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San Francisco Chronicle

They're just like us, only rich

Steven Winn
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Things may really be tough all over if some of the sentiments gleaned at a recent meeting of the Luxury Marketing Council in San Francisco are any measure. While several people who sell expensive things to rich people for a living said business was still good in cruise travel and interior decorating, others were singing the blues over their goblets of Duckhorn Merlot and Sauvignon Blanc. One man who has been in the fine-furniture trade for more than 30 years told me things hadn't been this bad for him since the early 1980s. "The only thing that's keeping me afloat," he said, "are some big sales to clients from Singapore and Malaysia."

The rich, it seems, are sharing your uneasiness and your pain about the economy.

That's probably cold comfort to anyone of more modest means who is either feeling or fearing the effects of a recession: Passing on a \$41,000 Patek Philippe watch is one thing; passing through the line at the unemployment office is something else.

But the current jitters of the rich also touch on a strange truth about prosperity in present-day America: For all the advantages the moneyed have enjoyed during Bush's polarizing administration, being flush has never had such an oddly common touch. Not only are a whole lot more people achieving substantial wealth now - households with \$5 million in assets, not including the house, rose by 26 percent in 2006 alone, per Spectrem Group figures - but many are doing it by the old-fashioned middle-class routes of resourcefulness, persistence and hard work.

Less than 10 percent of the affluent owe their fortunes to inherited money, according to the Mendelsohn Affluent Survey. And it's not just tech-head innovators such as Google's Larry Page and Sergey Brin, or Apple's Steve Jobs, who are hitting the jackpot. In his addictively readable 2007 book "Richistan: A Journey Through the American Wealth Boom and the Lives of the New Rich," Robert Frank profiles "instapreneurs" who piled up huge winnings on ceramic night-lights, foil-wrapped Hot Pockets, a home-brewed brand of shampoo, roofing supplies and mozzarella cheese.

Among the top-tier billionaires, according to Peter W. Bernstein and Annalyn Swan's "All the Money in the World: How the Forbes 400 Make - and Spend - Their Fortunes," 175 of the 400 are "blue-collar billionaires." And 30 percent of that group came from families whose parents had not attended college.

Many of the self-made have gotten rich in the past decade or so. Frank writes that "half of America's total wealth has been created over the past 10 years." Not all of that, of course, came from night-lights and shampoo. The rapidly rising stock and real estate

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markets were huge factors. So was the ballooning compensation for CEOs, hedge fund managers and other Wall Street magicians. Bush-era tax breaks and subsidies have served the rich disproportionately and contributed to a widening gulf between the haves and have-nots.

"The government has rewritten the rules to favor the already rich," fumed David Cay Johnston, author of "Free Lunch: How the Wealthiest Americans Enrich Themselves at Government Expense (And Stick You With the Bill)," in a recent "Fresh Air" interview on NPR.

And yet, as Frank writes - and the failed presidential campaign of John Edwards in part affirms - no widespread populist revolt is likely. "Most Americans still have a generally positive view of the wealthy and, rightly or wrongly, believe they too can make it to Richistan someday." George Mason University economics Professor Tyler Cowen concurs: "The average American holds no grudge against the rich," he said, "especially now that so many of them are younger and have risen from the middle class."

Americans have always been fascinated by the rich, whether they were fixated on the life and deeds of J.P. Morgan, tuning into "Lifestyles of the Rich and Famous" or giving Donald Trump a seemingly endless shelf life. What's striking now is how different the dynamic seems, with a fluid sense of possibilities, ever-changing rules and shifting boundaries. At a time when so many people have gotten rich, wealth no longer seems so remote, unattainable or mysterious to a lot of middle-class people.

In some fundamental way, fascination with the rich has turned into a kind of yearning fascination with ourselves. We're really like them, we like to think, or could be, with the right combination of circumstances and luck. A lot of rich guys run around in shorts and sandals instead of business suits now - even if they're padding up and down the aisles of their private jets or around the grounds of their enormous estates.

All those billionaire boys (and a few girls) in Silicon Valley still act like boys (and girls) with their games, lack of interest in designer living and restlessness to start something new. There's something comforting in Unity Marketing President Pam Danziger's observation that a lot of the wealthy "have middle-class values. They're not throwing their money away on frivolous dumb purchases now."

Page through the Robb Report, the monthly bible of consumerism for the rich, and life seems to be sailing along unaffected by the turbulent waters below. The February issue of the magazine, which crowns the \$109,000 Audi R8 "car of the year," features articles on Italo Ferretti neckties that go for \$200 to \$2,500, a 25-year-old Scotch that fetches \$850 a bottle and rooms at a Thai resort priced at \$700 to \$12,000 a night.

But listen to some of the people who monitor the luxury market for a living, and the sheen begins to fade. Unity Marketing, a Pennsylvania firm that tracks spending and consumer attitudes, pegged its Luxury Consumption Index at an all-time low in January, with high-end discretionary purchases down an aggregate 20 percent in the second half of 2007.

"The wealthy have never felt so negatively about the overall economy," Danziger said by phone.

According to the company's most recent survey, 39 percent of the well-to-do said they would spend less on luxury goods in 2008 than they had before; only 16 percent expected to spend more.

Suzanne Hader, principal of the New York consulting firm 400twin, told me, "As the economy has gotten worse, a lot of retailers are thinking painful thoughts. The aspirational customer who used to not worry about spending \$1,000 on a pair of shoes has really pulled back."

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Pointing to softening sales of yachts and private jets, Milton Pedraza, CEO of New York's Luxury Institute, added, "No one is immune. Everything from the high end to the low end of the luxury market has had some impact."

In the 1920s, F. Scott Fitzgerald famously wrote that being rich made people different from everyone else. That was in a glittering Jazz Age of fabulous excess that he found both alluring and alarming. Eighty-some years later, many of those old-money distinctions and behaviors have melted away. And yet a sense of otherness about the rich remains. Today we use market data and elaborate consumer studies to scrutinize them.

Close to 200 members of the Luxury Marketing Council, all of them eager to know how the rich might spend their riches in uncertain times, piled into a Gift Center showroom to hear the results of the latest Mendelsohn Affluent Survey. In a PowerPoint flow of facts and figures, the rich (\$250,000 and up annual incomes) remained an elusive composite. They read People and watch CNN, travel to Israel more than any other overseas destination and make a lot of purchases online. Questions from the audience focused on the relatively new wealth that nobody quite understands yet. How do we reach all those rich kids in Silicon Valley, somebody wanted to know. Any advice on selling to the Facebook crowd?

For at least one purveyor of luxury goods, Louis Vuitton, all this uncertainty has signaled a return to the safe harbor of the older establishment consumer. That's how 400twin's Harder sees the company's shift away from the "very young, celebrity-driven" ad campaign that featured Scarlett Johanssen. The new Vuitton ads feature Catherine Deneuve in a train station and Mikhail Gorbachev in the back of a cab.

Never mind the surrealism that Gorbachev, once the face of Soviet communism, is now selling high-end luggage for Vuitton. "It's a refocusing on the journey of the self, the journey of understanding," said Harder. Chew on that for a minute. No one ever said that figuring out the rich was going to be easy.

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