The Second Million – Why the Rich Get Richer

In my first book, I wrote about how my wife and I became millionaires just a little over 7 years out of residency, despite having an average income of less ~$180K for those 7 years. ($180 * 7 = $1.26 Million if you’re curious.) I recently thought about writing another book titled The Second Million, but I really couldn’t come up with enough to fill a book. However, I did manage to come up with enough to fill up a blog post. This is it.

The media is filled with complaints about how the rich are getting richer, and the poor are getting poorer. Income inequality and all that. Don’t get me wrong, income inequality is a problem. Like health care, it is complex and difficult to solve. I spent an entire ski day with a friend this winter trying to solve it without success, 7 minutes at a time while riding up the lift. But the main problem with income inequality is that the poor are getting poorer, not that the rich are getting richer. The reasons why are complex and difficult to solve and involve inequality of education, inequality of opportunity, unfair markets, corruption, inadequate government regulation of certain aspects of our economy, greed, laziness, and differences in work ethic. I’m not going to debate or try to solve this serious issue in this post. What I am going to do in this post is discuss why it is completely natural, even without corruption or inadequate regulation, for the rich to get richer.

It took me (together with my wonderful wife) 38 years to
become a millionaire, about 18 months prior to this post being written. I figure that second million will take about 1/10th as long. We’re already more than halfway there. Where did all that money come from? Several places- working hard during my peak earnings years in a successful medical practice, earnings on our investments, a business I started on the side, a book I wrote about that first million, real estate appreciation, paying down some debt, continuing to save about 40% of our post-tax income etc. We make more, spend more, give more, and save more every year. While I technically haven’t yet made the entire second million, I’ve made enough of it that I understand why the first million is the hardest, and why the rich will always get richer.

The 6 Reasons the Rich Get Richer

# 1 A Good Job

Most people don’t become millionaires without a decent job that provides a good income. That might be a job as a business owner, an engineer, a doctor, a lawyer or something else. However, it is not a job managing a McDonalds restaurant, mowing lawns, or checking people out at the library or Walmart. People with those jobs don’t typically become millionaires. At any rate, most people working on the second million still have the job that got them to the first million, and that’s one reason the rich get richer- they earn more money!

# 2 Learning the rules

However, another important reason the rich get richer is that they know the rules of the game. I had an interesting chat
with a relatively poor man in an unfortunate situation recently. He felt the game of life was rigged against him and that the solution was to take all the wealth that “those rich guys” have, and split it up evenly among everyone else. I do not doubt that within 5 or 10 years of that event, that we would all be more or less back where we started in the process. The rich are rich because they know how to get rich and stay rich. They understand how money works. They can do basic math. They know that it is better to get interest than pay it. They know that leverage works, but works both ways. They know the difference between assets and liabilities. They know how the tax code works and how the business world works. They know that discipline in spending matters. How can you win the game without knowing the rules? You can’t, not without extraordinarily good luck combined with extraordinarily good advice.

# 3 Appreciation

While accumulating that first million, most people generally acquire some stuff that will appreciate in value, like a home, rental property, or even businesses. These items don’t generally become worth less over time, and that appreciation continues to increase their wealth. Meanwhile, the poor don’t own anything that appreciates. The only increase in anything they see is due to inflation, and the only way inflation helps the poor is by decreasing the effective interest rate on their debt. Guess what? It does that for the rich too!

# 4 Education

Perhaps the best way to boost people out of the lower class is through education. Well, most of the self-made rich have
already got it. It might be self-acquired through years in the business world, but it more likely involves years of study in college, professional, and/or business school. When I was in college, I heard Mormon leader Gordon B. Hinckley say, “The world will largely pay you what it thinks you are worth.” I took that advice to heart, and it has made a huge difference in my life. Make yourself worth more by learning something that few other people know. Earn more by doing things that other people aren’t willing or don’t know how to do. For example, save half or more of your net earnings for a few years after residency. Most doctors aren’t willing to do that. Be one that is.

# 5 Capitalism

This may be the most important reason why the rich get richer. Not only are they earning money with their time/work, but they are also earning money with their money. If you have an $800K portfolio, it’s like you have 800,000 little employees each busting their butt 24/7/365. Sure, each of them might only make a nickel or a dime every year, but there’s 800,000 of them! Those dimes add up, and a much bigger chunk of that second million will come from investment earnings than the first million.

# 6 Entrepreneurial Mindset

Many of the more well-to-do are business owners. Owning a business causes you to think differently; you develop an entrepreneurial mindset. All of a sudden you start seeing businesses every where, both real and potential. It is a rare week that goes by that I don’t think of two or three businesses I could start or ways to increase profits in the businesses I own. Sure, most of them are loser ideas or would require more time and effort than I’m willing to put in, but when you’re thinking about dozens or even hundreds of them a year, eventually you stumble onto a few that are both
sufficiently interesting and profitable.

There you have it. My thoughts on The Second Million. Money might not bring happiness, but it sure can relieve a lot of misery. Want to be skinny? Do what skinny people do. Want to be rich? Do what rich people do.

What do you think? Has your wealth started to snowball? What were the big factors that led to it? How long did your second hundred thousand or second million take compared to the first? Comment below!