

Why did Laura succeed? Laura succeeded because for her, there was no other alternative. She was determined, and for her, there was no other option.

5. **What are 2 concepts you found most useful?**

The 2 concepts I found most useful were to teach my children by example, as with all things, and no matter my income, ALWAYS live below my means. “Wealth is not the

same as income. Wealth is what you accumulate, not what you spend.” I think that is a very difficult concept for children to grasp. It is becoming more and more difficult to teach them this valuable lesson because we live in such a materialistic society. Everyone seems to be in a competition to see who can get the newest, latest, greatest gadget first, whatever that might be – car, computer, gaming system. It’s almost absurd. Advertising bombards our children wherever they go. Thus is the importance of leading by example. Do not fall privy to the temptations of society. Know and be mindful of the limits you have set, and your children will learn that habit as well, and model your behavior.

The book says “Courage can be developed. But it cannot be nurtured in an environment that eliminates all risks, all difficulty, all dangers.” That part is so very hard for parents! We want to protect our kids from all things, but alas, it is from making mistakes that they learn, much like we did. Guidance and example are critical to their development of self- confidence and self- discipline. They need that to succeed. While no one ever wants to live by words of regret, and hindsight can be terribly cruel, our children must be allowed to learn by experience. How they handle it is determined by the standard we set forth. It’s our job to support them and catch them when they fall. It is nearly inevitable, but it by no means pre-disposes them to a life of failure. Everyone makes mistakes. If we practice and demonstrate responsibility and accountability, and it will make a lasting impression on them.

I have learned from this book that “building wealth takes discipline, sacrifice, and hard work.” Planning and frugality are the 2 words that resonate with me the most. I am 43 now, not in a good place financially by any means, but hope to still be able to teach my kids how important it is to save. Although I have not considered myself to be in a

position to demonstrate proper saving, this book has made me realize that it is always possible. Including my children in the planning process, in budgeting and saving, will, I think, really open their eyes to how quickly money is spent just on life's necessities. Hopefully they can learn to appreciate all things, great and small, and take nothing for granted. I have told them it is never too early to be pro-active: learn, plan, research, save, and invest. "Pay yourself first", the book says. Yes! Invest in yourself and your future! Who knows what tomorrow may bring.

Part 2 Reflective Writing

From this book I have acquired substantive knowledge about the importance of sound financial planning, saving and investing. Although this book does not, and could not, address all the strategies one can utilize in pursuit of these endeavors, it could not over-emphasize enough that the keys to real wealth accumulation are achieved by one's own design and behavior. The importance of creating a budget, revising it when necessary and adhering to it cannot be overstated. This requires critical thinking.

For me, anything having to do with numbers has never come easy. I've always had to spend extra time with numbers, practicing to understand. I've learned that it isn't necessary to be the most intelligent person, but it does require constant attention to become good at it, to feel confident. The book indicates that one of the many attributes of a PAW is self-confidence. Practice is an excellent way for one to develop it.

Critical thinking also means evaluating choices and making decisions based on the best outcome. It doesn't mean always making the *right* choice, that isn't possible. Yet

that is how we learn. Most of us are tempted by what we see and by our desire to compete with what others have, but with practice, planning, patience and self-discipline, we can all learn to be PAWs. Know what you want out of life and devise a plan to get there. Stay focused on that plan, and make changes when needed. And always remember, “no matter your income, ALWAYS live below your means. Frugal, frugal, frugal”!