

How To Lead a Rich Life

Polly LaBarre, *Fast Company* magazine
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Can money buy happiness? (You'd be surprised!) What is the measure of true wealth? (Hint: Don't look at your brokerage statement.) Why do so many people with high incomes have such limited assets? (Check out your garage...and your pool...and those vacation bills.) A values-driven guide to mastering the Money Issue.

You're rich.

Well, at least well-off. I am certain of this, because the average reader of this magazine has a household income of \$119,000, which puts him or her in the upper segment of the richest society in the history of the world. Maybe you don't fall into that core group. Maybe you're scanning this article in the waiting room of a doctor's office, and your household income is bit less (or much more) than that. Either way, relatively speaking, you're rich. Not filthy rich, but better-off than almost everyone else on the planet.

Yet -- and I am certain of this too -- you don't feel rich (or even well-off). Money doesn't buy what it used to. A million bucks seems more like a living wage than a small fortune. Millionaires are a dime a dozen: There are nearly 5 million households in America with a net worth of at least \$1 million. Even Joe Millionaire, reality TV's latest must-see phenom, needs a faux fortune of \$50 million to impress the ladies. For the average Joe, a garden-suburb mortgage, private-school tuition, an SUV in the garage, and spring break in Vail can make a six-figure salary feel like almost nothing.

Meanwhile, it's impossible to escape the barrage of images of the Rich Life, Supersized for the American Century. Even post bust and mid-recession, Bentleys, which start at \$200,000, are sell-outs; Vertu cell phones cost almost \$20,000; and Johnnie Walker has introduced the \$180-a-bottle Blue label (as if the Red and Black labels weren't luxurious enough), which sells for as much as \$700 a bottle in clubs. And this is what passes as scaling back for tough times: The \$52,000 H2 Hummer urban-assault vehicle (a bargain compared to the \$116,000 H1 model) is flying off of dealers' lots.

The desire for more is the most powerful drive in our culture. It's in the DNA of democracy and at the heart of the American Dream: Every person gets an equal chance to make it, and it's our responsibility to take it. Of late, that drive has produced an ethnography of excess -- books such as Juliet Schor's *The Overspent American*, Robert Frank's *Luxury Fever*, and even Eric Schlosser's *Fast Food Nation*. These accounts of the rich and spendthrift point to one big question: What does all that income and spending add up to? A lot of nothing, it turns out. One of the more shocking measures of our "prosperity" is the fact that the United States spends more on trash bags than 90 other countries spend on everything. In other words, the receptacles of our waste cost more than all of the goods consumed by nearly half of the world's nations.

The cost of our wealth to other societies and the environment has been well documented. But the greatest toll might be on ourselves. Between 1970 and 1999, the average American family received a 16% raise (adjusted for inflation), while the percentage of people who described themselves as "very happy" fell from 36% to 29%. We are better paid, better fed, and better educated than ever. Yet the divorce rate has doubled, the teen-suicide rate has tripled, and depression has soared in the past 30 years. The conclusion is inescapable: Our lifestyles are packed with more stuff, but we lead emptier lives. We're consuming more but enjoying it less.

Surely we're rich enough to feel better than this. So what's missing? It might help to revisit that threadbare but forever-relevant question, Does money buy happiness? You'd be hard-pressed to find someone who's willing to argue publicly that it does (although few would give up the chance to find out for themselves). The real story is that all signs point to the reverse: Happiness may help you get rich. In study after study, doing work that you love and having a great marriage and a fulfilling family life are all correlated with financial wealth. The tricky part is that you can't "get" happiness (sorry, Thomas Jefferson) by pursuing it. Put your eye on that prize, and you set yourself on the treadmill of ever-escalating aspirations. We think that we'll be happy when: when we get a better job, when we get more money, when we fall in love. But then, as Samuel Johnson put it, "Life is a progress from want to want, not from enjoyment to enjoyment."

Change your frame of reference, though -- focus on the real prize -- and leading a rich life is surprisingly cheap and highly accessible. The most serious obstacle to achieving it is ourselves. What follows, then, is a values-driven guide to mastering the money issue -- revised and updated for a poor economy. It is informed by cutting-edge insights from the new "economics of happiness," three decades of research on the defining values of America's new leadership class and the state of the American dream, and a comprehensive portrait of the highly effective habits of the truly wealthy. To be sure, this guide has more than its fair share of philosophy. But it also has formulas to measure success, questions to reshape your priorities, and tactics to steer your actions. It won't provide can't-miss investment strategies for your 401(k). But it may help you invest in something even more valuable.

Money Can Buy Happiness (Sort of)

The Price: \$1.5 Million

Let's put to rest one of the most trite and nagging questions in life: Can money buy happiness? In private, most of us would probably answer "yes." In public, the answer is usually an emphatic "no." But wait: New evidence from the academic field of "happiness economics" provides a third answer -- call it "yes, but" -- and reveals a collection of insights about the tangled relationship between wealth and well-being.

In the field of economics, it used to be that the pursuit of happiness was left up to the free market. A fundamental tenet was that the way to achieve well-being (or "utility") is through economic growth. In the case of individuals, raise your income. In the case of nations, pump up the GDP (to allow citizens to acquire more utility). The first important (and largely ignored) challenge to those assumptions was a seminal 1974 study of the relationship between economic growth and well-being by USC economic historian Richard Easterlin. Easterlin found that above a very low level, economic growth does not seem to improve welfare. His explanation, known as the "Easterlin paradox," was that, because people judge themselves in relation to others, any real jump in income makes little difference in how they feel about themselves. Having more isn't enough -- unless someone else has less. Even gains in relative income make little difference: We just compare ourselves to a higher standard. The more we have, the more we want. And the less happy we become.

Andrew Oswald, a professor of economics at the University of Warwick in England and one of the pioneers of the newly rekindled field of happiness economics, has been studying the interplay of money and happiness for the past decade. "When you carefully control for other things," he concludes, "more money actually does make people a bit happier."

But, he cautions, most of the effects are temporary. "The curse of humanity is that people feel compelled to look over their shoulders," says Oswald. "Happiness and self-esteem depend on rank and relative income. We are consumed by relativism. We can't help but form comparison groups in our minds. Your hair isn't good enough. If your neighbor drives up in a new Lexus, and you're still driving the Toyota that you were perfectly satisfied with yesterday, you start to become dissatisfied."

There is, however, a sum of money that seems to trump our tendency to turn every achievement into a burden. That number is \$1.5 million. Oswald's studies of the effects of windfalls on lottery winners and inheritors indicate that a \$1.5 million cash infusion bumped happiness levels all the way from "fed up" to "very happy" -- the psychological equivalent of accelerating from zero to 60 in a few nanoseconds.

The flip side of this good news (we can buy happiness at some price) is the bad news: The lack of money (or the sense of success) may do real harm. Nobody wants to be a nobody. We're programmed to get somewhere, to make something of ourselves -- or at least to look like it. "Lack of success is literally a life sentence," says Oswald.

Scores of epidemiological studies and Oswald's own research underscore the tight link between status and health. Seniority at work is a reliable predictor of lifespan after retirement. Status has an even bigger effect on lifespan than smoking. A pair of economists documented this phenomenon in a famous study of Academy Award winners. Oscar winners live at least three years longer than Oscar nominees. The gold statue, it seems, is literally a life pass. (As if Tom Hanks and Julia Roberts need another perk!)

If your life's in turnaround, Oswald has a more modest approach to dialing up well-being. "Instead of keeping up with the Joneses," he jokes, "we'd all be much better off if we just compared ourselves to our grandmothers. Then we're looking at real gains."

As it turns out, by the time we get to be our grandmother's age, we'll be happier anyway. That's because happiness over any given lifetime looks like a big U-curve. "You start out thinking that you're going to conquer the world," says Oswald. "Then you discover that it's tough out there and become dissatisfied. Happiness levels tend to bottom out around 30. Eventually, after 5 or 10 years, you come to terms with yourself. You learn to control your aspirations. After you've done that, it's easier to get steadily happier again."

The even better news is that factors beyond dollars have a dollars-and-sense impact on happiness. Oswald and his colleagues have developed a methodology for determining which of the many forces that influence well-being -- income, marriage, job satisfaction -- are most important and how much they matter. Using these so-called happiness equations, he has figured out the "compensating amount" of money for various life events. (See "Happiness: a Price List," page 76.) For instance, being married contributes the same amount of happiness to your household as an extra \$100,000 in annual income. (It makes you richer too -- married workers earn 10% to 20% more than singles -- and adds an average of three more years to your life). By the same token, when a man loses his job, it costs him \$60,000 in happiness units beyond his missing salary. The cost of widowhood is enormous. The unhappiness associated with losing a spouse would take \$245,000 a year to offset.

To Oswald, those depressing numbers suggest a way out of the rat race. In a world where every politician is focused on improving the lifestyle of his constituents (still banking on the old formula that economic growth equals happiness), this body of research could be the basis for what he calls "a radical new approach to government intervention that works not based on what people have but on what they aspire to." An example: "The importance of relationships to well-being looms large in the data, yet every Western society has turned its back on policy addressing divorce, separation, cohabitation, and marriage -- which is potentially more important to people than cash."

True Wealth

Redefining the American Dream

What is the sound of a nation questioning the meaning of success and the value of money? According to Ed Keller and Jon Berry, CEO and a senior research director, respectively, of RoperASW (the research firm responsible for the Roper Poll), it's the sound of peer-to-peer conversation rather than Madison Avenue pitches or Wall Street formulas. More and more, these world-class opinion analysts argue, the opinions that matter most are those that flow person to person -- whether it's over the back fence or across the Internet.

But not all opinions matter equally. The conversation that is shaping the future of success -- literally redefining the American Dream -- is dominated by an increasingly powerful new leadership class, a diverse group that Roper first identified more than 60 years ago as the Influentials. This slice of the American fabric is, Roper suggests, the leading indicator of all of society: 21 million people whose thoughts, decisions, behavior, and lifestyle influence the rest of the country. Demographically average -- they're college-educated, married homeowners with a median age of 45 and a household income of \$55,300 and otherwise are as diverse as the population of the United States -- the Influentials hang together as engaged activists with restless minds and pragmatic optimism. Keller and Berry provide a portrait of this subculture in their book, *The Influentials: One American in Ten Tells the Other Nine How to Vote, Where to Eat, and What to Buy* (Free Press, 2003). In the book, and in interviews with Fast Company, they make it clear that the most pressing issue facing the Influentials is the changing relationship between wealth and success.

If most people hang their self-worth and self-esteem on their relative status and their spiraling aspirations, the Influentials represent a profound adjustment. Says Berry: "Their attitude is, if this is what I have -- in terms of money, talent, resources, opportunity -- then what do I do with it right now? What matters? The Influentials live in that place all the time. The things that matter matter more than ever." When it comes to what matters to the Influentials, a distinct hierarchy emerges. Berry and Keller crunched 30 years' worth of data on attitudes toward the American Dream, the good life, what makes life "richer or fuller," and what material resources it takes to produce what the Influentials want.

The most intensely held values of the Influentials can be grouped into three themes: strong relationships (with family, spouse or romantic partner, friends, and broader connections); personal integrity (honesty, authenticity, being true to yourself); and exploration (not adventure so much as knowledge, learning, open-mindedness, and creativity). At the bottom of the list of priorities? Impressing others, wealth, looking good, status, and power.

The Influentials don't preoccupy themselves with keeping up. They're more concerned with keeping fresh. The focus is on "learning, experimenting, and creating in every aspect of life," says Keller. That's true of travel, fitness, even technology. When it comes to acquiring stuff, says Berry, "the key criteria is what's going to be engaging and interesting rather than accumulating badges and status symbols."

Consider the case of Tim Draper, the Silicon Valley venture capitalist responsible for one of the most influential ideas to take root in the Internet economy: Hotmail. In addition to pursuing a new generation of technology investments today, Draper is a tireless crusader for education reform and founder of a program called BizWorld that encourages budding young entrepreneurs. Berry calls Draper's life "one big information-mining venture." Draper's idea-testing and development mechanism is finely tuned. He's relentless when it comes to keeping up with what's new -- which is why he has a museum of PDAs, cell phones, and other computing devices. He recently bought a Mercedes, in part for its in-dashboard phone and GPS feature, and he's considering buying a GM car to test its OnStar concierge technology.

Just as they believe that they aren't defined by their stuff, the Influentials are keenly aware of what money can buy. Wealth means security, independence, and helping one's children rather than pleasure, achievement, or status. Making it has more to do with freedom than with anything else. "The dream of the past decade has been to follow your own path and to be the master of your own destiny," argue Keller and Berry. By that measure, most Influentials have attained the dream. Indeed, a significant percentage of them believe that they're well on the road to achieving their vision of the American Dream, while even more believe that they are already living the good life.

(That said, even the Influentials are eager for more money. "It's almost unAmerican" to be satisfied with your income or net worth, Barry concedes. Only one in four Influentials is satisfied with how much money he or she has. But even among those who are dissatisfied, money remains near the bottom of the list of personal motivators.)

If the Influentials don't seek money or power in the traditional sense, they've plotted a course to a richly textured and rewarding way of life that Keller and Berry argue is coming to the rest of America. Influentials are involved in life at a level that's far above that of the public as a whole. They're active in the community: 74% of them attended a public meeting on town or school affairs last year, 50% served on a committee of a local organization, and 35% were active members of a group trying to influence public policy. More than 7 in 10 devote time to some cause or issue in their community during the course of a year. Six in 10 volunteer on a monthly basis -- double the rate of the public as a whole and about triple the level of executives and professionals, college graduates, and those in higher-income households. Activism extends to the Influentials' work and personal lives as well. They are significantly more likely to view their job as a career than the average American, and half are at the center of the decision-making process in their jobs. They engage in a breadth of interests -- from reading, to cooking, to attending cultural events, to volunteering -- during their leisure time. The only thing that they don't do more of is watch TV.

Just as important, while the rest of us are still clamoring up the ladder of success, the Influentials are wielding a new kind of horizontal power -- their connectedness and credibility -- to spread ideas and make small contributions that add up to a big impact. "You can frame success in all kinds of ways," says Berry. "For most Americans, it's about numbers: How much money is in your bank account? How many square feet are in your McMansion? For the Influentials, the numbers that matter are about connections. How many people are on your Christmas-card list? How many people can you call on if you lose your job? How many people can you count on to come to your birthday party? How many interesting people can you learn from?"

Connections are the ultimate renewable resource and the truest form of wealth. They don't go away when Wall Street goes south. So if you want to invest in your future, Berry urges, don't just shift more money into your 401(k). Be sure to look at how engaged you are in your work. Ask yourself, What have I learned today? And if you don't like the answer, put yourself in a position to learn new things. Go to a meeting. It's simple, but it's the main way for connecting with people and opening up new doors. Also, spice up your leisure time. Don't live a one-track life. The average Influential is connected to seven groups or communities, which is twice as many as the average professional or affluent person. That means that they have better information, they're more interesting, and they have a deeply satisfying sense of connection.

If You've Got It, Don't Flaunt It

Why It's Smart to Live Below Your Means

Robin Leach, you might want to sit down for this. Thomas J. Stanley, coauthor of the blockbuster book, *The Millionaire Next Door* (Longstreet Press, 1996), author of *The Millionaire Mind* (Andrews McMeel Publishing, 2000), and the top authority on America's truly wealthy, has some behind-the-scenes scoop you won't see on TV. The average millionaire lives in a \$300,000 house and drives a four-year-old American-made car. No champagne. No chauffeur. Not even a swimming pool.

If the real rich aren't living the lifestyle of the rich and famous, then who is? The people who can't afford it, says Stanley. The classic assumption is that if you look rich, you are rich. But as it turns out, the more you spend on looking rich, the less you're worth. Says Stanley: "The hallmark of the well-adjusted wealthy person is that he lives well below his means. He's truly frugal. He's all cattle and no hat."

The people that Stanley has studied for more than two decades are the true Joe (and Jane) Millionaires. There are more than 5 million households in the United States today with a net worth of \$1 million or more. Stanley focuses on the 95% of them with a net worth of \$1 million to \$25 million. The typical portrait is a 57-year-old man who is married with three children. Most in this group are college graduates. Two-thirds are self-employed (and 75% of those are entrepreneurs). Their average annual household income is \$247,000; their average net worth is \$3.7 million. Typically, they don't pay more than \$24,800 for their cars or more than \$399 for a new suit. Most have never spent more than \$38 for a haircut.

If Stanley could drill just one lesson into the minds of Americans who want to tap into the mind of the millionaire, it's this: Don't confuse wealth with income. "Too many people put all of their energy and attention into earning and spending," says Stanley. "Wealth is what you accumulate in assets, not what you make or spend." That distinction divides the world into two kinds of people: "wealth accumulators" and "hunter-gatherers." The first are what Stanley calls "balance-sheet wealthy." They're "financially independent because they focus on their assets. The members of the other group think about their income statement. They tend to be high income, low net worth. They often did well in school and got a great job, but they love to spend money. Most of America is income-statement affluent. They judge their worth on what their income can buy, not on what their wealth can provide."

Of course, the crucial difference between wealth accumulators and hunter-gatherers isn't the size of their assets, it's the scope of their freedom. Stanley suggests a simple wake-up call for people who are interested in evolving from the hunter-gatherer lifestyle to the unshackled existence of the truly wealthy: "Sit down and make a calculation. How many more hours on the job will it take for you to be free, for you to support yourself and your family comfortably for 10-plus years without working? How many more minutes commuting? How many more memos? How many more budget meetings will you have to sit through? And then ask yourself, Is it worth my life to continue to do this?"

Stanley knows that the exercise works, because he did it himself. "I taught at a university for 23 years. I gave 3,000 lectures and graded about 9,000 exams. I sat down one day and counted how many more I would have to do: 3,500 more lectures and 9,500 more exams. I was a hunter-gatherer -- even with tenure." That did it for Stanley. He decided to dedicate himself to writing books. "I love it," he says. "When I was still teaching, I used to wake up much earlier and write for 8 to 10 hours a day. Now I just put in three to four hours a day of the very best energy and emotion I can muster, and I find that I work faster and better. I spend more time in traffic than I do writing when I'm working on a book."

Taking that kind of leap is only the first step to financial independence. The path to wealth is also paved with persistence and discipline. "Being a well-educated, high-income earner does not automatically translate into wealth," says Stanley. "It takes real planning and sacrifice." Stanley's advice: Learn to play defense.

The best defensive players answer "yes" to four critical questions. First, does your household operate on an annual budget? Most millionaires have a budget, and even those who don't invest first (a minimum of 15% of their annual income) and spend later. Do you know how much your family spends each year on food, clothing, and shelter? "Accumulators know exactly what they spend on everything," says Stanley. "Hunter-gatherers don't keep track. They're especially insensitive to the price of what they call small items. But it's the \$9 double martinis that add up to the water that breaks the dam." Do you have a defined set of daily, weekly, monthly, annual, and lifetime goals? The most satisfied wealthy people don't just have financial goals, they also have clarity about what they want in life. Do you spend a lot of time planning your financial future? Wealth accumulators

spend nearly twice the number of hours per month planning their investments as the income-statement affluent do -- yet they spend considerably less time worrying about their financial well-being.

Probably the most critical defensive play that you can make to avoid the fate of the Joneses -- the vast majority who make money to spend more money on the good life -- is to avoid entering their neighborhood in the first place. Affluence can be a bad influence. If you live in a fancy neighborhood, you'll begin to feel the pressure to decorate accordingly, to send your children to expensive schools, and to buy the \$40,000 SUV. Boom! You and your kids are on the earn-to-spend treadmill. It's easier never to get on it in the first place, says Stanley. His golden rule for aspiring wealth accumulators: Never purchase a home that requires a mortgage that is more than twice your household's total annual realized income.

Just because wealth accumulators are frugal doesn't mean that they aren't fun. They dedicate a lot of time to the good things in life, which turn out to be a cheap date. The two things that wealthy people devote more time and energy to than financial planning are spending time with their children or grandchildren and entertaining close friends. They spend significantly more time on a rich mix of peoplecentric leisure activities each month than on big-ticket items. According to Stanley, there is a strong positive correlation between the number of people-related lifestyle activities that one engages in and his level of net worth. But wealth accumulators aren't not just better off for it, they also feel better about their lives.

"It's like a recording," says Stanley. "Every time I talk to these people, it's the same thing: 'I love my life. I love my wife. I can't wait to get to work in the morning.'"

And that, folks, is as rich as the rich life gets.

Sidebar: The Rich Life In & Out List

The cost of living large has begun to take its toll: We are overspent, overfed, overtraveled, and overentertained. More people in the world know the meaning of Gucci, Vertu, and Lexus than know the meaning of life. Hence, the latest trend: spending less and living better.

What's Out

Tricked-out SUVs
Swimming pools
Skiing and sailing
Label-conscious luxuries
Reservations at Nobu
VIP tickets and opening nights
Charity benefits
CXO titles
CEO perks
The Joneses
Bling bling

What's In

Car you've had for seven years
Gardens
Cooking and reading
Information-centric tools
Dinner parties at home
Watching your kids play sports
Volunteering
Self-employment
A home office
The Influentials
The cheap date

Sidebar: Happiness

A Price List

We know that money doesn't really buy happiness, but now -- thanks to statistical regressions by some cutting-edge economists -- we know how much money certain "happiness events" are worth. As Andrew Oswald, professor of economics at the University of Warwick, and a leading thinker on the economics of happiness, describes it, you can plug life events such as marriage, divorce, a lost job into a "happiness equation" and attach a dollar figure to the impact of that event on personal happiness. Here are his estimates.

Event Impact (per Year)

Marriage \$100,000

Children \$0*

Losing job -\$60,000 (man)

Widowhood -\$245,000

Poor health -\$180,000 to -\$220,000 (Decline from excellent to good)

-\$600,000 to -800,000 (Decline from excellent to fair)

*We can't believe it either. "It's one of the most surprising results," says Oswald. "There's no value judgment implied. All it's saying is that people without children recorded equally high happiness levels as people with children."

Sidebar: Can You Solve the Wealth Equation?

Thomas J. Stanley has no get-rich-quick formula for aspiring millionaires. What he does have is a formula designed to tell you if you're accumulating wealth at the rate you should be. By his calculations, for example, if you're a 43-year-old professional with an annual income of \$250,000, you should have a personal net worth of \$1,075,000 (including equity in your house). Plug your data into his formula, and see how you stack up. Multiply your age and your realized pretax annual household income. Divide by 10. This, less any inherited wealth, is what your net worth should be. If your actual net worth is close to your expected net worth, you're on track to financial freedom -- but you're not there yet. If you're interested in being a serious wealth accumulator, your net worth should be twice the number produced by the formula.

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