<u>**Rich Dad, Poor Dad**</u>
by **Robert T. Kiyosaki**
(Warner Books, 1998)

<u>Introduction</u>: Employees lose, owners and investors win. Itõs the difference between controlling your own destiny ... and giving up control to someone else.

The most dangerous advice you can give a child today is
“Go to school, get good grades and look for a safe, secure job”.
That’s old advice, and it’s bad advice.

> The subject of money is taught at home, not at school. We learn about money from our parents.

<u>CHAPTER #1</u>: Rich Dad, Poor Dad
<u>I had 2 fathers</u>, one rich and one poor:

(1) My *real* father was <u>poor</u>:
- (a) He was highly educated (PHD) and intelligent
- (b) He earned a substantial income, yet left bills to be paid when he died
- (c) He believed that your company or the government would take care of you
- (d) He taught me to write an impressive resume, so I could find a good job
- (e) He often said:
  - ∗ ñStudy hard so you can find a good company to work forò
  - ∗ ñWhen it comes to money, play it safe, donõt take risksò
  - ∗ ñOur home is our largest investment and greatest assetò
  - ∗ ñIõm not interested in money ... money doesnõt matterò

(2) My *other* father was really my best friendõs father, and he was <u>rich</u>.
- (a) He never finished the 8th grade
- (b) He died leaving tens of millions of dollars to his family and charities
- (c) He believed in total financial self-reliance
- (d) He taught me to write business and financial plans so I could create jobs
- (e) He often said:
  - ∗ ñStudy hard so you can find a good company to buyò
  - ∗ ñWhen it comes to money, learn to manage riskò
  - ∗ ñMy house is a liability ... it produces no positive cash flowò
  - ∗ ñMoney is the power to positively influence many things.ò

They both had tremendous respect for education and learning ... but they disagreed on the *subjects* to learn about. Poor Dad wanted me to get an MBA and a good job to work for money. Rich Dad wanted me to study about becoming wealthy and understanding money. I decided to listen and learn from my Rich Dad about money.

After 30 years, there are 6 main lessons ... Chapters 2-through-7 of this book.

<u>CHAPTER #2</u> ... Lesson #1
The Rich Don’t Work For Money

> The rich donôt work for money.
> Money works for them.

<u>Life is the best teacher of all</u>. It pushes us around. Some give up. Others fight back. A few learn the lessons and move on. They welcome life pushing them around because it means they need to *learn* something.

<u>Itôs *fear* that keeps most people working at a job</u>. The fear of not paying their bills, of not having enough money, of being fired. And the fear of starting over.

(1) If you donôt learn to handle the fear, and you get rich anyway, youôll just be a slave to the money.

(2) Ignorance about money is what causes so much fear. Master money.

> Itôs not how much money you make, itôs how much money you keep, and how many generations you keep it.

<u>CHAPTER #3</u> ... Lesson #2
Financial Literacy

<u>Intelligence</u> solves problems and produces money. Money without financial intelligence is money soon *gone*.

<u>Accounting</u> may be the most boring subject in the world, but it may be the most important.

<u>The **RULES**</u>:
(1) Know the difference between an *asset** and a *liability***
(2) Buy *assets*
(3) Itôs *cash flow* that tells the whole story
* *Assets* put money <u>in</u> my pocket
** *Liabilities* take money <u>out</u> of my pocket

<u>Primary residence</u>: Treating your home as an investment, and believing that a pay raise means you can buy a larger home or spend more money is the foundation of todayôs debt-ridden society. The decision to own an expensive home rather than start an investment portfolio hurts a person in three ways:
(1) <u>Loss of time</u> ... where assets could have grown in value
(2) <u>Loss of additional capital</u> ... home maintenance instead of investment
(3) <u>Loss of education</u> ... and ñexperienceò in investments

<u>Nuggets</u>:
(1) Money often (and tragically) makes human flaws obvious. More money can make it worse.
(2) Schools are designed to produce good employees ... not employers.
(3) Buy income-generating assets
(4) Wealth is <u>not</u> net worth. Wealth is the amount of *cash* flowing from the asset column compared to the expense column.

<u>CHAPTER #4</u> ... Lesson #3:
Mind Your Own Business

Too many people spend their time minding someone elseôs business, and making *that* person rich.

What business is Ray Kroc of McDonalds in? Most would say the fast-food business. Ray Kroc says the <u>real estate</u> business ... he owns more land than anyone in the *world*!

The rich focus on their assets columns, while the poor focus on their income statements. Your <u>business</u> revolves around the asset column.

<u>Start minding your own business</u>:

(1) Keep your daytime job, and be a great hard-working employee, but start buying *real* assets ... not liabilities or personal effects that have no real value once you get them home. Build and keep your asset column strong.

(2) Keep your expenses low, reduce liabilities and build a base of solid assets, like:
- (a) businesses that do not require your presence
- (b) stocks + bonds + mutual funds
- (c) income-generating real estate
- (d) notes (IOUs)
- (e) royalties from intellectual property
- (f) anything else that has value, produces income, appreciates and has a ready market

(3) Rich people buy luxuries last ... poor and middle class people buy luxuries first.

Parents need to teach children. Get them to start building a solid asset column before they leave home, get married, buy a house, have kids and get stuck in a risky financial position clinging to a job and buying on credit.

<u>CHAPTER #5</u> ... Lesson #4:
The History of Taxes and the Power of Corporations

Reality is that the rich are <u>not</u> taxed. The middle class pays for the poor, especially the educated, upper-income middle class.

<u>Taxes</u> looked attractive and became accepted by the majority because of propaganda making the poor and middle class believe that taxes would punish the rich. In the end, taxes punish the poor and middle class ... the very people who voted for them.

Poor Dad:	Rich Dad:
Government bureaucrat	Capitalist
Respected by how much he spends and how large his organization grows	Respected by investors for limiting his expenses, and minimizing employees
Believes the rich are greedy crooks who should pay more taxes	Believes government workers are lazy thieves

The ***power of the corporation*** gives the rich a vast advantage over the poor and middle class.

(1) Corporations protect the rich

(2) It takes knowledge to keep money and make it multiply. Without that knowledge, the world pushes you around. The biggest bully is not the boss ... itôs the tax man. The tax man will always take more, if you let him.

(3) Know the tax laws, because you want to be a law abiding citizen. And itôs very expensive not to know the tax laws.

Financial intelligence is made up of knowledge from 4 broad areas:

(1) Accounting: A vital skill. This is the left side of the brain, the details. Learn to read and understand financial statements.

(2) Investing: The science of money-making. This is the right side of the brain, creative.

(3) Understanding markets: The science of supply-and-demand. Need to know the technical aspects (emotion) and the fundamental (economic) aspects.

(4) Law: Understand tax advantages and asset protection. That is ... corporations.

∗ Tax advantages ... Employees earn, get taxed and live on whatôs left. Corporations earn, spend everything they can and get taxed on anything thatôs left.

∗ Lawsuit protection ... the rich protect much of their wealth by using corporations and trusts. They control everything, but they own nothing.

As part of overall financial strategy, it is strongly recommended owning your own corporation, wrapped around your assets.

In summary:	Owners of corporations:	Employees in corporations:
	Earn	Earn
	Spend	Pay taxes
	Pay taxes	Spend

Who gets the most favorable tax treatment?

CHAPTER #6 ... Lesson #5:
The Rich Invent Money

Often in the real world, it is not the smart who get ahead ... but the bold.

Wealth:
(1) 300 years ago, land was wealth. Those who owned the land, owned the wealth
(2) Then it was factories and production ... industrialists owned the wealth
(3) Today, it is information ... people with the most timely information own the wealth

The single most powerful asset we all have is our mind. If it is trained well, it can create enormous wealth. In the Information Age, a few people are getting ridiculously rich from nothing, just ideas.

Why develop your financial genius? I did because I wanted to make money fast. Not because I needed to, but because I wanted to.

(1) It was a fascinating learning process. I wanted to participate in the fastest and biggest game in the world.

(2) The more ñsophisticatedò I get, the more opportunities come my way.

My personal portfolio? Real estate is my foundation, then small cap stocks. My assets provide day-in-day-out cash flow and occasional spurts of growth. *It's not rocket science.*

(1) I buy bargain-priced property that I can rent out with positive cash-flow, then I wait for the markets to generate appreciation. I sell using the 1031 Tax-Free Exchange and buy more property, often two-for-one.

(2) I also have a stock portfolio (surrounded by a corporation). I buy high-risk, speculative private companies that are about to go public.

(3) My real estate investments are a solid base with good cash-flow and with a good chance of increasing in value. If I make great profits in the stock market, I pay my capital gains tax and reinvest whatõs left in real estate ,,, further securing my asset foundation.

In school we learn that mistakes are bad, and we are punished for making them.
Yet humans are designed to learn by making mistakes.
The main reason people are not rich is that they are terrified of losing.
Winners are not afraid of losing ... people who avoid failure also avoid success.

Two kinds of investors:
(1) Those who buy ñpackagedò investments ... stocks, mutual funds, REITS, etc.
(2) Those who create investments ... buy components and put it together.

Investor #2 above is the *professional investor* ... who needs three main skills:
(1) Finding opportunities everyone else has missed
(2) Raising money
(3) Organizing smart people

<u>CHAPTER #7</u> ... Lesson #6:
Work to Learn, Don’t Work For Money

> *Job security* meant everything for my poor dad.
> *Learning* meant everything to my rich dad.

I am constantly shocked at how <u>little</u>
money talented people earn. They are one skill away from great wealth ... financial intelligence.

You want to know a <u>little</u> about a *lot* of things.

Seek work for what you will <u>learn</u> ... not what you will *earn*.

Most <u>employees</u> never get ahead:
(1) JOB is an acronym for Just-Over-Broke, and it applies to millions of workers.
(2) Workers work hard enough not to be fired. Owners pay just enough that workers wonôt quit.

The world is filled with talented poor people.

My poor (educated) Dad became head of the state teacherôs union. My rich Dad did his best to keep his companies from becoming unionized. If you follow the traditional path (school, good job with security, specialized skills), then seek union protection. Rule of thumb: ñHighly specialized, then unionizeò.

<u>Management</u>:
(1) The main *general* management skills needed for success are:
 (a) management of cash flow
 (b) management of systems (including yourself and time)
 (c) management of people
(2) The most important *specialized* skills are sales and marketing ... communications.

<u>Charity</u>: Giving money is the secret to most great wealthy families. My rich Dad and my poor Dad had glaring differences in the giving of money.

(1) Rich Dad gave away lots of money ... church, charities, foundations, etc. He believed that to receive money, you have to give money.

(2) Poor Dad felt that when he had some extra money, then he would give it. He believed that you had to receive money first, then give it.

CHAPTER #8: Overcoming Obstacles

Even with financial intelligence, there are road-blocks to achieving financial independence.

5 reasons why financially intelligent people may still not develop abundant asset columns:

(1) Fear of Losing Money: I have never met a rich person who has never lost money. Think like a Texan ... they donôt bury their failures, they get inspired by them.

The biggest secret of winners: for winners, losing *inspires* them.
For losers, losing *defeats* them.

For example, a balanced/diversified portfolio is safe and sensible ... but it is not a winning portfolio. Itôs a portfolio of someone *playing not to lose*. Do not do what poor and middle class people do, putting their few eggs in many baskets. Focus, and put a lot of your eggs in a few baskets.

(2) Cynicism: Most people are poor because when it comes to investing, the world is filled with Chicken Littles running around yelling ñThe sky is falling! The sky is falling!ò They are effective because every one of us is a little chicken. It often takes great courage to *not* let rumors and talk of gloom-and-doom affect your doubts and fears.

Most people *criticize* instead of *analyze.*

(3) Laziness: Busy people are often the most lazy. They stay busy as a way of avoiding what they donôt want to face. Itôs the most common form of laziness.

How do you overcome laziness? Greed. Greed is good ... without the desire to have something better, progress is not made. We all aspire to something better.

(4) Habits: Bad ones, like paying everyone else first and paying yourself last. Bill collectors, for example, are bullies and most people give in to them. Pay yourself *first* anyway, then the pressure to pay your bills becomes your motivation to work smarter and seek other forms of income.

(5) Arrogance: Arrogance is ego plus ignorance. Many people use arrogance to hide their own ignorance. When you know you are ignorant in a subject, start educating yourself.

> Our culture has educated us into believing that money is the *root of all evil*. Itôs easier to find a job and work for money than to have our money work for us.

<u>CHAPTER #9</u>: Getting Started

<u>10-step process to awaken your financial genius</u>:

(1) <u>The Power of Spirit</u>: Most people would like to be financially free ... then reality sets in. Itôs easier to just work for money. You need determination to get over the bump.

(2) <u>The Power of Choice</u>: Poor people simply have poor spending habits, and that is a *choice* they make. Make a different choice.

- *(a) Invest first in education*. Most people simply buy investments rather than investing in learning about investments.
- (b) *Don't dip into savings*. Rich people know that savings are <u>only</u> to be used to create more money.

(3) <u>The Power of Association</u>: Choose your friends carefully. I donôt choose my friends based on their financial statements, but I have noticed one thing ... my friends who have money, talk about money. Not *brag* ... but they are interested in the subject.

<u>Asides</u>: (a) One of the hardest things about investing is to *not* go along with the crowd.

(b) Smart investors donôt time markets. They buy an investment when it is not popular. They know their profits are made when they buy, not when they sell.

(c) Itôs all ñinsider tradingò. You want to have wealthy friends who are close to the inside because money is made on information ... financial intelligence. Legal vs illegal is a question of how far you are from the inside information.

(4) <u>The Power of Learning Quickly</u>: You become what you study. In todayôs fast-changing world, itôs not so much *what* you know anymore that counts ... itôs how fast you learn.

(5) <u>The Power of Self-Discipline</u>: The lack of self-discipline is the #1 delineating factor between the rich, the poor and the middle class. Pay yourself first (better yet, donôt get into debt in the first place).

(6) <u>The Power of Good Advice</u>: Pay your advisors well. If they are professionals, their services should make you money. And the more money *they* make, the more money I make.

(7) <u>The Power of Getting Something for Nothing</u>: Be an Indian-Giver. Your first question should be ñHow fast do I get my money back?ò And wise investors look at more than just return-on-investment ... itôs what you get for free, once you get your money back.

(8) <u>The Power of Focus</u>: You need to be *smarter than money*. It will obey you and do as itôs told. Instead of being a slave to it, be master of it. That is financial intelligence.

(9) <u>The Power of Myth</u>: Copy your heroes, because they make it look easy. In the middle of a real estate deal, I pretend to be Donald Trump ... if he can do it, so can I.

(10) <u>The Power of Giving</u>: It is necessary to be charitable ... give and you shall receive. And that includes teaching, too ... teach and you shall receive. The more sincerely I teach those who want to learn, the more I learn.

Be generous with what you have, and the Powers will be generous with you.

<u>CHAPTER #10</u>: Some Things To Do

The preceding 10-steps may seem more philosophical than action-oriented. Here are some action-oriented ñto doò items.

<u>How to get started</u>:
(1) <u>Take a break</u> ... assess what is working, and what is not working. *Stop* doing the things that are not working.
(2) <u>Look for new ideas</u> ... I spend a lot of time in bookstores.
(3) <u>Find someone who has done what you want to do</u> ... ask for advice.
(4) <u>Take classes and buy tapes</u> ... being financially free, I have the time and resources.
(5) <u>Make lots of offers</u> ... always with an escape clause, like ñsubject to the approval of my business partnerò.
(6) <u>Jog or drive a certain area for 10 minutes once/month</u> ... look for a *change*. For there to be profit in a deal, there must be a bargain and a change. There are lots of bargains, but a *change* turns a bargain into a profit.
(7) <u>Peter Lynchôs book ñBeating the Streetò</u> ... my guide for buying stock.

<u>Why consumers will always be poor</u>:

(A) When the supermarket has a sale, consumers stock up. When the supermarket raises its prices, consumers stay away.

(B) When the stock market has a sale (crash, or correction) consumers run away. When the stock market raises it's prices, consumers start buying.

(8) <u>Look in the right places</u> ... a friend shopped for a house with a real estate agent (who owned no property of her own). I shop for houses at the foreclosure departments of banks.

It's what's in your head that determines what's in your hands.
Money is only an idea.