RICH DAD, POOR DAD
By Robert T. Kiyosaki

INTRODUCTION

Today, the most dangerous advice you can give a child is "Go to school, get good grades and look for a safe secure job." That is old advice, and it's bad advice because if you want your child to have a financially secure future, they can't play by the old set of rules. It's just too risky.

My Two Dads Had Opposing Philosophies of Life

- One dad thought the rich should pay more in taxes to take care of the unfortunate – the other said "Taxes punish those who produce and reward those who don't produce."
- One dad recommended, "Study hard so you can find a good company to work for." The other recommended, "Study hard so you can find a good company to buy."
- One said, "When it comes to money, play it safe, don't take risks." The other said, "Learn to manage risk."
- One believed, "Our home is our largest investment and our greatest asset." The other believed, "My house is a liability, and if your house is your largest investment, you're in trouble."
- One dad believed in a company or a government taking care of you and your needs. The other believed in total self-reliance.
- One dad struggled to save a few dollars. The other simply created investments.

SIX LESSONS ABOUT THE RICH

Lesson #1 – The Rich Don't Work for Money

Most people have no guts, they give up every time life pushes them. If you're that kind of person, you'll live all of your life playing it safe, doing the right things. But the truth is, you let life push you into submission.

Deep down you were terrified of taking risks. You really wanted to win, but the fear of losing was greater than the excitement of winning. So you chose to play it safe.

The poor and the middle class work for money. The rich have money work for them.

Avoiding One of Life's Biggest Traps

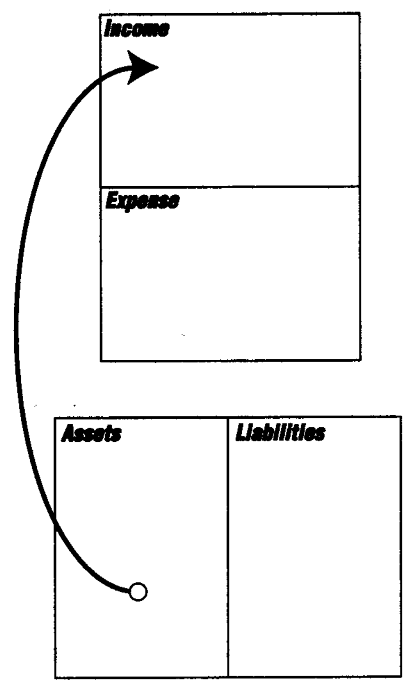
- To live life dictated by the size of a paycheck is not really life.
- Thinking that a job will make you financially secure is lying to yourself.
- Clinging to the illusion of job security, looking forward to a three-week vacation and a skimpy pension is all there is to life.
- Financial insecurity is caused by fear of taking risks and ignorance of identifying financial opportunities.

Lesson #2 – You Need to Become Financially Literate

Know the difference between an asset and a liability, and buy assets.

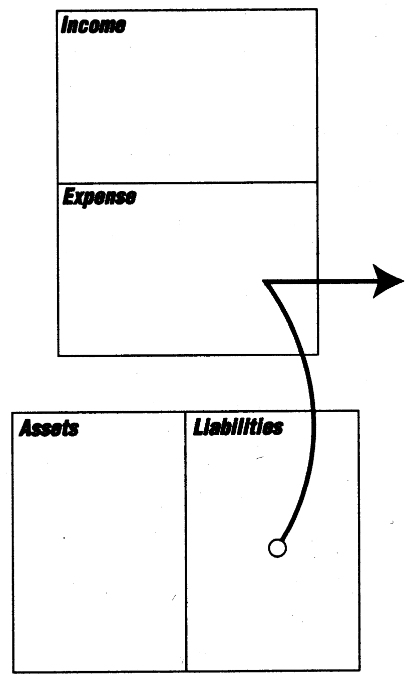
- Rich people acquire income producing assets.
- The poor and middle class acquire liabilities, but think they are assets.

This is the Cash Flow pattern of an asset



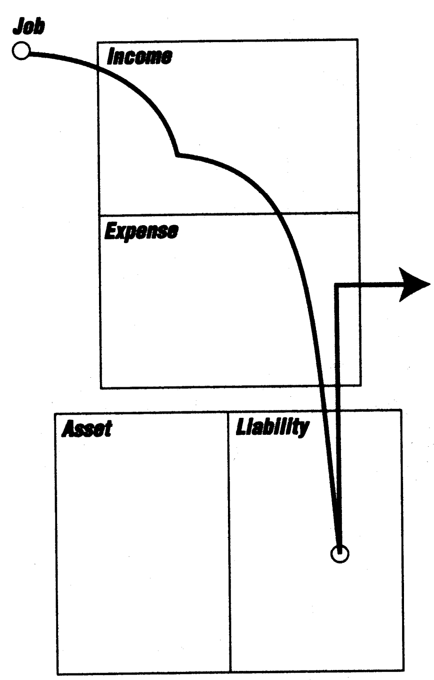
- The top two boxes represent an Income Statement, identifying money coming in and going out.
- The bottom diagram is the Balance Sheet showing a person's assets and liabilities.
- An income producing asset generates a source of income separate from your salary.
- The rich have their assets working for them.

This is the Cash Flow of a liability

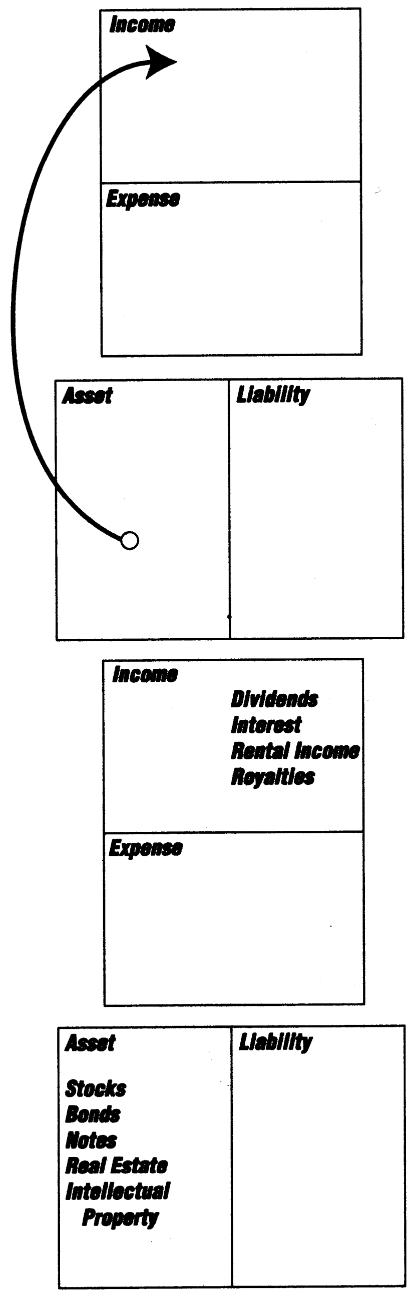


- The poor buy liabilities, which do not generate income and take money to maintain. Liabilities are mortgages, consumer loans, credit card debt.

This is the Cash Flow Pattern of the Middle Class

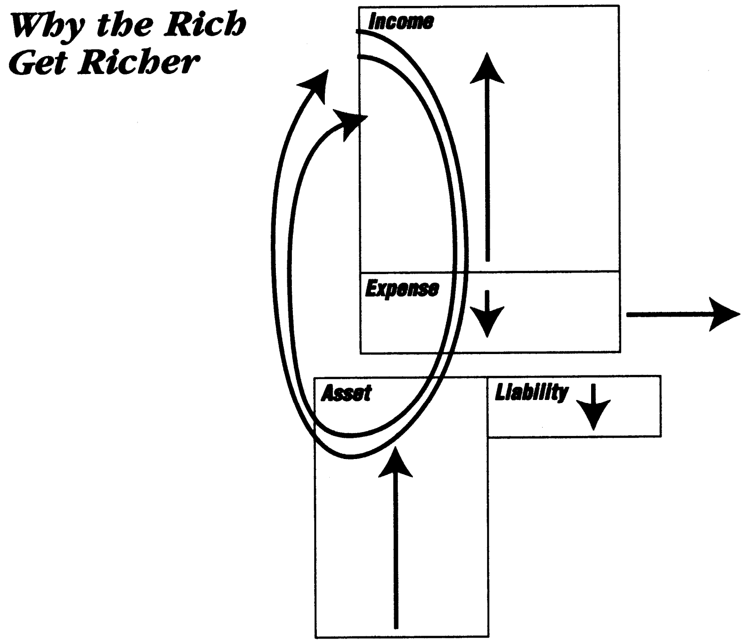


This is the Cash Flow Pattern of a Wealthy Person



Why a House is Not an Asset

- People work all their lives paying for a home they never own
- Property taxes
- Houses do not always go up in value
- The greatest losses of all are those from missed opportunities.



- Over time the rich build their asset base
- Their liabilities become smaller
- Income from their assets increases to the point where it exceeds their expenses.
- The excess cash flow is used to invest in more income producing assets.

Definition of Wealth: If I stopped working today, how long could I survive? Or when can I retire?

When the income generated from my asset column exceeds the cost of taxes, living expenses, and debt payments. It is at that point that I can retire.

Lesson #3 – Build and Keep Your Asset Base Strong

- Financial struggle is often directly the result of people working all their life for someone else.
- Many people will have nothing at the end of their working days.
- To become financially secure focus on your asset column instead of your income column.
- Keep your daytime job, but start buying real assets, not liabilities or personal assets that have no real value once you get them home.

What type of assets should you acquire?

- Businesses that do not require my presence. I own them, but they are managed or run by other people.
- Stocks
- Bonds
- Mutual funds
- Income generating real estate
- Notes (IOUs)
- Royalties from intellectual property such as patents, books, etc.
- And anything else that has value, produces income or appreciates and has a ready market.

Lesson #4 – The Power of Corporations

An individual with the knowledge of the tax advantages and protection provided by a corporation can get rich so much faster than someone who is an employee or a small-business sole proprietor.

There are two primary advantages of a corporation

1. Tax Advantages

- A corporation earns, spends everything it can and then is taxed on anything that is left. Employees earn and get taxed and they try to live on what's left.
- By owning your own corporation the following are company expenses
  - Vacations are board meetings in Hawaii
  - Car payments, insurance, auto repairs
  - Health club membership

2. Protection from Lawsuits

- Corporations and trusts protect a person's assets from creditors
- They control everything, but own nothing

In summary

The Rich with Corporations	***People Who are Employees***
1. Earn	**1. Earn**
2. Spend	**2. Pay Taxes**
3. Pay Taxes	**3. Spend**

Lesson #5 – The Rich Invent Money

We all have tremendous potential and are blessed with gifts. What holds us back is self-doubt. It is not so much the lack of technical information that holds us back, but more the lack of self-confidence.

To become rich requires both technical knowledge as well as courage.

Financial intelligence is the ability to create as many different financial solutions as needed to turn lemons into lemonade.

Financial intelligence is made up of four main technical skills

1. Financial literacy – the ability to read numbers
2. Investment strategies – the science of money making money
3. The market – supply and demand
4. The law – the awareness of accounting, corporate, state and national rules and regulations

There are two types of investors

1. The most common type are people who buy packaged investments. They call a retail outlet such as a real estate company or a stockbroker and they buy something.
2. The second type are investors who create investments. This investor assembles the deal.

To create your own investments you need to develop three main skills.

1. Find an opportunity that everyone else has missed. You see with your mind what others miss with their eyes.
2. Learn how to raise capital other than from a bank.
3. Associate with smart people. Work with or hire people more intelligent than you. Choose your advisors wisely.

Lesson #6 – Work to Learn, Don't Work for Money

The world is filled with smart, talented, and educated people. Talent is not enough. They are one skill away from great wealth. If they mastered one more skill their income would jump exponentially.

Take a long term view of your life and learn a new skill – e.g. learn sales skills to get over the fear of failure and rejection.

The main management skills needed for success are:

1. The management of cash flow
2. The management of your time
3. The management of people

The most important specialized skills are sales and understanding of marketing. It is the ability to sell that is basic to personal success.

OVERCOMING OBSTACLES

Reasons Why Financially Literate People May Not Succeed

Reason No. 1 – Overcoming the fear of losing money

- The pain of losing money is far greater than the joy of being rich.
- For winners, losing inspires them. For losers, losing defeats them.
- If you want to be rich, you must focus. Put a lot of your eggs in a few baskets. The middle class put their few eggs in many baskets.

Reason No. 2 – Overcoming cynicism

- The world is full of "Chicken Littles" yelling the sky is falling.
- Cynics criticize, and winners analyze
- It takes courage to overcome your critics

Reason No. 3 – Overcoming Laziness

- Busy people are often the most lazy. They stay busy to avoid something they do not want to face
- Beat laziness by having a little greed. Ask yourself, "What would life be like if I never had to work again?"

Reason No. 4 – Overcoming Bad Habits

- Our lives are a reflection of our habits more than our education.
- The pressure of failure makes we work harder to succeed.

Reason No. 5 – Overcoming Arrogance

- Arrogance is ego plus ignorance
- When you are ignorant in a subject, start educating yourself by finding an expert in the field or a book on the subject.

GETTING STARTED

The Ten Steps to Awaken you Financial Genius

The Power of –

1. ***SPIRIT – I NEED A REASON GREATER THAN REALITY***
    - What compels you to become rich? Without a strong reason or purpose the reality of life may be greater than your reasons.

2. ***CHOICE – I CHOOSE DAILY***
    - Our spending habits decide if we are willing to sacrifice our immediate gratification for the future benefit of financial independence
    - Invest in education first.
        - Go to seminars – two a year
        - Listen to audio tapes
        - Read books

3. ***ASSOCIATION – CHOOSE FRIENDS CAREFULLY***
    - Associate with people you can learn from, avoid the “Chicken Littles”

4. ***EDUCATION – MASTER A FORMULA AND THEN LEARN A NEW ONE***
    - You are what you study - master and apply something new every year

5. ***SELF-DISCIPLINE – GET CONTROL OVER YOURSELF***
    - Personal self-discipline is the #1 delineating factor between the rich, the poor and the middle class
    - Each month, allocate money to your asset column before paying monthly expenses
    - Avoid debt, keep expenses low. Build up assets first. When you come up short, let the pressure build and dip into your savings or investments. Use the pressure to inspire your financial genius.

6. ***GOOD ADVICE – PAY YOUR ADVISORS WELL***
    - Information is priceless
    - A good broker provides you with information as well as educate you
    - A good broker also saves me time in making me money
    - Pay well the people who are smarter than you in some technical area

7. ***GREED – BE AN “INDIAN GIVER”***
    - With any investment you should ask “How quickly do I get my money back?”

8. FOCUS ON CREATING MONEY NOT A CONSUMING MONEY

9. MYTH – THE NEED FOR HEROES

- Heroes inspire us to become like them.
- When it comes to investing, too many people make it sound hard. Instead find heroes who make it look easy.

10. GIVING – GIVE OF YOUR TIME, TALENTS AND TREASURE

FINAL ADVICE – SOME TO DO'S TO CONSIDER

1. STOP DOING WHAT YOU'RE DOING

- Assess what is working and what is not working.
- Definition of insanity – doing the same thing over and over again expecting different results.

2. LOOK FOR NEW IDEAS

- Go to bookstores on different and unique subjects
- Buy how-to books on subjects you know knowing about

3. TAKE ACTION – MOST PEOPLE DON'T!

- Find someone who has done what you want to do and take them to lunch. Ask their advice on the little tricks of the trade
- Take classes and buy tapes
- Make lots of offers with escape clauses