The Original Millionaire Next Door

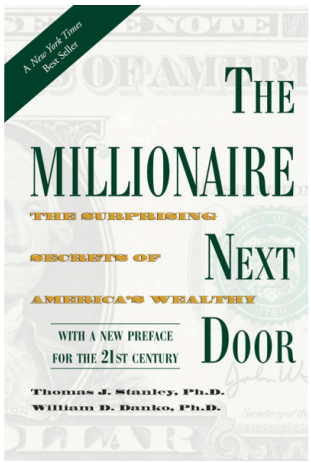
Hetty's $100,000,000 Fortune

Wealth Lessons from the Richest Woman in the World

Hetty Green

Special Report

Hetty's $100,000,000 Fortune! A Study of the Richest Woman in the World



Back in 1996, Thomas Stanley and William Danko released a book titled, "*The Millionaire Next Door – The Surprising Secrets of America's Wealthy*." In the book, they highlighted findings from a 20-year study of how people became wealthy. Their study started by surveying people in upscale neighborhoods trying to learn about their wealth.

Through these various upscale neighborhood surveys, they began to learn many people who live in expensive homes and who drive expensive cars do not actually have significant wealth.

Oddly enough, their research showed many people who DO have a great deal of wealth DO NOT live in upscale neighborhoods and they DO NOT drive luxury cars.

In fact, many of the actual millionaires they studied during their research lived in average homes and drove average cars. You could live next to one of these millionaires and not even know it. You could also be stuck in a traffic jam next to one of these millionaires and wouldn't know it either.

Although Hetty Green wasn't mentioned in their book, she may have actually been the original millionaire next door and there is a great deal we can learn from her. When Hetty Green passed away in 1916, she left a $100 million estate to her two children. In today's dollars this estate would be valued around $2 billion. She was the richest woman in the world.

This is fascinating in and of itself, but when you learn Hetty accumulated her wealth primarily as an investor rather than a business owner, her story becomes significantly more interesting. If you were to study the wealthiest people in the world, you'll probably notice the majority of them built their wealth through business ownership.

Rockefeller built a massive oil business. Carnegie built a massive steel business. Vanderbuilt built a massive shipping and transportation business. Gates built a massive computer operating system business. Buffett built a conglomerate of many large businesses.

Hetty Green's business was investing. When she was 31 years old, she inherited approximately $6 million from her father and her aunt. Her father built his wealth building a whale oil business. He passed this wealth on to his only daughter, Hetty.

Hetty was nicknamed "The Witch of Wall Street" and this nickname came from how she typically dressed. She was often seen walking through New York dressed in an older, long black dress. This outfit typically included a veil covering her face. She dressed this way in order to try and hide her identity. Her outfit gave her the appearance of a witch and the nickname stuck.

Hetty grew up in a wealthy Quaker family. Through her family, she learned about money. These financial lessons included how to live frugally, how to protect wealth, and how to invest conservatively in order to pass wealth on to future generations. She also learned to live simply ignoring "high society."

From the biography titled, "The Richest Woman in America" by Janet Wallach:

*"While Edward (Hetty's husband) engaged in business for the bank, Hetty had her own business to attend to, concentrating on investing the interest from her father's trust fund. Like Andrew Carnegie, who cried, "**Eureka! Here's the goose that lays the golden egg**." when he discovered the power of dividends, Hetty had already learned the magic of compound interest. As a child she used her allowance to earn interest in the savings bank and saw it grow. Now she used her money to earn a high yield, paid in gold, on Civil War bonds. Even better, she could reinvest those dividends to earn more. And all the time she was compounding her return."*

At an early age, Hetty learned to invest money for income. **Her investment strategy, which she followed throughout her life**

was… conservative investments, substantial cash reserves, and to buy during panics when everyone else was selling. Her investments included mortgages, real estate, railroad bonds, government bonds, and gold/copper/iron mines. She was even considered the single biggest individual financier in the world, as she provided financing for the state of New York on several occasions.

When Hetty died, she held 28 mortgages on churches in Chicago, numerous houses, blocks of office buildings in Chicago, stretches of mines and real estate from Maine to California. She shunned high society and avoided luxury choosing to keep her living expenses low so she could continue to reinvest more of the income from her investments.

Hetty once told a reporter, "*I believe in getting in at the bottom and out at the top. I like to buy railroad stock or mortgage bonds. When I see a good thing cheap because nobody wants it, I buy a lot of it and tuck it away*." Once she tucked her investment away, she waited for the income to roll in and simply reinvested it into new income producing investments.

Mrs. Hetty Green was a fascinating person. Here are a few of the lessons on wealth we can learn from her:

1. **Our role in life (at least financially) is to grow the family wealth for our children and grandchildren**. Hetty firmly believed it was her duty to leave more to her children than she inherited. Her goal was actually to leave her children as the richest people in America. She obviously accomplished her goal. This idea of making our children wealthy seems to have been lost over the last few decades. Consider this quote from "Family Fortunes", by Bill and Will Bonner:

"In America, each generation is expected to make it on its own. At least, that is the idea. So old people think they are quite within their rights to spend all their money on themselves, leaving little for their heirs to inherit. They do not see themselves as selfish… They go around with T-shirts that say, "I'm spending my kids' inheritance." Instead of taking care of grandchildren or helping their sons and daughters with the family enterprises, they retire to Florida, organizing their financial lives so their money lasts not a minute longer than they do."

This approach to living forces future generations to continue in the same fashion, as they don't receive help from prior generations.

Wouldn't it be better to teach each generation to grow the family wealth and pass more on making the family stronger with each and every generation?

2. **Think long-term,...very long-term**. Hetty didn't seem to be concerned with short-term investments and short-term investment results. She was always focused on increasing her wealth over the long-term, the next 50 to 100 years. Again, this approach seems significantly different than how most people think today. Most people today seem to focus on the next 3 to 5 years. Thinking really long-term as Hetty did, forces you to make different choices regarding your investments. You're thinking shifts from how to I achieve financial freedom and moves towards how do I achieve financial freedom for my entire family?

3. **Keep significant financial reserves.** Hetty was known to never panic during the various financial crashes occurring throughout her lifetime. The reason she never panicked was because she kept large cash reserves at all times. These cash reserves were then used to buy incredible assets at deep discounts during each crash. Hetty viewed financial panics as opportunities to increase the family's wealth. This is an extremely important lesson as most individuals keep the majority of their money invested at all times.

Having all of your savings invested is risky because you'll lose out on the opportunity to buy investments at deeply discounted prices. As an example today, Warren Buffett has indicated he'll never let Berkshire Hathaway's cash level dip below $20 billion. He wants to have large cash reserves available for attractive investment opportunities.

4. **She invested mainly in real estate, railroad stock, and bonds. She also was a large lender to businesses, individuals, and the state of New York.** From "Hetty" by Charles Slack: *"As her cash piled up and she sought new investments, she became a de facto bank. Her holdings, indeed, were growing larger than those of many banks of the day, in England or America. Banks in need of cash would sell Hetty loans they had made to parties using property as collateral. When inevitably some of the borrowers defaulted on their loans, Hetty began to accrue property. This was the beginning of what would become a real estate empire."* When her father passed away, he left Hetty several properties in Chicago. These properties were still in her estate when Hetty passed away 50 years later. She tucked these income property investments away for decades.

5. **Use compound interest to your advantage**. Hetty inherited her father's fortune when she was 31 years old. Her investment plan was to simply reinvest the income generated from the assets passed on to her from her father. She compounded this income for 50 years until she passed away at the age of 81. During these 50 years, Hetty *never* worked for money. She lived off a small portion of the investment income and reinvested the rest allowing it to compound into a $100,000,000 fortune.

It's important to understand Hetty followed this process throughout the traditional retirement years. This is significantly different than how most people use their investments today. Most people retire in their 60s and then start drawing down their savings each year. Hetty *never* retired and continued compounding her income through her 60s and 70s. This is one of the reasons she became the richest woman in the world. Warren Buffett is still working in his 80s and is still compounding his wealth each and every year.

6. **Hetty managed her own investments and made all of her own investment decisions**. She never turned her money over to anyone else to invest on her behalf. More importantly, she was extremely active with her investments and was very detail oriented. She would travel all over the country on her own checking on her investments and collecting debts owed to her. This was during a time when women rarely travelled unescorted. From "Hetty" by Charles Slack:

"Hetty lived her life convinced that, as a businesswoman, if not as a woman, she was fundamentally and completely alone. Nobody else would watch out for her interests. She mistrusted all forms of alliances and cabals. Where other investors sought the safety of numbers, the soothing ring of consensus, Hetty felt most comfortable on her own, trusting her own judgment and instincts."

Hetty didn't trust anyone with her money and this distrust made her a better investor. This distrust also saved her a great deal in investment related expenses. She wasn't paying money managers, investment advisors, hedge fund, or mutual fund fees.

7. She lived simply and avoided high society. From Hetty" by Charles Slack:

"...when she left Bellows Falls with her two children in tow, she did not erect a mansion next to the Vanderbilts, although she could have afforded a home as fine as the finest on Millionaire's Row. She chose instead the teeming, dense borough of Brooklyn, populated by immigrants and, laborers, where nobody dressed up as royalty, European or otherwise. With the exception of short stretches in low-rent quarters in lower Manhattan she would call Brooklyn home for the next decade. She rented apartments in hotels and rooming houses, usually paying by the month. A large house, beyond the price to buy or build it, would mean an endless stream of payments for upkeep, not to mention a staff of servants to keep the place running. And there was another reason. In order to collect personal property taxes, collectors first had to establish proof of residency. By paying monthly rent and moving frequently, Hetty preserved the ability to deny that she lived in any given city or state whose tax collectors became too persistent."

Hetty never built a grand mansion, never lived in Manhattan, rarely traveled in private railcars, and never employed a staff. She actually provided mortgages to families living the high life and ended up owning their properties when they defaulted on their mortgages.

Hetty may have been the first Millionaire Next Door. If Hetty hadn't received so much publicity, nobody would have ever known of her vast wealth. She simply blended in with everyone else keeping her living expenses very low.

A great example is the office Hetty used to manage her investment empire. Instead of renting an office and paying the related overhead, she negotiated to use a large office at her bank for free. She even used the bank's staff to her advantage. She ran a $100,000,000 investment empire through a free office at her bank without any employees.

8. **Hetty didn't care what anyone thought about her**. On the surface, this may not seem like a big deal. However, this way of living is one of the reasons she became the richest woman in the world. From "Hetty" by Charles Slack:

"People found her modest living conditions in Brooklyn and, later, in Hoboken, New Jersey, endlessly fascinating and amusing. Hetty rarely lost sleep worrying what others thought of her, and yet there was a certain irony in the public's reaction to her. For all of her faults, she

was no snob. She sneered at all forms of pretense, and was unimpressed with titles.

She didn't just mix with the common folk; she lived among them, ate at their restaurants, rode their streetcars and ferries. Clerks and storekeepers, delivery boys and washerwomen who would not be allowed through the front door of Alva Vanderbilt's Fifth Avenue mansion lived side by side with Hetty and her children. And yet it was her very reluctance to live like a queen that evoked derision and ridicule."

9. It is important to teach our children how to grow and protect money. "*As her son entered adulthood Hetty prepared him a trial by experience, thrusting him into positions where he could make business decisions, without jeopardizing too much real money.* At one point, Hetty wanted him to learn the railroading business. She sent him to the railroad she had invested in and he started at a low level job patrolling and maintaining the track for $10 a week.

Next she had him manage some mortgages she held that had fallen in value. She told him, "*Get the exact sum due on each mortgage, interest and principal, fixed in your mind... If anyone is fool enough to offer you the full amount, take it. If you're offered less, tell the man you will give him the answer in the morning. Thank the matter over carefully in the evening. If you decide it will be to our advantage to accept the offer, say so the next day. In business generally, don't close a bargain until you have reflected upon it overnight."*

10. **Hetty was strategic with family planning and ensured the family wealth stayed in the family.** Her father taught her the importance of keeping money in the family. This meant she signed a prenuptial agreement with her husband and her children also signed prenuptial agreements with their spouses. Hetty's children never had children and the family legacy ended with them.

When Hetty passed away, she left her $100,000,000 fortune to her two children. Her son lived an extravagant life living off of the interest alone. At one point, he owned the largest private yacht in the world. He also built a mansion on family owned land. When he passed away, his $100,000,000 fortune was passed on to his sister. She left the combined $150,000,000 fortune to several charities.

Now lets compare Hetty to the wealthy people described in "The Millionaire Next Door" by Thomas Stanley....

"Wealth is more often the result of a lifestyle of perseverance, planning, and most of all, self-discipline.... (the millionaire next door) has married once and remains married. He lives next door to people with a fraction of his wealth. He is a compulsive saver and investor."

Sounds just like Hetty, doesn't it?

Hetty did marry once and separated from her husband after he used around $600,000 of her money as collateral on one of his failed investments. Hetty left him, but they never divorced. She never remarried.

The book "The Millionaire Next Door" details seven factors leading to wealth. These seven factors were:

1. They live well below their means.
2. They allocate their time, energy, and money efficiently, in ways conducive to building wealth.
3. They believe that financial independence is more important than displaying high social status.
4. Their parents did not provide economic outpatient care.
5. Their adult children are economically self-sufficient.
6. They are proficient in targeting marketing opportunities.
7. They chose the right occupation.

Hetty did receive a substantial inheritance. However, it is easy to see she would have amassed significant wealth without it. She lived the "Millionaire Next Door" lifestyle.

Take a second to picture Hetty living today. Would she live in a multi-million dollar home? Would she have a staff to take care of her home? Would she be driving a high-end luxury car? Would she be wearing the clothing of the famous designers? Would she fly privately? Would she be invested in highflying tech stocks or more conservative investments?

As we come to the end of the report, let's summarize 5 ideas from Hetty Green we can implement for ourselves:

1. We should do our best to increase our family's wealth for future generations. We don't need hundreds of millions of dollars to use this idea to our advantage. Leaving a little more for our children and grandchildren is the goal. It doesn't matter if it's $50,000, $100,000, or several million. Try not to consume your family's wealth during your lifetime. If each generation passes on more to the next generation, we'll compound our family's wealth for decades to come.

2. We should try and structure our retirement years in such a way where we have the ability to continue reinvesting a portion of our investment income. Many financial planners suggest withdrawing 4% of our retirement savings each year in retirement. This 4% rule is designed to allow us to consume the majority of our retirement savings throughout our retirement. This rule isn't designed to allow you to add to the family wealth.

Instead follow Hetty's plan and continue reinvesting a portion of your retirement income throughout your retirement. Don't consume all of your investment income. This idea will ensure that you'll never run out of money in retirement. More importantly, you'll be able to leave more money for our children and grandchildren.

3. Focus the majority of our investment funds on conservative investments providing stable income. The foundation of Hetty's wealth came from real estate, mortgages, and bonds. These assets were safe investments providing income to be reinvested. **One of the best assets we can acquire is real estate**. The reason why is because it is extremely difficult to consume the principal of real estate investments. We can consume the income offered by real estate and still pass the asset on to future generations. We should buy real estate and tuck it away for decades, just like Hetty did.

4. We should obviously live below our means. Skip the large house and luxury cars. Be the millionaire next door.

5. We should work hard to teach our children about money and investing. Hetty purposefully taught her children about money by allowing them to manage various investments. We can do the same with our investments. One opportunity we might consider is to invest in real estate WITH our children and allow them to manage the properties. This way our children become better investors and will learn to effectively manage money.

If you enjoyed this report, you might want to read these three books:

1. "Hetty" by Charles Slack.

2. "The Richest Woman in America: Hetty Green in the Gilded Age" by Janet Wallach.

3. "The Millionaire Next Door: The Surprising Secrets of America's Wealthy" by Thomas Stanley and William Danko.

As you read the Millionaire Next Door, think about Hetty Green and how she followed the same principals throughout her life. I think you'll see she qualifies as the original Millionaire Next Door.

Best,

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P.S. If you're not into reading, you can find a presentation by Janet Wallach on Hetty Green on YouTube. It's titled in YouTube as:

NYSL: Janet Wallach on "The Richest Woman in America: Hetty Green in the Gilded Age."