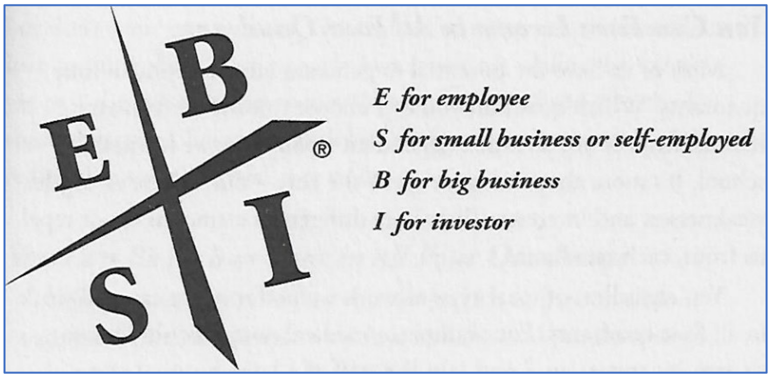
Quips from Rich Dad's CASHFLOW Quadrant, Guide to Financial Freedom

By Robert Kiyosaki

Which CASHFLOW Quadrant Are You In?



The letters in each quadrant represents the different methods by which income or money is generated. For example:

- E – An employee earns money by holding a job and working a person or a company.
- S – Self-employed people earn money working for themselves.
- B – A business owner owns a business that generates money
- I – Investors earn money from their investments, i.e., money generating more money.

The Difference Between the Rich and Everyone Else

Most rich people receive 70 percent of their income from investments, or the I quadrant, and 30 percent from wages, or the E quadrant. If they are an E, chances are that they are employees of their own corporation.

For most everyone else, the poor and the middle class, at least 80 percent of the income comes from wages from the E and S quadrants and less than 20 percent from investments in the I quadrant.

The Definition of Wealth

Wealth is the number of days you can survive without physically working and still maintain your standard of living.

Why Aren't More People Investors

The reason is the same reason many people don't start their own businesses. It can be summed up in one word: risk.

The fear of losing money seems to divide investors into four broad categories:

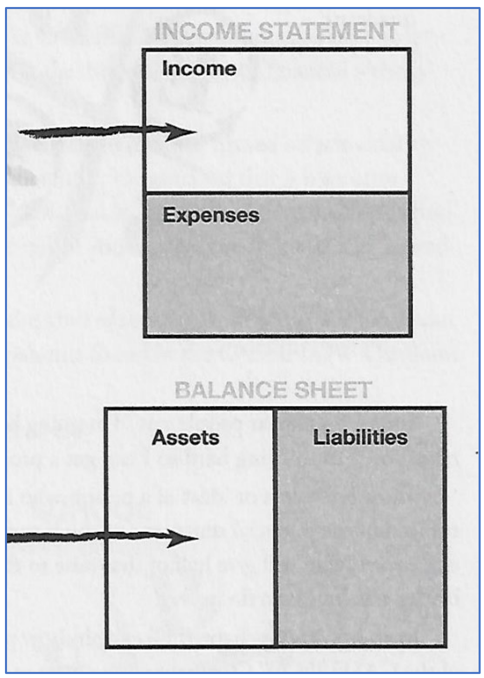
1. People who are risk-averse and do nothing but play it safe, keeping their money in the bank
2. People who turn the job of investing over to someone else, such as a financial advisor or a mutual fund manager
3. Gamblers
4. Investors

The difference between a gambler and an investor is simple. For a gambler, investing is a game of chance. For an investor, investing is a game of skill. And for the people who turn their money over to someone else to invest, investing is often a game they don’t want to learn.

Most People Focus on Income, Not Assets

Most people focus on Income

Wealthy people focus on buying Assets



The Difference Between Being Rich and Being Wealthy

The rich have good net worth but not necessarily good cashflow. The wealthy have cashflow that exceeds their monthly expenses.

Success is a Poor Teacher

If you think about it, “A” students are “A” students simply because they made the fewest mistakes. The problem with that emotional psychosis is that, in the real world, people who take action are the ones who make the most mistakes and learn from them to win in the game of life.

"Success is a poor teacher," rich dad always said. "We learn the most about ourselves when we fail, so don't be afraid of failing. Failing is part of the process of success. You can't have success without failure."

A 401(k) may possibly be the worst way to invest for retirement

1. There are high hidden fees that eat up much of the investor's return
2. Taxes work against you. 401(k) gains are taxed at ordinary earned income instead of capital gains. If you want to take money out of your 401(k) early you have an additional 10% penalty tax.
3. You have no insurance to prevent losses if there is a stock market crash.
4. The 401(k) is for people who are planning to be in a lower tax bracket when they retire. In other words, they are planning on not being wealthy.

There are better ways to invest, but they require financial education.

Cash flow vs capital gains

The average investor does not know the difference between investing for cash flow and investing for capital gains. Most investors invest for capital gains, hoping and praying the price of their stock or home goes up.

Your house is it an asset?

While your house is an asset, it is not your asset. It is the bank's asset. Remember my rich dad's definition of an asset and a liability from *Rich Dad, Poor Dad*: "An asset puts money in my pocket. A liability takes money out of my pocket."

What happens if you pay off your mortgage?

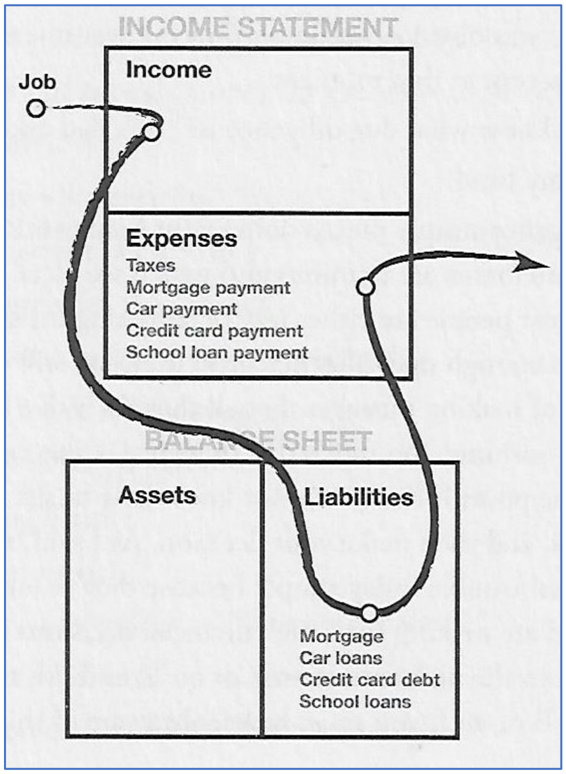
Is my house my asset if I pay off my mortgage? No, it's still a liability because you still don't own it. Just stop paying your property taxes, and you'll find out who really owns your property.

Why People Struggle Financially

Warren Buffett, America's greatest investor, once said, "If you're in a poker game and after 20 minutes you don't know who the patsy is, then you're the patsy."

Most people will be in debt from the day they leave school until they die. People who cannot control their cash flow work for those who can.

This is the average middle-class American's financial picture:



If you now understand the game, then you realize that those liabilities must show up on the creditor's balance sheet as assets.

Three Reasons on How to Become Wealthy

There was a study done of rich and poor all around the world to find out how people born into poverty eventually become wealthy. The study found that these people, regardless of where they live, possess three qualities:

1. They maintain a long term vision and plan.
2. They believe in delayed gratification.
3. They use the power of compounding in their favor.

The study found that these people thought and planned for the long term and knew that they would ultimately achieve financial success by holding a dream or a vision. They were willing to make short term sacrifices to gain long-term success, which is the basis of delayed gratification.

Albert Einstein was amazed at how money could multiply just by the power of compounding. He considered the compounding of money to be one of the most amazing inventions.

Book Recommendation - One of the most important books I've read is *The Worldly Philosophers* by Robert Heilbroner.