Brandon Valladolid

April 20, 2015

Professor Joseph Howell

FIN 1050

1. Explain the following four (4) concepts addressed in **The Millionaire Next Door**:

“Big Hat, No Cattle”

This concept refers to someone that is a high spender and no wealth. Just because you look like you are societys stereotypical millionaire does not mean you are one.

“Go to hell Fund”

This is a fund that an affluent individual uses for having enough wealth that if they lost their income the fund would carry them for 10 years or more.

PAW

This an acronym for Prodigious accumulator of wealth. The book gives you a formula that define what your net worth should be if your net worth is twice than your net worth. You are a PAW.

UAW

This is an acronym for under accumulator of wealth. Based on the formula the book gives if your net worth is lower than that you are a UAW.

2. Provide short answers to the following four (4) questions:

How is *“wasteful”* defined in the book?

Wasteful is described in the book as a hyper spender, or a person that overly spends for everyday items and large quantities.

What is the cornerstone of wealth-building?

The corner stone of wealth building is defense and should be backed by budgeting and planning.

“Most people will never become wealthy in one generation if they are married to people who are \_\_\_\_\_\_\_\_\_\_\_\_\_\_.”

Wasteful

Upon giving his wife $8 million of stock, from taking his company public, what did his wife continue doing?

Cutting 25 and 50 cent coupons from the newspaper.

3. In the example of Theodore “Teddy” J. Friend and his parents, answer the following two (2) questions:

List two reasons why Teddy is considered a UAW.

His net worth is less that on fourth of his projected net worth.

His spending habits are that of a big spender to keep up with the Jones.

What was the message Teddy’s parents sent him about consumer behavior? (Be specific)

One earns to spend

When you need to spend more, you need to earn more.

What was the “small change” Teddy’s parents could have made that would put them in the millionaire category?

Instead of smoking 3 packs of cigarettes a day invest that into a tobacco portfolio equaling a worth of over 2 million

4. In the example of Mr. W.W. Allan, answer the following two (2) questions:

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

Because in Mr. W.W. Allan’s mind Big Hat, No Cattle people will never be able to repay their debts. Those type of people to him just spend in anticipation of having money before they have even earned it

Why did he decline the gift of a Rolls-Royce?

He declined the gift because he knew that a rolls Royce did not represent anything that is important to him in his life like going fishing did.

5. Regarding Economic Outpatient Care (EOC), answer the following four (4) questions:

Define Economic Outpatient Care (EOC).

Is when parents or grandparents that have accumulated their wealth feel that they can be less frugal with gifting money to their children and grandchildren. In other words it is subsidizing their children and grandchildren’s lifestyles.

Like the example of James, many EOC receivers (inaccurately) view themselves as \_\_\_\_\_\_\_\_\_\_.

Self-made

As illustrated in the example of Henry & Josh, what is the fundamental rule regarding wealth building? (Be specific.)

Whatever your income, always live below your means.

Why did Laura succeed?

She succeeded because she had no other choice but to succeed. She put her mind to it and accomplished what she wanted too.

6. Regarding Affirmative Action, Family Style, answer the following two (2) questions:

Why were sisters Sarah & Alice so different regarding wealth accumulation?

Sarah was force to be financially independent when she left home and her father cut her off. Because he felt that she was not following the role of a woman in his mind. Sarah became independent and successful at becoming a PAW. Alice on the other hand followed the role that her dad wanted her to. He gave her and her spouse EOC in large amounts to keep her in the same upper middle class lifestyle as him. Though she did not need to be financially independent for any reason. Sarah and Alice’s views of spending were entirely different.

What did Ken’s father tell him often?

I am not impressed with what people own, I am impressed by what they achieve.

7. Now that you have finished reading **The Millionaire Next Door**, answer the following three (3) questions in a minimum of three (3) paragraphs.

How has your perception of millionaires changed?

What are the two (2) concepts you found most useful?

How will you apply them into your life?

After reading this book my mind has made a 360 degree change on what my perceptions of a millionaire were. Initially I had the stereotypically idea of what I thought a millionaire is “Big Hat, No Cattle” type of people. Oddly enough I looked for these types of people in my own company. I was shocked that I found several affluent people that I never would have guessed were affluent right in front of me everyday.

Several of the concepts really hit a bell for myself. The two that particularly struck a chord with me were “To build wealth, minimize realized (taxable) income and maximize your unrealized income” and living well below your means. I know for myself these are two concepts that I must embrace if I want to become a PAW.

The two concepts that I feel that I need to incorporate into my life will be applied shortly. I already do many frugal things like couponing and saving on things like merchant goods and services. But I have a tendency to allow myself things that are above my own means like 140 dollars a month for cable television. That is not a way to become a PAW. It is not a necessity. There are many ways I can implement this into my life. I also have not invested much to help my own unrealized income. I was raised a UAW and realized after I lost everything out of two divorces that I am the only one that is going to support my children and give them the opputunities to succeed in life, by teaching them good habits of spending and lifestyle.