The road to retirement is paved with good financial habits

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Millionaire status might seem far out of reach, especially as unemployment remains high and household incomes fall through this pandemic-driven recession. But you can still learn some good financial lessons from those who've joined the seven-figure club, even if your own net worth might always be expressed in fewer digits. After all, millionaires rarely strike it rich overnight or even pull in huge salaries. “A lot of people confuse wealth and income,” says Sarah Stanley Fallaw, coauthor of *The Next Millionaire Next Door* — a follow-up to *The Millionaire Next Door*, originally published in 1996 by her father, Thomas J. Stanley, who died in 2015.

On the contrary, wealth is typically built over time, on varying incomes and through all kinds of economic cycles. And whether it leads you to a million-dollar retirement nest egg or other worthy money milestones, practicing some basic principles that have held up over time, as Fallaw has seen in continuing her father's work, is how to achieve financial success. “Not to sound dull and boring, but it was very clear that the things that were critical to building wealth when he wrote the book in the ‘90s continue to be important today,” Fallaw says.

Here are six lessons you can learn from the retired millionaire next door:

Lesson No. 1: Live below your means

In his early 20s, Jeremy Schneider founded RentLinx, an online rental-housing listing network, and paid himself just $36,000 a year (the lowest salary on his payroll). Then, at age 34, he sold his company in 2015 to AppFolio for more than $5 million and retired at age 36. “That windfall pretty much had me going from poor to rich overnight," says Schneider, now 39 and running his new site, the Personal Finance Club.

But one thing didn't change: his frugality. Before becoming a millionaire, that meant having a roommate and living in a less desirable neighborhood, so he could keep his San Diego rent to just $700 a month (compared with a current average of about $2,200 a month for the city, according to RentCafe). He drove a 1999 Ford Explorer for which he paid $3,000 in cash. He rarely ate out, and when he did, he'd skip drinks. "I would try very hard not to spend anything," he says.

Once he made his millions, he loosened up a bit, doubling his monthly costs. He even upgraded his ride to a new Mazda CX-5. But his crept-up lifestyle remained well below his means. Instead of living off the recommended 4 percent withdrawal rate from his investment portfolio, he takes out just about 1.5 percent to cover his costs. "Living below your means, whatever your means are, is critical," Schneider says. "If you spend everything, you'll always be broke. And it really spans all levels of income."

Lesson No. 2: Track your expenses

Don't call it a budget. Budgeting might elicit a sense of restriction, but tracking your expenses is really about knowledge. And with knowledge comes the ability to take control of how you spend your money.

"One of the most common traits among our most successful clients is they know where every penny goes every single month, every single day," says Taylor Schulte, a San Diego-based certified financial planner and host of the *Stay Wealthy* retirement podcast. "They're not on a budget, but they track their expenses. They just know where their money is going."

Lesson No. 3: Invest, but simply

Saving is great; investing is better. It may seem like an intimidating endeavor — especially given the sharp plunge stocks took at the onset of the pandemic and the ongoing market volatility — but investing is your best bet against inflation. The average rate offered by savings accounts is a measly 0.09 percent, according to Bankrate, far from even enough to keep pace with the low current inflation rate of 1.31 percent, according to InflationData.com. Standard & Poor's 500-stock index, on the other hand, has returned an annualized 11.65 percent over the past 10 years, according to Morningstar, even with the drops that brought it into bear-market territory this year.

So it pays to overcome any fear you might have. "I think investing is scary to people because it's not taught and there are a lot of big businesses that make it seem very complicated," Schneider, the early retiree, says. "But it turns out that to do it very well is to do it very simply."

He does that by sticking with low-fee index funds, which invest in a wide assortment of stocks, and target-date funds, which gradually reduce risk over time as you approach a targeted date such as retirement. Such investments help keep costs low, which helps to maximize returns, and put allocation decisions in the hands of professionals.

Whatever investing strategy you adopt, remember that you're in it for the long haul. So you need to be aware of your risk tolerance, which you can gauge based on your reactions to recent market tumult, as well as your time horizon. If you can't stomach big drops like the ones we saw when the novel coronavirus first shook U.S. markets, you may need to dial down the risk in your portfolio. “The real important thing is to have an investment plan that we can stick with,” says Schulte, the financial planner.

And don't sweat it if you make some mistakes along the way. Fallaw notes that millionaires have made plenty themselves. “They learned from experience,” she says. “Just because they made a mistake, it doesn't mean they got out of the market.”

Lesson No. 4: Invest in yourself

Stocks are great, but you are greater. Whether you pursue degrees through formal education or devote your time to building a business, you need to invest in yourself as an income generator. That was a big point that set top wealth builders apart from others who started with similar incomes, Fallaw says. “The difference oftentimes is that they were spending time, energy and resources on things that were going to allow them to build wealth,” she says. “These folks were really focused on their business and profession."

And the investments in yourself can come at all stages of your career, not just early on. Take a class, teach yourself a new skill or pick up an extra certification. Any and all can lead to a pay raise at your current job, a better-paying new job or a lucrative opportunity to start a business.

Lesson No. 5: Agree on goals

Everyone needs a support system. Among the millionaire case studies Fallaw has seen, the vast majority were married and indicated that their spouse's support was a critical factor in their success. That doesn't mean partners must have the same money personalities in order to build wealth, but they do need to be on the same page. “They at least have to agree on their goals and communicate and effectively agree to do all the little things necessary for achieving those goals,” Fallaw says.

This is especially important if you're not a natural saver. “If it's not how you were made, so to speak, then ensuring you have a partner or spouse, or that you're working with a financial professional that's working in your best interest, can allow for someone to achieve their financial goals,” she says.

And sometimes that support system can be simply being there to help talk you through tough times. For example, Schulte has been counseling his own clients through recent market ups and downs, telling them, “We're here to talk,” he says. “Being scared is totally normal. It's OK to feel this way. It's OK to call us."

Lesson No. 6: Stay focused

Remember that your retirement savings plan should be built for the long term — with the expectation that there will be plenty of ups and downs along the way — and focused on your personal goals. The 24-hour news cycle and social media can make it easy to forget that point, constantly inundating you with sensational headlines and images of other people's extravagant lifestyles. So be sure to set aside time to unplug and ignore any urge to keep up with the Joneses.

"Millionaires would tell you they don't have the time to worry about what's going on around them because they're focused on their business and their families," Fallaw says. "And they recognize that that's not going to help them achieve their own goals."

by Stacy Rapacon, **AARP**, September 17, 2020