

EPISODE 865

SF: *One of the things that we, and one of the ways we think about financial management is that it is a job. It's a job that you might, that we don't apply for and we're all in. But we have different and unique strengths and weaknesses when it comes to that.*"

[INTRODUCTION]

[0:00:49.9]

FT: We're in conversation with Sarah Fallaw. She is the daughter of Thomas Stanley who co-wrote the iconic book, *The Millionaire Next Door*. That book went on to sell millions of copies, it was on the New York Times best seller list for month, and in the book, he and his coauthor revealed what real millionaires actually wore, what they drove, where they lived, a lot of surprising statistics because ultimately, what we discovered is that millionaires live pretty frugally.

But do those messages in the book still ring true today? Do the millionaires of today behave in the same way as the ones Thomas studied 20 years ago? We're about to find out. Welcome to *So Money* everybody, I'm your host Farnoosh Torabi. Sarah Fallaw is the author of the new book, *The Next Millionaire Next Door*. As the 20th anniversary of *The Millionaire Next Door* is upon us, Sarah works with her late father to do research and development for an updated version of his book and with her psychology and data background and his extensive experience researching millionaires over his career, together they've created an outline for what is now *The Next Millionaire Next Door*.

Here is Sarah Fallaw.

[INTERVIEW]

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FT: Sarah Fallaw, welcome to *So Money*.

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SF: Thank you so much for having me.

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FT: I'm really excited to dive into your book which is *The Next Millionaire Next Door*, a continuation to the book that your father famously wrote, *The Millionaire Next Door* Thomas J. Stanley, your father. You started the research with your father before he passed away. The first question is, you know, given that all the time that's been passed now, 1998 was when *The Millionaire Next Door* came out, it was a bestseller.

Fast-forward to 2018 when your book came out. What are the differences in how millionaires are living their lives? Is it just more of the same?

[0:02:38.5]

SF: Yeah, you know, I think that there are a lot of differences and particularly around technology and kind of how we get information and share information. Those things do affect our ability and millionaire's ability to build wealth over time. I think that's probably the biggest change in terms of what we see, challenges to individuals building wealth. But really there's behaviors, the same behaviors that allowed people to become millionaires back in the 90s or 80s, are the same ones that are required today.

Again, I think what makes it different or the different challenges with it we have, whether again we're talking about social media or even cost and things like that, in terms of healthcare and education.

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FT: Social media, I think, is really making an impact on how we express our financial choices. Do you think that it's been positive or negative for the most part?

[0:03:37.2]

SF: You know, I guess are two ways to look at that. One kind of, if you think about it, from the retire early community, the financial independence community. They're sharing stories about how it actually is possible to amass wealth quickly for example. That's a great way to learn different tips and tricks and kind of lifestyles that it would take to become wealthy. I think there's a lot of sharing out there that's really useful.

I think from a consumer perspective, it's really a challenge to be engaged in things like Facebook or Twitter or Instagram and not somehow be influenced by what you're seeing others doing, driving and wearing. You know, just as an example, spring break or something like that in the spring time; where everyone's going on vacation. You see that, even if you used to hear about it from your neighbors. Now you can see those fabulous vacations all over social media.

[0:04:37.5]

FT: How do you define millionaires in your book? Because there are a lot of ways you can calculate that. Does it include the equity in your home? Does it include an inheritance? What is a millionaire?

[0:04:51.1]

SF: Yup, we define that based on net worth which is assets minus liabilities. We do, depending on the time and things like that, we can look at equity in the home, we typically take that out. We typically also when we look at wealth accumulation at data points for example, we really are trying to understand kind of that success related to your income in your age and so that's why we look at net worth instead of something like how much you're making and things like that.

[0:05:23.5]

FT: You interviewed 600 of these millionaires for your book and you find that resilience and perseverance were the key traits for building wealth. Were you surprised by that or was that, given, you know, also the fact that we are living like you just said in a world where it's a lot harder in some ways to sort of feel like in control of your financial path?

[0:05:44.9]

SF: Yeah, I think that resilience piece is a great one to talk about here because again, we know that the math works, right? The math related to how we build wealth over time works, it's just our behaviors and our psychology that often get in the way. What we found again consistent with research from the past decades looking at millionaires was that that resiliency, that ability to overcome obstacles, whether we're talking about, in terms of building a business or again, in wealth accumulation that tends to be something that again, millionaires really have in spades.

[0:06:19.7]

FT: I had an author on the podcast one time. Angela Duckworth who has written the book called *Grit*. I love that word. I think that also captures what you found about resilience and perseverance that that sort of can do it-ness, that mindset is paramount. Whether you're trying to manage your money well, build a business, run a marathon, it shows up in a lot of our challenges.

[0:06:44.8]

SF: Absolutely. I think too, even working with let's say your spouse on finances. You know, that can be a real challenge and so that takes perseverance and resilience as well. Even, kind of, one of those smaller aspects of financial management, you've really got to persevere and make sure that each of you are on the same page, devote time to communicating and that can take a lot of resiliency for sure.

[0:07:11.6]

FT: I'd love to go through some of the bullets from your book that highlight the strategies that really rich people practice every day. Some of them listeners, including me, might find surprising. One is that, only 25% of millionaires spend more than \$100 for a pair of jeans.

[0:07:30.9]

SF: Yes.

[0:07:34.9]

FT: I recalled this from your father's book, as well, where he outlined some really interesting price points that we wouldn't have never – we just think like millionaires are spending big bucks on clothing and you know, accessories and travel, but actually they're very, kind of, frugal.

[0:07:51.0]

SF: Right. Right. Yeah, it's a pattern, right? It's a pattern of behaviors that they exhibit over a time. It's not just that one purchase of whatever it might be, their car or their home or something like that. It's really that consistency in terms of their consumer behavior, so again, whether we're talking about sunglasses or furniture or again, you know, again back to cars and shoes and things like that. They tend to be frugal and that's just a consistent pattern of behavior over time.

[0:08:21.7]

FT: You also found that a majority of millionaires, 70% over the past 30 years, reported being raised in an atmosphere of love and harmony and often having parents that encouraged their success. This begs the question, you know, right now, Forbes just released their self-made billionaires cover, with I think it's Kendall Jenner on the cover or Kylie Jenner.

I can't keep track of – I cannot keep up with the Kardashians, okay? One of the Kardashians and there's a lot of controversy because well, is she really self-made? She came from wealth; she came from like a supportive family. Did you find that millionaires beget millionaires?

[0:09:04.5]

SF: Yeah, that's a great question too. I think you know, there's certainly there, that love and encouragement that comes from families is what allows millionaires often to be successful, but that's not necessarily saying that they're the only ones that become successful, right?

We've seen in the research that we've done that parents that are really focused on helping their – again, when you're at home as a teenager or adolescent, really focusing on helping them understand the kids of careers that they could have, demonstrating good money management behaviors, those are the ones that become financially successful in the future and it doesn't take a millionaire to really sit down with your children and help them understand the universe of things that they could do with their skills and things like that.

While certainly it helps, you know, that would be naive to say that having some parent that was wealthy couldn't help, but it's really helping the child become responsible, helping them understand what their skills are and again, demonstrating good money management skills to those children. That's what it really leads to success in the future.

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FT: I found it also encouraging, one of the things you discovered was that knowledge about finances is critical to building wealth. I think we all can agree with that, but the discipline is really what plays a bigger role in your ability to save and spend which I think is again, we touched on this a little bit, but it's a reminder that even if you came from a background that was not, that didn't teach you about money, right? Most of us, that's most of us. A lot of us didn't learn about money growing up, whether it was in school or at home. But there is a light at the end of the tunnel. You can still be successful, if you want for it.

[0:10:47.4]

SF: Right, absolutely and I think that that sort of that discipline and behavioral side of it comes into play once you have that knowledge, so what do you do with that knowledge? We can all

think of for example, folks that we've worked for that were very knowledgeable about a certain area, but they just didn't have the behaviors to become successful.

You know, starting with knowledge is one thing and we can acquire that over time. But certainly again, you know, exhibiting those behaviors where you're living below your means, you're becoming confident in your decision making, those are the kinds of things that can help you be successful over time.

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FT: Your company is called DataPoints LLC and there, your team looks at ways to analyze behavioral finance and then to come up with some of the tools to help us be better money managers. What's your focus right now? What do you see is sort of a new area for research, something that's sort of under analyzed that could be very helpful down the road?

[0:11:49.0]

SF: Yeah, you know, right now we're studying readiness for change, that's one of the key areas that we see that's really impacting people's ability to get on a different path, when it comes to finances. We're studying things like, again, openness to making a financial change within your life. Also, you know, your ability and your sort of efficacy if you will. Nice psychology term there.

But your ability to make a change once you've decided to make one, and so those are the kinds of things that can hold us up or keep us from actually going down a better path, financially and so we're starting to create assessments around that readiness for change concept.

We've got one on our website, you can take it. Really trying to help, again, help advisors certainly, but individuals as well understand that component, that sort of behavioral psychological component when it comes to improving your finances.

[0:12:46.6]

FT: Let's transition to learning more about your financial background Sarah. I mean, obviously growing up with a father who wrote the millionaire next door, you probably were privy to more financial knowledge than most young people. But share a story about maybe a moment or an experience that really exemplified what it was like growing up in the Stanley household.

[0:13:10.1]

SF: That's a great – yeah, absolutely. You know, my father was a survey research expert and marketing professor. His focus was really understanding individuals and populations in terms of their characteristics. One of the earliest kind of experiences I had in that realm was when he was conducting survey research for millionaires and really, sitting at the kitchen table, kind of sorting through all the surveys and stamping them and sending them out. That was sort of one of the earliest experiences I had with that data collection side of what he did.

From a money perspective, you know, I recall very clearly, having lemonade stands and him helping me go sell girl scout cookies, like helping me understand the benefit of being able to express yourself and being able to again, sell what you have if you will, because it is a skill that you have to have no matter what kind of job that you are in.

[0:14:11.8]

FT: Our sponsor Chase, being it financial literacy month now in April, this question is important for us. We really want to know how you gain most of your financial knowledge, but maybe you also had a mistake that you learned along the way too. Is there a story there?

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SF: Yeah, you know I'll say in terms of some of the bigger mistakes I've made was being influenced. I am going back to that concept of influence. Being influenced by some of the folks that I started working with early on in my career. You know I for example, I recall very clearly going to a three-year-old birthday party that looked more like a wedding reception. It was the first one that I had ever been to that one of my coworkers had for her daughters.

And you know coming home and thinking that's exactly what we needed to do for our children. So, we had this big affair, if you will, and just had to sit back after that happened and recognize that not only that was a little over the top for a three-year-old, but also was kind of setting us back financially as well.

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FT: Three years old, oh my gosh, was that your first child?

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SF: It was my first, yeah. The rest of them haven't had anything like that.

[0:15:23.1]

FT: See, I think we all go through that because with my second, with my daughter who just turned two, we literary just celebrated within the family. The four of us, we got cupcakes, didn't have a party. I didn't do any of the bouncy castle, you know what I mean? But yeah, with your first, you do go bonkers a little bit and then you learn and you reel it in for number two. So that is why the second child is always wounded.

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SF: Exactly. What do I get now?

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FT: Well, I guess the sloppy seconds. No, the second child is when you do it the right way.

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SF: That's right. But again, thinking about that, I have to remember that no matter what situation I am in. Whether I am, again, looking at social media or thinking about what my neighbors are

doing. You know we are influenced by what others, how others live their lives and in order to reach our financial goals, we really have to remember what those goals are and really ensure that we are on that path, the right path that will allow us to be financially successful.

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FT: Would love to ask also about your thoughts regarding women and money. Because you know it is no secret, women are living longer. We have a lot of gaps to fill, whether that is the income gap, the investing gap, the confidence gap and so when it comes to achieving to say millionaire status, which I do think a lot of women aspire to reach, what is your advice?

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SF: You know I think my advice is to really focus on your strengths when it comes to different things in the financial realm. So, one of the things that we and one of the ways we think about financial management, is that it is a job. It is a job that you might – that we don't apply for and we're all in, but we have different and unique strengths and weaknesses when it comes to that.

And I think for women, really understanding where your strengths lie and then improving on the things where you feel like you're not quite there. That is the most important piece because again, it is the behaviors that will trip us up, versus knowledge and again, the math. The math works, it is just understanding where we fall in terms of the strengths and weaknesses with relation to that job of financial management.

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FT: I love how you put that in the context of the job. I think that really sets it in a way that, "Okay. All right, got to just put in my hours, do my work."

[0:17:51.7]

SF: Yeah whether you like it and again, it may not be your favorite interest area. You know this may not be in terms of values. Money may not be something that you view as sort of a value for

yourself, but again, there is financial success that allows you for freedom to do other things and so, looking at it like a job can help you understand where am I falling short and where am I really strong?

[0:18:19.4]

FT: Maybe you could be like your side hustle, you know? You are profiting from a passion, which is money, I love that. Tell us about your personal habits around money. You have done a lot of research and you can talk about what other people are doing to help them keep their wealth in check but when it comes to your money management, what's been working for you?

[0:18:44.8]

SF: Yeah. So, it is funny and my husband and I laugh about this quite a bit. So, I study individuals that are really great at money management, but I wouldn't put myself out there as a personally a financial expert if you will and so, if you are someone like me then maybe these tips will help. But one of the things that I have to do is again recall those goals. So for our family, it starting a business and being in a situation where neither one of us now, we're relying on this business to be successful.

We are calling that as a goal, when I am trying to determine the kinds of things that I am going to buy or the kinds of vacations we might go on. That to me is super useful, again and it helps me or it reminds me why we are doing the things that we're doing. And again, I think too, I have had to build some knowledge in areas that were a little bit outside of maybe something that I am interested in and finding resources that make money fun, that make money interesting has been really useful for me as well.

So, I am definitely not the personal finance expert, more of the psychologist and the expert in that realm and so those have been some of the things that have helped me.

[0:20:02.9]

FT: Well more than advice, people need therapy around money, I find. And of course, advice through therapy.

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SF: Right, exactly. Yeah and talking about our goals and taking about being mindful. Again, mindfulness is so important particularly when maybe you have spent your life not really thinking about the things you are buying or attending to a budget or thinking about your long-term goals. Being calm and in the moment and thinking about what you're doing related to finances is something that's helpful as well.

[0:20:34.7]

FT: Did you always know that you wanted to follow in your father's footsteps that you wanted to pursue a path where you were working with people and trying to dissect our financial behavior? When you did realize you wanted to do this, what was the aha moment?

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SF: Yeah, so for my early career, definitely wanted to stay away from what my father was doing. He had his own, obviously he was very familiar or famous, if you will, with his book and with the work that he did. So that was something that I didn't really want to ride coat tails. I wasn't interested in that. I really was focused on industrial psychology. That was my focus and sort of my early career, if you will.

The aha moment came when he had a real health scare back in 2009. I recognized that all of the work that he had done was actually very similar to what we do as industrial psychologists, which again was looking at what it took to be really great at financial management. And so that is when I began to see that there was this overlap between both – my expertise and his work and that is when I began to, sort of, bridge the two together.

[0:21:50.4]

FT: Well the book again is called *The Millionaire Next Door* and this is now 20 years since your father's initial book and we want to wrap here with some *So Money* fill-in-the-blanks. Is that okay? Is that cool?

[0:22:05.8]

SF: Oh yeah, that's great yeah absolutely.

[0:22:07.1]

FT: Okay so don't overthink it. I know you're a thinker. I know you're an analyst.

[0:22:11.7]

SF: How do you know that? Yeah that's right.

[0:22:13.5]

FT: First thing that comes to mind. So well, this is kind of dovetailing the topic of the book, so finish this sentence. If I won the lottery tomorrow, if I became a multimillionaire tomorrow, the first thing I would do is?

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SF: Pay off everything that you need to pay off, save it and then go on vacation.

[0:22:32.3]

FT: Yeah. Oh, even the mortgage, right?

[0:22:36.3]

SF: Right. Just get it all done.

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FT: Just get it all out, off the books.

[0:22:39.1]

SF: That way you don't have to worry about it.

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FT: Yeah, where would you travel to?

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SF: I'd go to Spain.

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FT: Yes.

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SF: I don't know why, just go to Spain. Barcelona, yep.

[0:22:47.5]

FT: I like that. Yep, Barcelona, a little Madrid, a little Majorca, yeah. There is so much in Spain. It is so multicultural and diverse I love it.

[0:22:58.8]

SF: Absolutely, yeah.

[0:22:59.5]

FT: All right, the one thing I spend on that makes my life easier or better is?

[0:23:05.1]

SF: Hobbies. Hobbies are my therapy, so it is either pottery or going to chat with someone through. So that is yeah, definitely hobbies.

[0:23:17.4]

FT: Pottery, in Brooklyn there is a couple of places where you can go and they give you wine and then you can make something. That's for the beginners, I think. I think that is more for the wine too than anything is.

[0:23:29.9]

SF: Yeah, it is throwing on that pottery wheel that definitely takes your mind off of life for sure.

[0:23:34.9]

FT: I love it. Okay, when I splurge, like really go for the jugular, the one thing I am unapologetic about spending my money on is?

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SF: I guess my children. Yep, I don't spend on myself. I would rather spend on them.

[0:23:49.9]

FT: The bouncy castle and –

[0:23:51.4]

SF: That's right. I know. I know the bouncy castle and the birthday party. That's right.

[0:23:55.5]

FT: Quick anecdote, so I used to watch a lot of *Who's the Boss* growing up, did you ever watch that?

[0:24:00.0]

SF: Well a little bit, not too much, yep.

[0:24:02.4]

FT: There is just this one episode that stands out where Tony and Angela are in competition with the neighbor over a child's birthday party. They wanted to have the best party in the neighborhood and Tony asked Angela, "Angela, how much are you willing to spend on this birthday party?" And she said, "A quarter of a million dollars," and I am watching this as an 11-year-old thinking, "How much is that?" like that sounds like a really big number and now today as a 40-year-old that is a very big number. In the 90s it was probably a million dollars.

[0:24:36.3]

SF: It's huge exactly, yep.

[0:24:37.6]

FT: But it is true that is what – that is the extent to which I think some New York families have gone. All right, when I donate, I like to give to "blank" because?

[0:24:47.9]

SF: We typically give to our church or to an organization here, near where we live, that donates to the homeless and has an outreach called Mass Ministries here in Marietta, Georgia and they do a lot of great work. They feed and house a lot of folks that need it.

[0:25:09.4]

FT: Cool, and the one thing I wish I had learned about money growing up is? This is interesting because I feel like you didn't nothing was left untaught. But was there one thing that you wish you had learned more about?

[0:25:23.5]

SF: Oh am I overthinking? I am starting to overthink, aren't I? You know, I think that money doesn't solve everything and not that I didn't hear that, but I wish I had maybe internalized that that there's a lot. So, I think understanding that money allows you freedom versus the other way around.

[0:25:47.2]

FT: I'm Sarah Fallaw, I am *So Money* because?

[0:25:50.3]

SF: I know what it takes to be successful.

[0:25:53.6]

FT: You do.

[0:25:55.1]

SF: Whether I do it or not, I certainly know what it takes.

[0:25:58.1]

FT: Oh, I think you are doing it. I think you are doing it. Sarah thank you for joining us and thank you for continuing the great work and continuing the legacy of your incredible father, Thomas Stanley. Your book is called, *The Next Millionaire Next Door*, on bookshelves everywhere now. It is such a privilege to have you on the show, thank you.

[0:26:15.2]

SF: Well, thank you so much. It was a lot of fun, thank you.

[END]