

Chapter Thirteen

THE LEVERAGE OF GENEROSITY

Who Is Really Greedy?

The other night, one of the news commentators said in a heated tone, “I did not go into business because I am not a greedy person.”

For much of my childhood, I heard comments like that one. Many of the people who visited my parents’ home were people who either worked for the university, the educational system, the labor union, the Peace Corps, or for the government. Although not stated as blatantly as the TV commentator, it was often said or implied that people in business were in business simply because they were greedy.

My rich dad had a different point of view. He often said, “All of us are greedy to some extent. It’s only natural to desire basic survival, a better life, and enough life support to live well once we stop working. But just because someone is in business or is rich does not necessarily mean they are greedier than anyone else. In fact, it could be just the opposite.” He then said, “The reason most people are not rich is simply because they are not generous enough.”

In the previous chapter, when Kim and I decided to increase our real estate holdings, the floodgate of money from the government also opened up.

In our desire to become richer, one of the first steps was to find ways of being more generous, in this case, to provide better housing for more people at a better price.

When you look at history, the richest people have been very generous in one way or another. Henry Ford became a billionaire by providing affordable cars for the masses at a time when cars were only for the rich. In fact, many of the car companies that only built cars for the rich are no longer in business today. The car companies for the rich went out of business, while the Ford Motor Company grew into a worldwide industrial power, fulfilling Henry Ford's mission. So if you want to retire young and retire rich, it's okay to be greedy, just as long as you constantly work to find ways to give more to more and more people. If you will do that, you will find your own path to great wealth.

Ratios of the Rich

Rich dad liked ratios because, as he said, "You can tell a lot just by a little comparison." To rich dad, ratios were simply comparisons, just as a P/E ratio is simply a comparison. When it came to money, rich dad said, "One of the main reasons the poor and middle class struggle is because their ratios have no leverage." He would use the ratio 1:1 to illustrate the leverage ratio of a poor or middle-class person.

One day, while I was still in college, rich dad showed me his ratios. On a paper, he wrote:

Businesses	1:5
Workers	1:300
Real estate	1:450
Dollars	1:6 million
Shares	1:2 million

In other words, his business ratio meant he owned interests in five businesses. He had over 300 workers working for him. In real estate, he had over 450 tenants, and that did not include his industrial real estate, stores, or restaurants. As the years went on, the numbers on the right side of the ratio continually increased, which is why he got richer and richer, while working less and less.

My poor dad's ratio started out at 1:1 and ended with 1:1, which is why he got poorer and poorer. As you can tell by the leverage ratio,

my poor dad believed in “a day’s pay for a day’s work.” There were times my poor dad worked at two different jobs. Even though he worked two jobs, his ratio remained at 1:1 according to my rich dad’s definition. Rich dad said, “If most people have two jobs, they are just working more hours at the same ratio.”

Between 1985 and 1990, the ratios for Kim and me looked like this:

Businesses	1:1
Real estate	1:0
Dollars	1: not much

We had one business we were building, we owned a home but we did not count it as an asset since it took money from us every month, and we had almost nothing in savings. Stocks or other paper assets were inconsequential, since they cost us money and never put any money in our pockets.

By 1995, our leverage ratios looked like this:

Businesses	1:0
Real estate	1:70
Dollars	1:300,000

By this date, we had sold our business, bought more income-producing real estate, and put some money in the bank. The important thing was that the real estate provided us enough money to live at the affluent level and never work again.

By 2000, our leverage ratios looked like this:

Businesses	1:7
Real estate	1:70
Dollars	1: millions
Shares	1:1.5 million

While the ratios paint an interesting picture of financial progress, the real gains are in the business arena, the arena where the true dollar valuations, or cash flows, are not reflected in the ratios. I do not present these numbers to impress, for they are not that impressive, nor

do I present them to brag. In fact, I hesitate to show these numbers because they are personal, and I would rather not show them. I show them simply to illustrate our path and our plan. I also present them to let people know it is possible to start with very little and yet build a financial house of bricks, as in the story of the three little pigs.

Even though the numbers are not big when compared to the world of the ultra-rich, our plan is to continue the acceleration of wealth for a few more years. If things go according to plan, we should move into the world of the ultra-rich.

You may notice from the numbers that our plan over the past few years was to move into building businesses rather than acquiring real estate. For the next five to ten years, our plan is to continue to build more businesses, but focus more on acquiring larger pieces of real estate with the help of government funding.

The point I would like to impress upon you now is the idea of the continual expansion of context, or reality, and the constant search for faster and better content, or education. If you want to follow a similar path to wealth, I cannot stress enough the importance of having an open mind, going beyond personal doubts, limitations, and complacency, being willing to learn, and taking action. I have met many people who want to grow financially at this rate, or faster, but many are not willing to expand their context or increase their content. So these are the people who struggle at one thing or go from project to project, hoping it is the project that will make them rich. I contend that if a person has an ever-increasing context and content, the person will become richer and richer, regardless of what the project is. It is not the product or new idea that will make you rich. It is your context and content that make you rich. Ray Kroc of McDonald's became a billionaire by selling billions of average hamburgers, and Starbucks became a world-famous brand by selling cups of coffee.

Rich dad often said, "If you do not change your context or your content, your ratios will remain the same." I have a friend who always has the next new idea to make millions of dollars. The other day, he called me and asked me to invest in his latest scheme. He had a great idea for a line of clothing that the store he works part-time for does

not sell. He said, “Every day people come in to this store looking for this brand of clothing. My boss does not want to carry it. Why don’t you give me some money and I’ll open a shop right across from this one? We’ll split the profits 50-50.”

When I asked this friend if he would attend classes on cash-flow management, retail management, sales, marketing, and hiring and firing people, he declined. His response was, “Why do I need to do that? I’ve worked in this store for years. I don’t need to learn anything more to run a store.” After I turned him down, he called again with another project, and again I turned him down.

I turned him down simply because I doubt if he is willing to change his context and content. He just wants to make money. Given his age, if he were good with money, he would already be rich. He continues to think that it is the next hot idea or business opportunity that will make him rich, rather than his limited context and content that holds him back. Even if he did open that store and his new products were successful, I suspect that his ratio would continue to be 1:1. In other words, he would probably have to be in the store all day and all night with very little chance of expansion, given his existing context and content.

Why It’s Hard to Get Rich

It’s hard or nearly impossible to get rich with a context and content that limits you to a 1:1 leverage ratio. It’s hard to get rich because there is no leverage. When you look at the CASHFLOW Quadrant, you may begin to understand why it is harder for the E and S quadrants to get rich because of the leverage ratios.



For the most part, the E and S side is all 1:1 ratio, with few exceptions. For example, most employees can only work for one company at a time. While they may hold a second job, that still falls in the 1:1 ratio. The same is true for many small business owners or self-employed people. That friend of mine who wanted to open a clothing store would most likely have been chained to one store. I sincerely doubt if he could handle more than one store. A dentist can only drill in one mouth at one time, and a lawyer or accountant only has so many billable hours in a day.

My tax advisor said, “A vast majority of high-income professional people from the S quadrant get stuck at an income cap of \$100,000 to \$150,000. The ones who make more do so because they are highly specialized and charge a lot more per hour or by the project. This group caps out at around \$500,000 per year. Very few make much more than that.” Again, the problem is the 1:1 leverage ratio.

One of the fairy tales mentioned in the previous chapter was the story of the tortoise and the hare. One of the ways the hares, or rabbits, of life get off to a fast start is because they have some special gift, intelligence, or talent. They may be great scholars, fast learners, great athletes, or artists such as movie stars. Many do well early in life. Yet for a tortoise like me, I knew that the way I would win my own race was to win the race using the ratios of leverage. It was the same plan my rich dad used. Maybe if I had been really smart and became a rocket scientist, maybe I could have been successful in the more traditional world of business and climbed the corporate ladder. But early in life when I began having trouble in school, I knew that I had to find my own way of winning my race. Today my income is greater than many of my peers who got the high-paying jobs early in life. My income is higher because I use the leverage of *assets* rather than the leverage of *my labor*.

For those of you who want to retire young and retire rich, one of the decisions that you may need to make is to find out which race you have the best chance of winning. For example, if you are like baseball star Alex Rodriguez who was paid \$252 million for a ten-year contract

plus commercial endorsements, then obviously the E quadrant is the best for you. Even though Rodriguez's ratio is 1:1 for ten years, it is a pretty good ratio when the dollar signs are added in. If you can be a movie star like Julia Roberts who makes \$20 million a movie, then that is obviously the best path for you. Secretary of the Treasury under George W. Bush, Paul O'Neill, received over \$100 million in shares and stock options as an employee of Alcoa. Even though he was in a work situation with a 1:1 ratio, his compensation was very leveraged. If you think that your chances for success are best on the path to the top of the corporate ladder of a major corporation, then that is the best path for you, even if it is a 1:1 ratio. The reason Kim and I followed the same path rich dad used was simply because we felt we had the best chance for financial success on his path. It was a path that required us to acquire assets. It was a path that required us to work at constantly increasing our leverage ratios.

A Good Path for Turtles

There is another reason why I personally chose rich dad's path. The reason is found in the CASHFLOW Quadrant.



Years ago rich dad pointed to the left side and said, “The earnings potential in the E and S quadrants is limited. The earnings potential in the B and I quadrants is infinite.”

Rich dad explained further, saying, “The trouble with selling your labor for money is that there is only so much you can do. If you learn to acquire or build assets to generate money, you can slowly but surely increase your income. In fact, the right side of the Quadrant is a great side for turtles who slowly but surely acquire more and more assets.”

Rich dad also said, “The trouble with selling your labor is that your labor has no long-term residual value. If you buy a rental property and you profitably rent it out, the labor you used to acquire that rental property can be rewarded over and over again, for years. In other words, you can be paid for years for something that may have taken less than a week of work to do.” An example is in 1991 when Kim and I bought a property in a resort area for \$50,000 cash. It was a great deal, since it originally sold for \$134,000. We bought it out of foreclosure from a bank. Since 1991, we have been paid over \$1,000 a month net income or over \$12,000 a year for years. The total time it took to buy and put the property in a rental pool was less than eight hours of work. We have thought of selling the property and taking the appreciation, but that would be too much trouble at this time.

The trouble with working at a job for money is that you have to start over, selling your labor each and every morning. In most cases, your labor has no long-term residual value if you are working for money. On top of that, if you are working for money, then your earning potential is limited. But if you work slowly acquiring assets, your income potential is infinite and that income can be passed on for generations to come. You can't pass your job or profession on to your children in your will.

Life Gets Easier

Rich dad pointed out that working for money by selling your labor often means that life gets harder simply because you have to work harder to make more money. He said, “If your leverage ratio for life remains at 1:1, then your life will get harder. If you work for an ever-

increasing leverage ratio, then life gets easier and you make more and more money.”

A Quantum Leap in Wealth

Most of us have heard of the term a *quantum leap*. Others may use the term exponential, which means “beyond a linear increase in something.” In other words, 1+1 does not equal 2. In a quantum leap of wealth or an exponential increase of money, 1+1 can equal 5, 6, 7, or more. In other words, if you work diligently and build a strong house of bricks, I have found that there are often sudden quantum leaps of wealth, quantum leaps that people who follow a 1:1 do not seem to have.

For example, from 1985 to 1990, life for Kim and me was pretty much a life of financial struggle. Suddenly, between 1990 and 1994, Kim and I had a sudden and exponential burst in wealth and financial success. From 1994 to 1998, life again was pretty stable. We worked diligently building assets—more specifically, businesses. We did not buy much in the way of real estate, since the price of property had gotten too high and finding a great deal took too much time. Then suddenly in 1999, not only did my books and games begin to take off, but many of our other businesses and investments began to catch fire.

It seemed like a sudden surge of good fortune, new friends, and new opportunities. Yet in reality, it was the years of working without many results and occasional financial setbacks that were the source of the surge in exponential wealth. The reason this happens is because the value of assets often increases exponentially while the value of your labor only increases incrementally. For example, my accountant told me that the value of one of my companies grew to \$40 million in the year 2000. That was the price she thought we could sell it for if we wanted to. At the same time, one of my attorneys raised his hourly rate by \$25 an hour. That is an example of assets increasing *exponentially*, and income increasing *incrementally*. That is another example of the earning potential of the left side of the CASHFLOW Quadrant being limited, and the earning potential of the right side being almost infinite.

Another example of a quantum leap occurred in the number of shares of companies we owned. From 1996 to 1998, we worked at acquiring shares of a public company. That company suddenly went broke, and we lost everything we had in that company. Our shares became virtually worthless. Yet, due to the experience we gained working on acquiring a major stake in that company, we transferred what we had learned to acquiring shares in better companies at very low prices. Hence we have gone on to acquire many shares in good start-up companies and those shares have gone on to do very well, even in a down stock market.

At the start of this book, I wrote about the journalist who criticized me, saying that most new companies fail at the start. Today, even though the risks are still high in starting a business, the experience gained from running those small struggling companies that failed has added to my ability to start companies that are more stable and have a better long-term chance of success. When I look at the success of *Rich Dad Poor Dad* and our company, much of our current success is due largely in part to my failures of the past. Kim also had her setbacks, and yet those setbacks became the lessons learned that contributed to our combined success today. It is what we learned from our individual pasts that gives us what seems to be the sudden and quantum leap of success we enjoy today.

I mention all this as a way of encouraging you to keep going, even though you may encounter some setbacks along your life's path. If you will learn from each setback rather than blame or make excuses, your wealth of knowledge will increase. If you steadily work to be more and more generous, work to serve more and more people, work to increase your leverage ratios, I am quite certain that you too will experience these sudden bursts, quantum leaps, or exponential jumps in wealth. It seems that even turtles can push along with a sudden gust of tailwind.

The Power of Networks

I came across a law known as Metcalfe's Law that partially explains the quantum leap or exponential burst of wealth. Robert Metcalfe is one of the founders of 3Com, the company that produced the Palm

Pilot. His law states: *The economic power of a business is the square of the number in the network.*

The story of the fax machine helps us understand this concept more clearly. In my early days at the Xerox Corporation, we were tasked at selling fax machines. The problem in the early 1970s was that very few people had fax machines, and even fewer people knew what they did. Since there were so few fax machines, their economic value was low. Yet as time went on and more and more people used them, there was a sudden burst in their popularity. Today, most of my friends have fax machines in their homes as well as their business. So Metcalfe's Law is this: If you have only one fax machine, your economic value is one, according to the formula,

$$1:1^2 = \text{Economic value of 1}$$

The economic value of 1 squared is still 1. But the moment you have two fax machines, the economic value of the network does not go up linearly. It increases quantumly. The moment you have a second fax machine, the economic value goes up to 4, not two.

$$1:2^2 = \text{Economic value of 4}$$

When there are 10 fax machines in the network, the numbers look like this:

$$1:10^2 = \text{Economic value of 100}$$

The S Quadrant Suffers

For people who operate as sole proprietors or other forms of self-employed small business owners, they often do not have the benefit of Metcalfe's Law. One of the reasons a franchise group such as McDonald's is more powerful than a mom-and-pop hamburger stand is again due to Metcalfe's Law.

I have found that people who work hard at being rugged individuals often have to work much harder just to maintain their autonomy. That is why many professionals join associations in order to have more clout in the world.

The E Quadrant Unionizes

For years, people in the E quadrant have known the value of getting organized into labor unions. By joining together, employees in the E quadrant have much more power than trying to negotiate as individuals. Today, one of the richest and most powerful labor unions in America is the NEA, the National Education Association. One of the reasons our educational system is slow to change is largely due to the power of the teachers union. They know the power of a network.

The Power of Monopoly[®]

Rich dad often said, "The formula for great wealth is found in the game of *Monopoly*." Many of us know this formula: Buy four green houses and trade them in for one red hotel. The formula for wealth found in the game of also follows Metcalfe's Law. When you look at the comparison of my poor dad's and rich dad's ratio, you may understand why my rich dad's economic power continued to increase, and my poor dad's economic power remained the same.

	Poor Dad	Rich Dad
Real estate	1:1 never changed	1:450 always increasing

In other words, my poor dad's economic power remained at 1. One squared is still 1. All he had was his house. In this example, my rich dad's economic power was 450^2 . He controlled over 450 rental units. His economic power was going up exponentially. When you look at my poor dad's ratio of 1:1 and then factor in the effect that taxes had on his income, ordinary income at 50 percent, you can actually see why my poor dad's economic power did not increase although he worked harder and harder. My rich dad's income was going up, his economic power was going up, and he was paying less and less in taxes.

In 1985, Kim and I had a plan to acquire two new rental units a year. We began buying our first property in 1989. Once we had five units, our economic power was 5^2 or 25. Not only did our economic power go up, our confidence had also gone up as our experience went up. When we purchased that 12-unit apartment house, our leverage ratio was 1:17 and our economic power was $1:17^2$ or 289. Others who only had their home and did not purchase investment property during the downturn, had their real estate ratio remain 1:1 and their economic power remain at 1. Kim and I now have over a thousand rental units in our portfolio. The question is: What is the economic power of 1,000²?

This example explains how a person who operates in the B or I quadrant can soon pass a very smart, talented, or well-educated person in the E or S quadrant, even though the person in the E or S quadrant earns more money. Metcalfe's Law explains why my rich dad was eventually earning more in a year than my poor dad earned all his life. Metcalfe's Law also explains why tortoises can beat hares if they continue to acquire assets rather than work for money as many a rabbit often does.

Network-Marketing Business

After understanding Metcalfe's Law, the law of networks, I knew why network-marketing organizations offer such a powerful tool to average people like you and me. Applying Metcalfe's Law to a

network-marketing business, you begin to see the power of this form of business.

For example, a person from the E or S quadrant decides to join a network-marketing organization and learns to move to the B quadrant. They work for a year or two, gaining the required education and mindset. Nothing much happens for, let's say, two years. People come and people go from their business rather than stick it out. After a year or two, their leverage ratio or economic power is the same. It is not much different from being in the E or S quadrant.

$$1:1^2$$

Economic power of 1

In the third year, this person's context is expanded with new content. All of a sudden, they now attract and train three strong candidates who also want to build the business.

Their leverage ratio and economic power looks like this:

$$1:3^2$$

Economic power of 9

In three years that is a quantum leap of power. After five years, this person now has a network of ten, and their leverage ratio looks like this:

$$1:10^2$$

Economic power of 100

And now let's say this person decides that ten people are enough, and he or she focuses only on the ten people in their business. After just a few years, let's say the ten people in the network also have ten people (1:10:10). That means the original person now has 100 people in their network.

Then with some excess cash, this person begins to buy apartment houses. He begins with a 100-unit apartment house:

Business	1:10:10
Real estate	1:100

Within five to ten years, this individual has not only made the shift from the E and S quadrants, he has jumped his economic power in both the B and I quadrants, something that is hard to do in the E and S quadrants. Suddenly, the person who made the shift is far wealthier, making much more money, and has more economic power than the peers he or she left behind in the E or S quadrant.

After fifteen years, the numbers could be staggering.

That is an oversimplified example of why I recommend some of the network-marketing companies. As the name says, it is a *network*, which harnesses Metcalfe's Law, which is the law that measures the power of networks.

Today, when I talk to people who are worried about their retirement or their funds in their retirement account, I often recommend they add to their portfolio a network-marketing business. I say to them, "If you really follow the lessons taught by some of the network-marketing businesses and you build a solid business with solid people in your network, you will find that business to be far more secure than the mutual funds found in your retirement account. If you truly work hard to make those in your network rich, they in turn will make you rich and very secure. In my mind, a network-marketing business is far more secure than the stock market because you are counting on people you have grown to love and trust, and all of you are harnessing the power of Metcalfe's Law, the law that measures the power of networks."

Networks Harness the Power of Generosity

The rich and powerful understand the power of networks. McDonald's is a network of hamburger stands linked throughout the world. General Motors is a network of car dealerships throughout America. Exxon is an oil company with oil fields, tankers, pipelines, and gas stations linked throughout the world. If the rich and powerful use networks, shouldn't you? Safeway is a chain of food stores that distributes food throughout the country. CBS, NBC, ABC, CNN, PBS, and CBN are very powerful communication networks.

Rich dad said, "If you want to be rich, you must build networks and link your network with other networks. The reason it is easy to become rich through networks is because it is easy to be generous through networks. On the other side, people who act alone or as individuals limit their chances for economic success." He went on to say, "Networks are people, businesses, or organizations that you are generous with because you support them and they support you. Networks are powerful forms of leverage. If you want to be rich, build a network and network with other networks."

Our business plan is based on networking with, rather than competing against, organizations, especially if they are larger than we are. Today, we network with church organizations, network-marketing companies, and with publishers in many different countries. We work together to make each other stronger and more viable, as well as wealthier. There is a give and a take, a sharing of strengths and minimizing of weaknesses that makes us all stronger.

We have found that we grow exponentially through being cooperative and making sure the people we do business with are financially successful. I have noticed that individuals or businesses who primarily focus only on making themselves rich or taking more than they give do not make good network partners. I have noticed that people who want only to take and are more concerned about themselves often have to work harder and earn less in the long run.

I was once on a board of a company where it was obvious that the president did not care about the company. All he cared about was

his pay package and his golden parachute. He did not care about the network—in this case, a business with hundreds of employees who gave it life. All he cared about was himself. Needless to say, we brought in a new president. The key point to being successful in networking is to be sincerely interested in first making sure the individuals or organizations that you network with are also doing well. You cannot only care about yourself, as too many people and organizations seem to do.

Over the years, Kim and I have met individuals, consultants, or organizations that would only work with us if they were certain that they got paid first. In other words, it was the fee we paid them that seemed to be more important than the service they delivered.

We hired a consulting firm to come in and look at our internal marketing systems. They asked for a sizable fee before they would do any kind of work. We paid them, and three months later, their report came back. After shifting through the mumbo jumbo of the report, we realized that all the report said was that we should retain their firm and pay them for three more years. There was not one recommendation on how to improve our marketing systems. There was only a proposal for more work. That is an example of a vendor putting the vendor's fees in front of the client's needs. Needless to say, we did not sign a contract.

When I was in high school, rich dad asked me to come and watch him hire a new man to manage one of his industrial parks. At the meeting in his conference room, there were three applicants. After rich dad got through explaining the task, he asked if any of them had any questions. The questions were interesting. They were:

- “How much time off will I have each day?”
- “How much sick leave do I have?”
- “What are the benefits?”
- “When do I get a raise and promotion?”
- “How many paid holidays do I get?”

After the meeting, rich dad asked me what I noticed.

I replied, “They were only interested in what was in it for them. Not one asked you how they could help you build your business or what they could do to make the business more profitable.”

“That’s what I noticed,” said rich dad.

“Are you going to hire any one of them?”

“Sure,” said rich dad. “I’m looking for an employee, not a partner. I’m looking for someone who wants to make money, not get rich.”

“Didn’t it sound greedy to you?” I asked. For those of you who have read my other books, you may recall rich dad always had me work for free, rather than for money.

“Yes, it does,” said rich dad. “But we’re all greedy to some extent. The reason they will probably not ever become rich is not because they are greedy. They will probably never become rich because they are not generous enough.”

In other words, their leverage ratio will probably always be 1:1. Repeating what rich dad said, “Most people will not ever become rich because all they think about is a day’s pay for a day’s work. There is not much leverage in a day’s pay for a day’s work because, no matter how hard you work or how much you get paid, the ratio is still 1:1.”

One of the reasons rich dad had his son and me learn to work for free was so that we would learn to give and build an asset before we received. Years ago, rich dad wrote this list to explain his point. Rich dad called it the “Who Gets Paid First and Who Gets Paid the Most” list:

1. Asset (business or other investment)
2. Employees
3. Specialists (accountants, lawyers, consultants)
4. Investors
5. Business owner

Rich dad said, “A business owner must pay the asset first. That means continually reinvesting enough money and resources in order to keep the asset strong and growing. Too many business owners put themselves in front of the asset, the employees, and everyone else. That is why their business fails. The reason the business owner gets paid last is because he or she starts a business in order to be paid the most. But in order to get paid the most, the business owner must make sure that the rest of the business is paid first. That is why I am training you to not work for money. You are learning to delay gratification and work to build assets that grow in value. I want you to learn to build assets, not work for money.”

Too many start-up companies fail to follow this list or the advice of people like my rich dad. I have met so many people who form a business by borrowing money or raising capital from friends, family, and other investors. They immediately rent a big office, buy a fancy car, and pay themselves huge salaries from investors’ capital rather than from income from the business. Because the investors’ capital is mismanaged and there is still no income, they then try to pay the business, their employees, and specialists as little as possible. In such ventures, it is often the investors who get stuck with the bill, as was the case in many dotcom start-ups.

Rich dad said to his son and me, “The people who must get paid first ultimately get paid the least. The business owner should pay himself last because he is in business to build an asset. If he is in business for the big paycheck, he should not be in business. He should be looking for a job. If the business owner has done a good job at paying everyone else to build his asset, the asset should be worth far more than he could ever have paid himself.”

Rich dad said, “Most people are not in the world of business to build or acquire assets. Most people are in the world of business as employees or self-employed specialists because they want a paycheck. That is one of the main reasons that less than 5 percent of the U.S. population is rich. Only 5 percent of the population realizes the value of assets over money.” Rich dad also said, “The business owner or

entrepreneur gets the big bucks at the end of the day because he or she must be the most generous at the start of the day. The business owner takes the most risks, and also gets paid last. If they have done a good job, the amount of money can be staggering.” That is why I continue to follow rich dad’s list when starting any business and why I continue to work for free. I work for free because I want the big money at the end of the day.

Too many people in the E and S quadrants are limited as to how many people or organizations they can serve. Hence, their income is limited. A true business owner in the B quadrant who focuses on building a business that continually serves more and more people will become richer and richer. They get the big reward simply because he or she builds a system or asset to serve more people. That is why a business owner can become rich exponentially, and people who work for wages become rich incrementally.

How Fast Can You Get Rich?

The good news is that it has never been easier and less expensive to become rich. All you have to focus on is serving more and more people. In John D. Rockefeller’s day, it took him approximately 15 years to become a billionaire. For him to become a billionaire, he had to acquire many oil wells and create a network of gas stations and gasoline delivery systems. That took a lot of time and a lot of money. Today, it would take billions of dollars to build what Rockefeller built.

It took Bill Gates approximately ten years to become a billionaire. He had the foresight to use IBM’s network to grow rapidly. It took Michael Dell and Steve Case, founder of AOL, less than five years to become billionaires. One entrepreneur used the growing demand for computers, and the other used the explosive power of the Internet to tap into the power of an explosive network.

For each new generation of entrepreneurs, it takes less time and less capital to become billionaires, due to the advent of new networks. You can too.

If you understand the power of networks and the importance of leverage ratios, you too can become exceptionally wealthy in a short period of time and at a fraction of the cost. If you have solid business fundamentals and experience, you can market to the world over the Internet. As the cost of doing business goes down, the power of the network goes up. One of the reasons Steve Case and AOL (a much younger person and company) could buy Time Warner and CNN (an older company with older directors) was simply because AOL had a bigger network. The bigger the network, the more economic power.

I have often written about people who became very rich in their spare time. Many of today's ultra-rich started their business at home on their kitchen table, just as Hewlett-Packard was started in a garage and Dell Computer was started in a dorm room. So even if you have a low-paying job, you can still become very, very rich if you start a business at home or in your garage, all in your spare time. Remember, "It is not your boss's job to make you rich. Your boss's job is to pay you for what you do. It is your job to make yourself rich at home and in your spare time."

It has never been easier to become rich beyond your wildest dreams for less effort and less start-up capital. I know that many of the high-flying dotcoms went broke, as many of us thought they would. In my opinion, the dotcoms that went broke may have had the right context, but they did not have the right content. Many dotcoms had the right idea, but too many lacked true business experience and business basics. Many were simply trying to get rich on a mania, rather than to truly serve more people.

I recently read that a company paid its president a salary equivalent to over a billion dollars of investors' money. The president then ran that company into the ground. Another dotcom company paid their employees a Christmas bonus equivalent to three months' salary. That same company was bankrupt and out of business before Christmas of the next year. That is definitely a case where the mission of the company was to make entrepreneurs and employees rich rather than serve the customer first. The investors paid for the flaw in the

company's mission and purpose. They failed to follow rich dad's prior list of who gets paid first and who gets paid last. These people, investors included, focused on being greedy rather than on the purpose of a business, which is to be generous.

Today our website receives over 50 percent of its traffic from customers who live in countries outside the United States. The purpose of the website is for the community to help each other retire young and retire rich. All of this work is being done for one purpose, and that purpose is to serve as many people as we can. By focusing on being generous, we build an asset that builds a network worldwide.

The More People I Serve, the More Effective I Become

Rich dad said, "Your job is to position yourself and be ready when the opportunity presents itself. It is okay to be five years early, but not one day late."

Years ago, rich dad said to me, "People in the B and I quadrants have access to infinite wealth. People in the E and S quadrants are limited by the limitations of their physical labor. For people in the E and S quadrants to move to the B and I quadrants, the first shift is the shift to generosity—the desire first to serve more people, rather than to get paid first."

If you look at Sam Walton of Walmart, all he did was build a network of large discount stores, stores that brought great products for lower and lower prices, to millions and millions of people. That is why Sam Walton was worth far more than an attorney who charges \$750 per hour. The key is generosity.

A Final Word on Generosity

During the dotcom mania, there was much talk about old-economy businesses and new-economy businesses. Regardless whether the business is old-economy or new-economy, all successful businesses and individuals must follow certain age-old principles and laws.

Generosity falls under the age-old law, the Law of Reciprocity. It is the law that states: "Give, and you shall receive." It is not a law

that states, “Receive, and then you give.” It is a law that has survived the test of time, and it will survive the test of the future. Today, more than ever before, it is very important to want to look after yourself and your loved ones. But if you want to be rich, you must first think about serving the needs of as many people as you can—first. It’s the law.

Rich dad believed in the Law of Reciprocity and in the idea that being generous is the best way to becoming very, very rich. It was his context on life. His actions were in integrity with his context.

Rich dad often gave us examples on how to use the Law of Reciprocity. He constantly reminded us of the need for us to be generous. He would say, “If you want a smile, be the first to give a smile. If you want love, be the first to give love. If you want to be understood, then be the one to be understanding.” He also said, “If you want a punch in the mouth, be the first to give someone else a punch in the mouth.”

Not only did rich dad believe in being generous by serving more and more people, he also believed in being generous with his money. In that line of thinking, he truly believed in the power of tithing, or the power of giving money. That is why rich dad gave generously to his church, charities, and schools. He gave money because he wanted more money. He would often say, “God does not need to receive, but humans need to give.”

He would say, “Many people say they are generous with their time because they do not have money. People who are generous with their time have lots of time because they give their time. They do not have much money because they do not give money. They do not give money because they are tight and stingy with money, always afraid that there is not enough money. Their fear becomes reality. If you want more money, give money. If you want more time, give time.”

If you have a hard time giving money, you may want to start giving a little at a time on a regular basis. Each time you give, you will hear your context, or your reality, speaking loudly to you. At the moment you hear your reality speaking to you, if it’s a poor person’s reality, you have the opportunity to choose and rechoose your reality. The moment

you give, even if only a dollar, to your church or your favorite charity, your world has changed. The moment you sincerely build a business or invest to increase your service to more people, you have forever increased your chances of becoming extremely wealthy and retiring young and retiring rich.

Start by Being Generous to Yourself

Rich dad always said, “Start small, and dream big.” When it comes to improving your leverage ratios, rich dad’s advice holds true today. In book number four, *Rich Kid Smart Kid*, I wrote about the three-piggy-bank system, a system Kim and I use today. One piggy bank is for savings, one is for investing, and the other for tithing—giving to church and charity. Improving your leverage ratios can begin with something as simple as three piggy banks, putting ten cents, fifty cents, or one dollar a day in each bank.

If you put one dollar a day in each bank, after one month, your ratios will look like this:

Savings	1:30
Investing	1:30
Tithing	1:30

This is a great start. In 30 days, your ratios are increasing each and every day. Imagine what might happen in 30 years. The point to remember is that you are really increasing the habit or discipline of paying yourself first or being generous to yourself. Rich dad said, “One of the reasons poor people are poor is because they treat themselves poorly.” And by that, he did not mean to run out and buy a new dress or new golf clubs. He meant that poor people do not do things that financially enrich themselves. By paying yourself first, you are financially enriching yourself, your soul, and your future.

“Just do it.”

— *Nike*

“Talk is cheap. Learn to listen with your eyes. Actions do speak louder than words. Watch what a person does more than listen to what they say.”

— *Rich dad*



Section Three

THE LEVERAGE OF YOUR ACTIONS



Can Everyone Become Rich?

I once asked rich dad if anyone could become rich. His response was, “Yes. What a person must do to become rich is not that hard. In fact, getting rich is easy. The problem is that most people would rather do things the hard way. Many will work hard all their lives living below their means, invest in things they do not understand, work hard for the rich rather than work hard to make themselves rich, and do what everyone else is doing rather than do what the rich are doing.”

The first two sections of this book have been primarily about the mental and planning process of acquiring great wealth. Both processes are important to retiring young and retiring rich. This next section is what one must and can do in order to retire young and retire rich. Although the mental and planning processes are important, ultimately it is what you do with what you know that counts. As rich dad said, “Talk is cheap.”

There are many books written on how to become rich. The problem with many of them is that they tell you to do things that are often too hard for most people to do. This section is about the simple things that almost anybody can do. After reading this section, you will know that you have the ability to become very rich, if you want to. Or at minimum, you will find one or two things you can do that will make you richer, if you choose to do them. After reading this section, the only question will be: How badly do you want to become rich?

Chapter Fourteen

THE LEVERAGE OF HABITS

Rich dad said, “There are habits that make you rich, and habits that make you poor. Most poor people are poor because they have poor habits. If you want to be rich, all you have to do is train yourself to have rich habits.”

If you are serious about becoming rich, you must do the following things over and over again, from now until forever, for the rest of your life. Everyone in the Western world can do and can afford what is recommended. The problem is, only a few people will do them... and do them... and do them.

Habit #1: Hire a Bookkeeper

At the start of this book, I wrote that it is easier to borrow a million dollars than to save a million dollars. There is one catch. Before your banker will lend you the million dollars, your banker will want to know that you are trustworthy with the money. One of the ways the banker will feel comfortable lending you that much money is if you have clean, professional financial records in the form of a financial statement.

Most people cannot qualify for large loans because they have poor records. Many people pay higher than necessary interest rates simply because they have poor financial records. In *Rich Dad Poor Dad*, I wrote about the importance of financial literacy. The basis of

financial literacy is a financial statement. That is what your banker will want to see if he or she is to lend you substantial amounts of money.

Even if you do not have a business, your personal life is a business, and all real businesses have bookkeepers. That is why I strongly recommend you hire a bookkeeper and keep a bookkeeper for life. By having a bookkeeper keep your income, expenses, assets, and liabilities in line, you begin to keep professional records. I also strongly recommend you sit down with your bookkeeper and go over your numbers each and every month. Repetition is how we learn, and by repeatedly going over your monthly numbers, not only do you establish a good habit, you gain more insights into your spending patterns, you can make corrections earlier, and you ultimately take control over your financial life.

Why not do it yourself? Why hire an outsider? Some of the reasons are:

- You want to start being a B- or I-quadrant person. All professional B's and I's have professional bookkeepers. So treat your personal financial life as a business now. As described in *Rich Dad Poor Dad*, one of rich dad's six lessons was: Mind your own business. That begins with hiring a professional bookkeeper.
- You want a disinterested outside third party to look objectively at your money and your spending habits. As you know, money can be an emotional subject, especially if it is yours. By having a person who is not emotionally attached to your finances, he or she can put things in order and speak to you clearly and logically. I remember my mom and dad not discussing money. They argued and cried about money. That is hardly objective money management or discussion.
- My poor dad did not want to look at his financial situation. He kept our financial troubles a personal secret—a secret from himself, his family, and from anyone else. We kids knew our family was in financial trouble, but we did not discuss it. We kept our financial problems a secret. Psychologists will tell you that family secrets become toxic. In other words, secrets poison the family. I know that the emotional pain from our

financial struggles did indeed affect all of us, even though we kept it a secret.

- By hiring an unemotionally attached professional bookkeeper, you can bring your financial challenges out into the light where you can deal with them. By being able to discuss your financial statements with your professional bookkeeper, you bring the subject of money and the business of your life out into the open. If it is out in the open and you are discussing your finances with a professional, you are more able to make the changes or tough decisions you need to make, before the financial problems become toxic.
- If you earn less than \$50,000 and are in the E quadrant, a professional bookkeeper should not cost more than \$100 to \$200 a month. I hear people say they would rather spend that money on food or clothing. The problem with that thinking is that spending your money on food or clothing will not solve your money problems and will not make you richer. As rich dad always said, “There is good debt and bad debt, good income and bad income, good expenses and bad expenses.” He told me that hiring a bookkeeper and other professional financial advisors was money that went for good expenses, simply because these were expenses that made you richer, your life easier, and prepared you for a better future.

If you truly cannot afford a bookkeeper, then find one who will trade services. You can clean their house or their yard and, in exchange, they can do your books. The most important thing is to do it, regardless of the price, because the long-term price is too high. As rich dad said, “Your greatest expense in life is the money you do not make.”

- Most importantly, hiring a professional bookkeeper reaffirms to yourself that you are taking your personal financial life seriously. It means that at least once a month, you sit down with your bookkeeper, you are held accountable, and you learn, correct, and redirect the financial future of your life.

In *Rich Kid Smart Kid*, the introduction begins with: “Why your banker does not ask you for your report card.” What your banker asks for is your financial statement. Rich dad said, “Your financial statement is your report card once you leave school.” In school, we received report cards at least once a quarter. Even if you had bad grades, the report card gave you and your parents the opportunity to know what you were good at and weak at, and then gave you the opportunity to make corrections. In real life, people without financial statements, or report cards, cannot make corrections if they do not know where they are that month, that quarter, or that year. Think of your financial statement as your report card, and work diligently to eventually have your financial report card measured in millions or maybe billions of dollars. That is why your bookkeeper is important. Your bookkeeper gives you your report card once a month.

There are three steps to follow:

1. Find and hire a bookkeeper.
2. Have an accurate accounting each month of your financial condition.
3. Review your financial statements each month with your advisor so you can make corrections quickly.

Habit #2: Create a Winning Team

In *Rich Dad's Guide to Investing*, I wrote that the B quadrant and I quadrant were team sports. One of the reasons people from the E and S quadrants occasionally have trouble transitioning is because they are not used to having a team assisting them with their financial plans and financial decisions.

As a child, I noticed that my poor dad shouldered the financial problems all by himself. He sat quietly at dinner if he was troubled, argued with my mom if he was frustrated about money, and sat alone late at night trying to make ends meet. There were many times I came home to find my mom crying because she knew that we were in financial trouble, and she had no one to talk to. When it came to

money, my dad was the man of the house, and he never discussed his financial challenges with anyone.

My rich dad, on the other hand, would sit around a table in his restaurant, surrounded by his team, and openly discuss his financial problems. Rich dad said, “Everyone has financial problems. The rich, the poor, businesses, governments, and churches all have money problems. What determines if someone is to be rich or poor is simply how well he or she handles those problems. Poor people are poor simply because they handle their money problems poorly.” That is why rich dad discussed his money problems openly with his financial team. He said, “No one person can know everything. If you want to win the game of money, you want the best and smartest people on your team.” My poor dad lost because he thought that he should know all the answers—and he didn’t.

After your bookkeeper gives you your monthly financial statements, meet with your team on a monthly basis. You may want a banker, accountant, attorney, stockbroker, real estate broker, insurance broker, and others. Each professional comes to the table with a different set of eyes and different ways of solving your problems. Just because many opinions are offered does not mean you have to follow any of them. It’s important that you do not keep your money problems a secret, you listen to people smarter than you in different areas of expertise, and ultimately, you make your own decision.

When people ask me how I learned so much about money, investing, and business, I simply reply, “My team teaches me.” I have learned more about business and investing outside of school simply because I use my life as my real-life school. I have found that I am more interested in solving my own problems than sitting in school trying to solve fictitious ones.

The following is an example of how I use my team to teach me: The other day, I met with one of my attorneys who tried to explain how to use government tax-exempt bonds. His explanations were way over my head, and his vocabulary was filled with words I have never

used before. Rather than waste his time sitting there pretending I understood, I stopped the meeting and scheduled another. At the next meeting, my accountant and this attorney sat down with Kim and me. The two of them helped explain what he was saying to us, in words we could understand.

I said earlier that words are tools for the brain. Each profession uses different words. For example, attorneys use different words than accountants or bookkeepers. By investing the time to fully understand the words and by having the meanings translated for me, I am better able to use the words and make those words a part of my life. In other words, I use the different professionals as translators so I can use their words in my life. The more words I can understand and use, the faster I can make more money and the better my financial future becomes.

That meeting cost me a few hundred dollars in fees, but I know the return will be exponential. It helped me understand how to borrow tens of millions of dollars from the government at very low interest rates. The combined education from my attorney and my accountant on this subject will greatly accelerate my leverage ratios. As I said earlier, you can increase your income incrementally or exponentially. By investing in my vocabulary and understanding, my wealth will increase exponentially.

So start gathering your team. If you cannot afford a high-priced team, you may want to find a retired person who enjoys helping and guiding people. Many times, all you have to do is buy them lunch. You would be surprised how many people simply enjoy being asked to share their life's experience in order to help others. All you have to do is be respectful, not argue, and listen intently. Do this once a month, and your future will be enriched forever.

Habit #3: Constantly Expand Your Context and Your Content

We now live in the Information Age, not in the Industrial Age. In the Information Age, your greatest asset is not your stocks, bonds,

mutual funds, businesses, or real estate. Your greatest asset is the information in your head and the age of your information. Too many people are falling behind because the information in their head is ancient history, or they cling to answers that were right yesterday but wrong today. If you want to retire young and retire rich, you will need to keep up with a world of rapidly changing information.

We are moving into an era of unprecedented opportunity—the Age of the Entrepreneur. If all you want is a bigger paycheck, you may miss this era while others become super-rich. If you do not want to miss this era, I suggest you make it a habit of being ahead of the pack and seeing the future the pack cannot see.

Habit #4: Keep Growing Up

The other day, a friend of mine was complaining that he had lost several million dollars in the stock market. He was new at investing, had borrowed money to buy stocks, and now had lost almost everything, including his house, after the market crashed. He kept complaining loudly, and I finally had enough. I said, “Grow up. You’re a big boy now. What made you think that the stock market would always go up?”

My comment did not stop him. He kept on saying, “Why didn’t the Fed lower interest rates earlier? Why did they have to raise them? It’s their fault and my stockbroker’s fault that I have lost everything. How will I pay back all that money? Why doesn’t the federal government do something about the losses on the stock market?”

As I walked away, I repeated what I said earlier: “Grow up.” Rich dad often said, “People get older, but they do not necessarily grow up. Many people run from mom and dad’s shelter to the shelter of a company or the government. Many expect someone else to take care of them, or be responsible for their lack of wisdom and common sense. That is why they seek job security or government sanctuaries. Too many people spend their lives looking for guarantees and spend all their lives avoiding risk, avoiding growing up, and always looking for a surrogate parent to take care of them.” I know many people who

are not able to survive without Social Security. I know people who are not yet old enough to collect Social Security, yet they are counting on Social Security and Medicare to be there for them in the future. Those government safety nets were created in the Industrial Age and were created only as safety nets for the very needy. Today, unfortunately, many people, even highly educated and highly paid people, are still counting on the government to take care of them.

We are in the Information Age, and it is time that we begin to grow up and mature financially. Leave the government safety nets and social programs for those who really need them.

When I left high school, I thought I was grown up and knew all the answers. Today, I often say, “I wish I knew back then what I know today.” There are many things I did in my past that I am glad I did, but I would not do them today. Growing up means doing things differently as we grow older. To continually do the same old thing every day of your life is, in many ways, arrested mental and emotional development. The world is changing, growing more sophisticated, and so should we.

One of the ways the world is changing is that there is not much job security and financial security anymore. Companies are pushing people out into the cold, cruel world and saying to them, “Don’t expect us to take care of you once you stop working for us.” They are also saying, “You’d better count on the stock market to take care of you once you stop working.” Yet in the real cold, harsh world, to expect the stock market to always go up is childish fantasy and as silly as expecting the tooth fairy to pay for your dental bill. Growing up means being willing to be more and more responsible for yourself, your actions, your continuing education, and your maturity. If you want to have a rich and secure financial future, it is imperative to know that markets go up and markets come down and no one is there to protect you. The faster we grow up and face that reality, the better we can then face the future with greater maturity. In the Information Age, more of us need to grow up and grow away from old Industrial Age ideas of expecting someone else to be responsible for our job security and financial security.

I am afraid that it will soon be obvious that the Industrial Age is dead and gone. We will know this when the government finally admits that it is broke and will not be able to keep many of its financial promises. If too many people panic and begin draining their 401(k)s, the stock market will crash, many people will be disappointed, and America may go into a deep recession, possibly a depression. If this happens, millions upon millions of baby boomers and their children will finally have to grow up. Growing up means that you become less and less dependent upon others, and are more and more able to take care of yourself, your needs, and the needs of others. To me, growing up is a lifelong process, a process that many people are avoiding by still seeking job security and financial security provided by someone else, someone other than themselves.

Continually growing up is an important habit. If you are to retire young and retire rich, you will need to grow up much faster than most people are willing to.

Habit #5: Be Willing to Fail More

One of the biggest differences between my rich dad and my poor dad was that my poor dad was unwilling to fail. He thought making mistakes was a sign of failure. After all, he was a teacher. My poor dad also thought that in life there was only one right answer.

My rich dad constantly ventured into areas that he knew nothing about. Rich dad believed in dreaming big, trying new things, and making small mistakes. He said to me at the end of his life, “Your dad spent his life pretending he knew all the right answers and avoiding mistakes. That is why at the end of his life, he began to make big mistakes.” Rich dad also said, “One of the great things about being willing to try new things and make mistakes is that making mistakes keeps you humble. People who are humble learn more than people who are arrogant.”

Over the years, I watched rich dad go into businesses, ventures, and projects he often knew nothing about. He would sit, listen, and ask questions for hours, days, and months as he gained the knowledge

he required. He was always willing to be humble and ask stupid questions. He would say, “What is stupid is to pretend you are smart. When you pretend to be smart, you are at the height of stupidity.”

Rich dad was also willing to be wrong. If he made a mistake, he was always ready to apologize. He did not try to be right all the time. He would say, “In school, there is only one right answer. In real life, there is more than one right answer. If someone has a better right answer than you, take it. Then you have two right answers.” He would also say, “People who have only one right answer are very often three things. One, they are usually argumentative or defensive. Two, they are often very boring people. And three, they often become obsolete because they fail to notice that their once-right answer is now wrong.”

So rich dad’s advice was, “Live a little. Do something daring and a little risky every day. Even if you do not become rich, this habit will keep your life exciting and keep you younger for years longer.”

Unfortunately, my poor dad spent his life doing all the right things. He did the right thing when he went to school. He got a job teaching because, in his mind, it was the right thing to do. He worked hard and climbed the ladder because it was the right thing to do. He ran against his boss because he was upset with the corruption in government because it was the right thing to do. At the end of his life, he spent 20 years in front of the TV set, angry because he had done all the right things and no one seemed to care. He got very angry when he thought about all of his peers who he thought did the wrong things, but now were rich or in positions of power.

Rich dad said, “Sometimes what is right for you at the beginning of your life is not the right thing for you at the end of your life. Too many people are unsuccessful simply because they are afraid of changing or are unable to change with the times. The reason they are unable to change is because they are afraid of being wrong. Sometimes to be right, we all need to be wrong. If we want to learn to ride a bicycle, we must go through being wrong for a while. Most people are unsuccessful simply because they want to be right, but they are unwilling to be wrong. It is their fear of failing that causes them to

fail. It is their need to be perfect that causes them to be imperfect. It is their fear of looking bad that causes them to ultimately feel badly about themselves.”

Rich dad’s secret was that the world is designed for us not to fail. The world is designed for us to win. The challenge is to be willing to first fail so you can win. Once you understand this secret, you will be more willing to fail in order to win. As rich dad often said, “People who avoid failing also avoid success. Failing is an integral part of success.”

In summary, my rich dad was willing to fail a little each day. My poor dad did his best not to fail at all. The difference in these little habits made a big difference toward the end of their lives.

Habit #6: Listen to Yourself

The last and most important habit for anyone who wants to retire young and retire rich is to listen to yourself. Rich dad often said, “The most powerful force I have is what I say to myself and what I believe.” This habit is another way of expressing your reality or your context. What rich dad meant by “your most powerful force” goes back to the Biblical concept that your words become flesh. In other words, pay close attention to what you are saying to yourself, because what you are saying to yourself is what you are becoming each and every day.

Rich dad would say, “Losers focus a lot on what they don’t want in life, rather than be specific with what they do want. That is what they do differently. It’s a habit. The same is true with money.”

“So there is a big difference between someone who constantly says, ‘I don’t want to be poor,’ and someone who says, ‘I want to be rich,’” I replied.

Rich dad nodded and said, “It seems to me that the human mind does not hear *do* or *don’t*. It just hears the subject being discussed—words such as *fat*, *healthy*, *poor*, and *rich*. Whatever the subject is, is what you become.”

“So when someone says, ‘I don’t want to lose money,’ all the mind hears is, ‘I want to lose money?’” I asked, seeking further clarity from rich dad’s lesson.

“That is how it seems to me,” said rich dad.

“So what many people do is talk about what they don’t want, or talk about what they can’t have,” I said.

“That is correct. But I do something more than that. It is one of my habits,” said rich dad.

“Something more than just say what you want?” I asked.

Rich dad nodded and gave me one of the most important habits for my life. He said, “We all feel frightened, uncertain, and doubtful at times. That is part of being human. When I feel that way, the first thing I do is check my thoughts. If I feel bad or afraid, I know I am saying or thinking something to cause myself to feel that way.”

“Okay,” I said. “What is the next step?”

“I change my thoughts or words to words I want,” said rich dad. “For example, if I am afraid of losing, I say to myself, ‘What am I afraid of, what do I want instead, and what do I need to do to get what I want?’ If you notice, they are all questions that first open up my reality to new possibilities and realities.”

I nodded and said, “Then what?”

“Then I sit quietly until the feeling of fear leaves and the feeling I want comes into my heart, chest, and stomach area. Once I can feel the feeling I want, and I have the thoughts I want, I then take action. I prepare myself first, I get into the right frame of mind, the emotional feeling I want rather than what I don’t want, then I take action.”

The summary of this process is:

- Notice thoughts you don’t want. Change to thoughts about things you want.
- Notice feelings you don’t want. Change to feelings you want.
- Take action, and keep going, correcting if necessary, until you get what you want—rather than what you don’t want.

Putting It Into Practice

A few years ago, I was in Las Vegas for the night. I do not gamble much, but with time to burn, I decided to play some blackjack. As soon as I got to the table, I noticed my body begin to tense up with the fear of losing and my mind began saying, “You can only lose \$200. Then you have to stop.”

Immediately, I changed my thoughts to, “I have \$200 to play with and when I win \$500, I will stop.” I had my entry and my exit strategy in place. Then I sat at the table, watching the dealer deal, but I did not put up any money. I could feel the fear of losing deep inside my chest. I focused my attention on changing the losing feeling to the winning feeling. Only when I could feel the confidence of a winner in my chest, heart, and stomach did I begin gambling. Even though I lost the first few hands, all I did was focus on winning thoughts and winning feelings. After an hour, I walked away with my \$500.

The other night, I found myself back in Las Vegas. Again, I went through the process. The trouble was, this time I could not win, no matter how I focused my thoughts and my feelings. Once my \$200 was gone, I had to fight my feelings to not put up more money. Walking away from the table was one of the hardest things I had to do. I wanted to chase my money.

As I walked away, I could hear rich dad saying, “Even with the best thoughts and best feelings, sometimes things just do not go your way. A winner knows when to quit and walk away. A winner must know that losing is part of winning. It is only a loser who stays at the wrong table forever, losing everything, hoping to prove that they are not a loser.”

Happy Relationships

This process of choosing how you think and feel works in relationships as well. I have noticed that I feel terrible when I think about all the things my wife, Kim, does not do, and I feel madly in love with her when I think about all the wonderful things she does do and we do together.

The Righteous Brothers had a hit song entitled “You’ve Lost That Loving Feeling.” When it comes to business and investing, many people have “Lost That Winning Feeling.”

Keeping the Faith

During the period from 1985 to 1994, Kim and I focused on what we wanted. We did our best to feel the way we wanted to feel and the way we would feel when our dreams did come true. Even though there were times when things did not go the way we wanted them to go, it was focusing on what we wanted and feeling the way we wanted to feel that got us through the tough times. Choosing how you want to feel and choosing to think what you want to think are very important habits rich dad taught me. (Now if only I could feel and think that way about the cold, green salad sitting in front of me...)

The point of this habit is that I go through the thought-and-feeling process especially when I feel afraid or doubtful of myself. For me, doing that is a better habit than allowing your feelings of doubt and uncertainty to run your life. While the process does not always assure that I win, it is still a good habit that has allowed me to occasionally win when the odds were stacked against me and I wanted to run. Always remember that all winners lose now and then, but that does not mean they have to feel or think like a loser.

As Nike says, “Just do it.” In life, it seems that what winners do is focus on what they want. Losers seem to focus on what they don’t want. That is why it is important to make a habit of listening to yourself on a regular basis. Winners keep those winning feelings and winning thoughts, even though they may not be winning. That is a very important habit.

Can You Adopt These Habits?

Before going any further, I want to reemphasize how important I believe these basic habits are. These are easy habits that virtually anyone over the age of 18 can follow. Yet even though they are easy, I am afraid only a very few will make them habits.

If you can make these simple habits your lifelong habits, the action steps in the following chapters will be easy for you and may make you richer than your wildest dreams. As rich dad said, “The story of ‘The Three Little Pigs’ is more than a fairy tale. It is a story filled with truths. If you want to build a house of bricks you need good habits. Good habits are the bricks of the rich.”

THE LEVERAGE OF YOUR MONEY

Who Works Harder—You or Your Money?

On March 12, 2001, the financial channels were crying the blues about the crash of the stock market. Just a year earlier, the NASDAQ had been at an all-time high of 5048.62. On March 12, 2001, the NASDAQ was at 1923, a 62 percent fall in approximately a year. Also on this single day, shareholders lost \$554 billion on all exchanges. Obviously, many people were very concerned, afraid, or angry.

On one of the channels, a commentator said something I have been concerned about for years. He said, “Many rich investors are only getting richer in this market fall. They get rich because they go in and out of the market. I feel for the working person that has just had their pension plan wiped out. They left their retirement money in the market because they have to.”

Kim was also watching the program and listening to the commentator. Kim said, “Watching your retirement plan get wiped out must be like watching your house burn and not having a hose to put the fire out.”

In *Rich Dad’s Guide to Investing*, I wrote that the poor and middle class invest in mutual funds and the rich invest in hedge funds. While many people claim hedge funds are too risky, I tend to disagree. I think mutual funds are far riskier, simply because most mutual funds tend only to do well when the markets go up. At least with some hedge funds, you can make money in an up market as well as

a down market. Which one do you think is riskier in the long run? How would you feel if you were getting ready to retire and you just watched your retirement fund get cut in half? At least if you have fire insurance, you can rebuild your house in less than a year if it burns down. For many people, they may not have enough time to rebuild their retirement fund if it is wiped out late in life.

Is Your Money Just Sitting There Doing Nothing?

One of the reasons people work so hard all their lives is simply because they were taught to work harder than their money. When most people think of investing, many just park their money either in a savings account or in their retirement account, as they continue on with their life of hard work. While they work, they hope their money is working too. Then, when something like a financial disaster comes along, their parked money gets decimated and most people have no financial-disaster insurance.

Rich dad said, “Most people spend their lives building financial houses of straw—houses which are susceptible to wind, rain, fire, and big bad wolves.”

That is why rich dad taught his son and me how to keep our money moving. To further illustrate this point, one day on a camping trip, he had Mike and me repeatedly jump through and over the roaring campfire. He said, “If you’re moving, even fire will not hurt you. If you’re standing still near the fire, even though you’re not in the fire, the heat will eventually get to you.” That morning, as I watched the stock market sink lower and lower, I could hear rich dad telling his son and me this story. It is the people who are standing still with their money parked that are feeling the heat. If you want to retire young and retire rich, you will need to work harder and faster. Your money will have to do the same thing. To leave your money sitting in one place is like watching a pile of dry autumn leaves and waiting for the spark that will turn the leaves into a bonfire.

How Fast Is Your Money?

One of the reasons Kim and I retired early was because we kept our money moving. Rich dad often referred to this concept as the *velocity of money*. He said, “Your money should be like a good bird dog. It helps you find a bird, catch the bird, and then goes out and gets you another bird. Most people’s money acts like the bird that just flies away.” If you want to retire young and retire rich, it is very important that your money be like a bird dog, going out every day and bringing home more and more assets.

Today, many financial planners and mutual-fund managers say to the average investor, “Just give us your money, and we’ll put your money to work for you.” Most investors nod and repeat the mantra, “Invest for the long term, buy and hold, and diversify.” Their money gets parked, and they go back to work. For most investors, these are pretty good ideas, given that most investors have no interest in learning how to put their money to work, since they seem to prefer working harder than their money. The trouble with these plans of average investors is that they are not necessarily productive investment strategies, nor are they necessarily safer.

Kim and I did not keep our money in a retirement account in order to retire young. We knew that we had to keep our money working hard to acquire more and more assets. Once our money acquired an asset, that money was soon reemployed to go out and get us another asset. The strategy we used to keep our money moving and acquiring more and more assets is a strategy that almost anyone can use. As promised, this book will list things that almost anyone can do to become rich.

Keep the Money Moving

One of the strategies we used to keep our money moving was to buy a rental property, and within a year or two, borrow out our own down payment and buy another rental property. That was following rich dad’s advice of using money like a bird dog. The average person calls this process a *home-equity loan*. Some people call it a *bill-consolidation loan*

to pay off credit-card debt. You may notice that Kim and I borrowed money to buy investments. The average person uses debt capital to pay off bad debt. This is an example of the bird flying out the window. While it is still velocity of money, it is velocity of money going away from you, rather than acquiring assets for you.

A Simple Example

The following is an example of how we invested and then borrowed money to invest in other assets. In 1990, Kim and I noticed a house for sale in a beautiful neighborhood in Portland, Oregon. The owner was asking \$95,000, but the property did not sell. The economy was bad, people were being downsized, and there were many houses on the market. We would have put in an offer earlier, but this house did not fit our investment profile. It was too expensive and too nice a house to be considered a long-term rental property. If this house were in San Francisco, it would have been a \$450,000 home. Yet we watched this property because we could see it had a lot of value and potential.

On our way to and from the airport, we would drive by the house to see if it was still for sale. After about six months, we finally knocked on the door and found that the owner was very anxious to sell and ready to listen to any offers. He owed \$56,000, so I offered \$60,000 and we settled on \$66,000. I gave him \$10,000, and we took over his existing mortgage. A month later, the owner and family had moved out and were on their way to California, happy to have sold their home. They did not make much money, and they did not lose much money. The house rented immediately, and we wound up making about \$75 a month positive cash flow after paying all debt and expenses. About two years later, the market had improved and many people were making us offers to buy it, the best offer being \$86,000. Kim and I did not take the offer, although it was tempting. If we had sold, we would have realized approximately a 100 percent per annum return on our down payment as illustrated by the following numbers.

\$86,000	Offer
– \$66,000	Purchase price
\$20,000	= Gain

Approximately 200% in 2 years from our \$10,000 down payment—100% annual cash-on-cash return (I say “approximately” because there would have been other expenses involved in the transaction, and it does not take compounding into account.)

Although the 100-percent return was attractive, we did not sell. The house was in a great neighborhood, and we felt the house could eventually reach the \$150,000 range in three to five years. Instead of selling this house, we decided to begin buying more, now that the market was turning in price and also rental income.

Given the strong market indications, Kim and I applied for a home-equity loan. The balance on the mortgage was now less than \$55,000, and the appraisal came in at around \$95,000. The rent could cover a mortgage of around \$70,000, so we refinanced the house and put approximately \$15,000 in our pocket. We had gotten our initial money back, and we still had the asset. The dog had gotten the bird, and we could now go out and find another bird. On top of that, the dog was now worth \$15,000.

Within a few months, after looking at several hundred properties, we found our new target. It was a great house in the same neighborhood. The house did not show well since the owner had let his children live in it rent-free for years. The asking price was \$98,000. After several offers and counteroffers, we purchased it for \$72,000, put \$4,000 into paint and repairs, and put it up for rent.

Late in 1994, we sold both houses for just under \$150,000 each and took that money to buy a larger apartment house in Arizona, where the market prices were still depressed.

Besides keeping our money moving, there are a number of lessons I would like to point out:

- We did well because the market was down. That gave us time to look for and negotiate sensible investments. If the market were up, we would tend to look harder and be even more cautious.
- The investments had to make sense today, not tomorrow. I say this because too many people have the buy, hold, and pray strategy. Rich dad always said, *“Your profit is made when you buy, not when you sell.”* Every property we bought had to have a positive cash flow on the day we bought it, and it had to have a positive cash flow even in a bad economy. If the market had not gone up, Kim and I would still be happy with the investment.
- Every investor has an exit strategy before they enter the market. Since this was a new type of market, even though it was investing in real estate, it was a different type of real estate investment. This difference required that we start over again, do our research and come up with different entry and exit strategies.
- Those two houses would probably sell for much more today. The reason we sold early was to leave some money on the table for the next buyer, to take advantage of another market that was down and about to move up (in this case, Phoenix), and because our investment portfolio had changed. We no longer held single-family homes. We had now graduated to larger and larger apartment houses, again for more leverage.
- Know the difference between being an investor and a trader. We were investors when we were willing to buy and hold the properties for their cash flow. We were traders when we knew our entry as well as our exit strategy. In other words, an investor buys to hold. A trader buys to sell. If you want to retire rich, you need to know how they are different and how to be both.

In my opinion, one of the reasons so many people lost money in this latest stock market crash is because they were actually being traders when they thought they were investors. This further illustrates the importance of knowing the definition of words.

- Kim and I invest for the long term. But to us, investing for the long term does not mean parking your money, leaving it in one big pile, thinking you're diversified when in reality all of your investments are in one vehicle such as mutual funds, and then hoping that the wind does not blow or a fire does not break out. Investing to us means being in the market every day of our lives, gathering more information, gaining more and more real-life experience, and keeping our money moving, over the fire. We do not buy, hold, and pray, which is what long-term means to millions of people.

“I Want My Money Back”

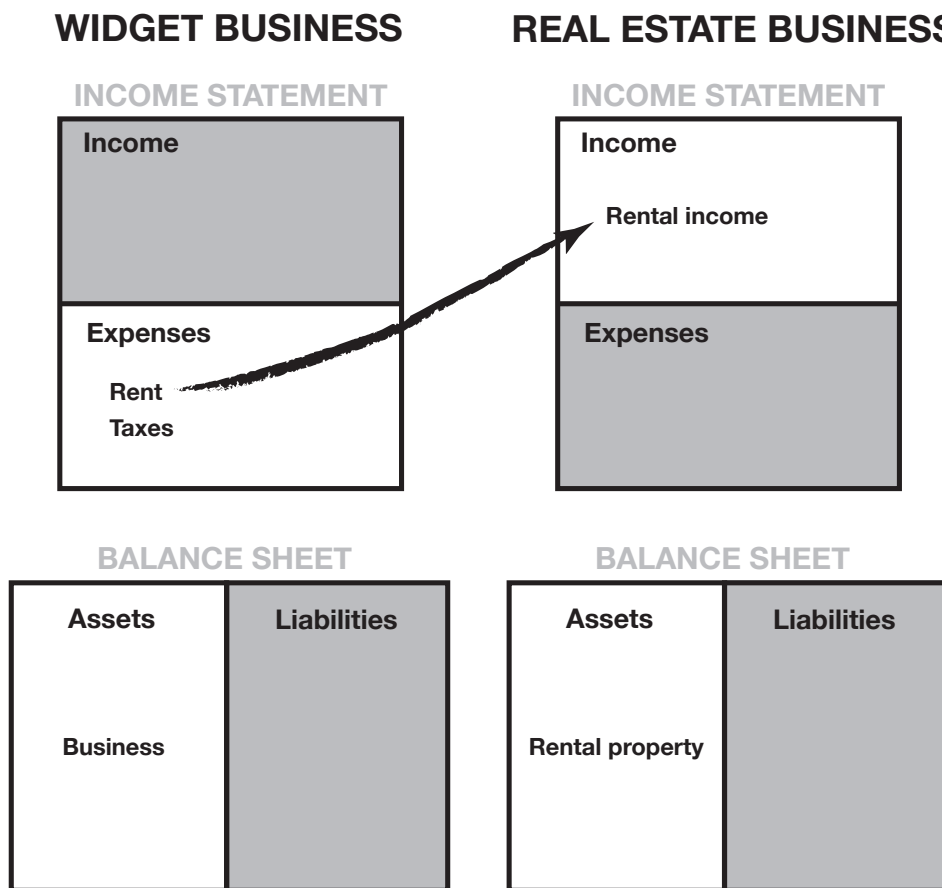
Most shoppers know that they can get their money back if they do not like the product they just bought. Most wise retailers offer a money-back guarantee if the customer is not satisfied. The problem with most money-back guarantees is that, in order to get your money back, you have to give the product back first. If you are a sophisticated investor, you want your money back and you want to keep the asset too. That is the reason I love investing. I get to keep what I purchased and also get my money back. That is why rich dad said, “One of the most important things a real investor needs to say is, ‘I want my money back. I also want to keep my investment.’”

If you can understand this principle of investing, you will understand what the velocity of money means. It means you want your money back as quickly as possible so it can be reinvested to acquire other assets.

More Than One Way to Speed Up Your Money

This idea of the velocity of your money does not apply only to real estate. The idea of velocity of money is really a principle or mental tool of the rich. Once you understand the principle, you want to be able to apply it to everything you do. Velocity of money is an important aspect of leverage.

Another way of increasing the velocity of money is through knowing the tax laws and using corporate entities. For example, let's say someone owns a business and also owns part of a second business that invests in real estate. The diagram and explanation look like this.



Rent expense from the widget company flows to the rental income of the real estate company. This is important because a business is taxed *after* expenses, while the individual is taxed *before* expenses. So an individual who rents a house pays for that house with after-tax dollars. The business can pay that rent with pre-tax dollars. The rental income

goes to another corporate entity but this income is now classified as passive income, rather than ordinary income. (There is an exception where the ownership of the two companies is the same, where the income must be treated as ordinary income. For example, if you have a business in your home and pay yourself rent, you would have to treat that income as ordinary income.) Passive income, if managed properly, can flow to the individual or the business paying substantially less in taxes. As always, we recommend competent tax and legal advice before doing anything like this.

A person who manages his or her business and investment portfolio in this manner can keep their money moving faster while paying much less in taxes. If it flowed into only one corporate entity, it would stagnate and be taxed heavily.

Looking at the asset columns of both businesses, you notice that there is the asset of the business in one column and the asset of rental property in the other column. In this example, this person's money is being used to create or acquire two assets tax-efficiently. That is another example of velocity of money, or money working, rather than being parked.

“You Can’t Do That”

Four words I often hear when I use the above example in my investment classes are, “You can’t do that.” As you know, these words are words that define a person’s reality or context. In my earlier days, I would go into small companies and explain these strategies for employees of the company.

At the end of my talks, I would almost always hear, “Great ideas, but you can’t do that.” The person would often say such things as, “You can’t buy real estate that cheap,” or “You can’t buy a house without a new mortgage or a banker’s approval,” or “You can’t own the business and own the company that rents your business the real estate,” or “That might work in America, but that can’t be done in my country.”

I no longer do such investment talks to employees or self-employed people. I only do such talks to people who are or want to be business owners or investors. I leave traditional investment advisors to talk to groups of employees or groups of self-employed individuals, not because of the individuals involved, but because of the collective consciousness of such groups. As stated earlier, the words, “I can’t,” are often the words that define the quadrant a person comes from.

The example used above is done every day throughout the world. In all of the countries I have done business in, it is common practice to buy a building just by taking over the mortgage, but it is done primarily in larger investments. The idea of a business renting real estate from another business owned by the same person is also done all the time. It is common practice.

McDonald’s uses that very formula. It sells a franchise business to an individual. The individual then pays McDonald’s a franchise fee as well as pays rent to McDonald’s for the real estate. From *Rich Dad Poor Dad*, you may recall that Ray Kroc, McDonald’s founder, said, “My business is not hamburgers. My business is real estate.” Ray Kroc and his team obviously understood the velocity of money and how to use money to acquire more than one asset.

Velocity of Money with Paper Assets

The idea of the velocity of money applies to all assets, including paper assets. When someone looks at a stock’s P/E ratio, they are looking at the velocity in many ways. When someone says the stock’s P/E ratio is 20, it means it will take you 20 years to get your money back, based upon today’s price and earnings. For example, if a stock’s price is \$20 today and it’s paying an annual dividend of one dollar, then it will take you 20 years to get your money back.

The Rule of 72

The “Rule of 72” is another measure of money’s velocity. This rule measures the interest or annual percentage growth of something. The “Rule of 72” is simply dividing the number 72 by the interest or the percentage of gain in value to give the relative speed your money will double. For example, if you receive 10-percent interest on your savings, your money will double in 7.2 years. If your stock is appreciating in value by 5 percent per year, it will take 14.4 years to double your money. If it appreciates by 20 percent per year, then it will take 3.6 years to double in value.

During the economic boom of the late 1990s, many financial planners and investment advisors were touting the wisdom of the “Rule of 72.” A number of years ago, I had one young investment advisor tell me that his portfolio was doubling in value every five years. I asked him how he knew that since he had only been investing for three years. His reply was, “Because the mutual fund my money is in has averaged over 15 percent per annum for the last two years.” I thanked him for his enthusiasm in his attempt to sell me more mutual funds, but I declined. I thought about telling him the story of the bull and the bear.

The story of the bull and the bear states that the bull comes up by the stairs, but the bear goes down by jumping out the window. In other words, as rich dad would say, ‘Averages are for average investors.’”

Playing with House Money

One more way an investor can use the velocity of money in their favor is by playing with house money.

There are two reasons I like small-cap stocks. Reason number one is because I am an entrepreneur rather than a corporate person. I like and understand the problems of small start-up companies and can sense if the business has a chance for growth or not. Reason number two is because a small-cap stock can double and triple in value much faster than a blue-chip stock. Since a small-cap stock has a better chance of doubling or tripling faster than many large-cap stocks in

the right market conditions, it is easier to play with house money. The following is an example of playing with house money.

Let's say you buy 5,000 shares of XYZ company for \$5 a share. You now have \$25,000 in the market. The market shines on you and, in less than a year, the price of XYZ is now \$10 a share. You now have a market valuation of \$50,000. A greedy investor, which I have been, will say, "The market will keep going up so I'll hang on." Again, an exit strategy is important before getting into the market.

Instead of hanging on and just parking your money, one way to increase the velocity of your money is to simply sell \$25,000 worth of stock. That way, you still have \$25,000 worth of stock, although half the shares in this case, and you have your initial investment back. The remaining shares which have the \$25,000 valuation at that time is playing with house money.

I use this strategy often, but not all the time. There have been times when the price of the stock went from \$5 to \$8, not reaching the exit price of \$10, so I held on. Many times, the stock has not held and dropped below \$5, leaving me with all my money either lost or still on the table. I will admit that the times I have used this strategy of selling shares to recoup my initial investment, I have felt much better about my investment, even though I may not have made as much money, due to the fact that I did pull some money from the table.

Bye-Bye Money

There is a short poem that goes:

Money talks, I can't deny.

I heard it once. It said bye-bye.

I have never understood why people cry about losing money in the investment market. They don't cry when they go to the grocery store and spend money they don't get back. They don't cry when they buy a car and lose money when they sell it. So why should investing be any different?

I often hear investors say, "You haven't lost any money as long as you don't sell the stock." When I hear someone saying something

like that, it often means they bought high and now the price is low and they are waiting for the stock price to go back up. There is some validity to thinking that way, but only in special-case situations.

A thought opposite to that thought is, “Cut your losses early.” There are times when I have invested poorly, and the price of my investment drops rather than climbs. If the price of a stock drops more than 10 percent, I will, more often than not, cut my losses and look for something new. There are two reasons I may do this.

1. If my attention is focused too much on the loss and I feel badly for making a bad decision, I will sell. I just want to cut and move on. I know that out of ten investments, odds are that two to three will be bad, two to three will be good, and everything in the middle just lies around like a lazy dog. I will occasionally let the lazy dogs lie as long as they are not losing money. If they become real dogs, I cut and review my mistakes and take the lessons.
2. I love shopping. So even if I have less money to shop with, I am happier shopping rather than buying, holding, and praying that the investment will go back up someday. As I said, most people don't cry when they sell their formerly new, now used, car for a loss. The reason they don't cry is because they're usually shopping for a new car.

How Long Are Blue Chips Blue?

There is another investment strategy I often hear and that is, “Invest for the long term and only buy blue chip stocks.” To me, that is an obsolete idea because it worked in the Industrial Age, but it doesn't work in the Information Age. The reason that old strategy doesn't work anymore is because blue-chip stocks are not blue chips anymore. For example, if you had invested in Xerox 20 years ago, you would be hurting today, even though it is a blue-chip stock. The real question each of us needs to ask is: How long will a blue-chip stock be blue?

Many of today's Fortune 500 companies may not exist ten years from now, due to technological changes and other innovations. Blue-chip companies, which used to last for 65 years, are now lasting only ten. The old strategy of business is no longer working in today's world.

In this age of faster-moving technology, a company may rise and fall in just a few years. This speed of change then requires all of us to be more vigilant and to focus on keeping our money moving, rather than just leaving it parked waiting for the market to rise and rise forever. The buy, hold, and pray strategy is okay for the average investor, but it is not a great strategy for anyone who wants to retire young and retire rich.

THE LEVERAGE OF REAL ESTATE

Investing with Your Banker's Money

I had dinner with a friend and her father the other night. He's a retired airline pilot. The stock market had just fallen another 3 percent that day and he was very upset because his retirement account was losing all its gains. When I asked him what he thought of the market, he said, "My other daughter called to let me know that I could move in with her if I lost everything."

Cautiously I asked, "Do you mean to say that the only investments you have are in the stock market?"

"Well, yes," he said. "What other kinds of investments are there? The stock market is the only place I know of. What else is there to invest in?"

De-Worsify Your Portfolio

The common mantra heard everywhere today is, "Invest for the long term, dollar-cost-average, diversify your portfolio, etc., etc, etc." This is a great mantra for people who do not know much about investing. The word I have always questioned is *diversify*. When I hear someone say they have a diversified portfolio, I often ask them what they mean by that word. More often than not, they will say something like, "I have some growth funds, bond funds, international funds, sector funds, mid-cap funds," and so on.

My next question is, "Are they all in mutual funds?" Again, in most cases, the response is, "Yes, most of my investments are

diversified in different mutual funds.” While their mutual funds may be diversified, the reality is that their investment instrument of choice, in this case mutual funds, is not diversified. Even if they say, “I do dabble in stocks, invest in REITS, and I do have some annuities,” the hard fact is that most people are only in the paper-asset category. Why? Because paper assets are easier to get into and manage. As rich dad said, “Paper assets are more sterile. They are neater and cleaner. Most people are not from the B quadrant and will never build a B-quadrant business and most people will not invest in real estate because of the acquisition, liquidity, and management challenges.”

There are over thousands of mutual funds to choose from in the United States alone. There are more mutual funds than there are companies that mutual funds invest in. Why are there so many mutual funds? Because of the same reasons listed above. They are sterile and often sterilized in the name of protecting the public. The problem the public has is figuring out which of the thousands of funds is best for them. How do you know if the hot fund today will be the hot fund tomorrow? How in the world do you choose the winning fund today for your retirement tomorrow? And if over 80 percent of your investment portfolio is in mutual funds, is that really diversification and is that smart? Personally, I don't think so. Anyone who has 80 percent or more of their portfolio in different funds is not really diversifying. They are really *de-worsifying* their portfolio.

The Tragic Flaw of Mutual Funds

Some of you may be aware of the hidden tax flaw of mutual funds. Unfortunately, there are many mutual-fund investors not aware of the mutual-fund tax flaw, the flaw that passes capital-gains tax through to the investor. That means, if there is a profit and a capital-gains tax consequence, the fund does not pay that tax. The investor does. This flaw is especially pronounced in a bear market. There are exceptions, however. For instance, gains on mutual funds held in certain retirement funds are deferred.

Let's say the fund has had great success for a number of years. It has bought well and many of the stocks it has picked have greatly

increased in value. Suddenly, the market turns down, investors panic, and they begin asking for their money back. The fund must then sell its best stocks quickly in order to give the investors their money. When the fund sells its stock, there are capital gains to pay on that stock. For example, the fund purchased XYZ Corp. ten years ago for \$10 a share, and when they sell it, it sells for \$50 a share. So the fund manager did well by picking the stock early, but now at time of sale, the investor must pay the capital-gains tax on the \$40 profit. In times like this, the investor can lose money because the value of the fund may have gone down while, at the same time, the investor must pay capital-gains taxes. So an investor in mutual funds can be required to pay capital-gains taxes, even though he has lost money rather than made money. Personally, I do not like having to pay taxes when I have, in fact, lost money. That is like paying income tax on income you did not receive. To me, that is a tragic flaw.

The Beauty of Investing in Real Estate

My friend's father, the retired airline pilot who thought the only kind of investment is paper assets, is only now finding out about mutual funds' tragic flaw. As the dinner neared an end, he said, "I've lost much of my savings because the share value of my funds has gone down and now I have to pay capital-gains taxes even though the value is down. I wish there were something else I could invest in."

"Why don't you invest in real estate?" I asked.

"Why? What is the difference?" he asked.

"There are many differences," I replied. "Let me tell you about one difference that is really quite interesting."

The retired pilot took a sip of coffee and said, "Tell me. I'm all ears."

"In real estate, I can make money, and the government will let me count it as a loss of money," I said.

"You mean you make money, and you get a tax break instead of having to pay taxes on the money you made?" asked the pilot.

"The government gives me a tax break on my gains rather than making me pay taxes on my capital gains," I said. "The government

lets me keep more money rather than pay more taxes. One way is through depreciation, or what my rich dad called *phantom cash flow*, which is cash flow the average investor cannot see.”

The retired pilot listened silently for a long moment and finally asked, “Is there more?”

“A lot more,” I said. “They’ll even give me money.”

“How?” asked the pilot.

“If a building is a historical building, the government may give you a tax credit, which is far better than a tax deduction, to improve your investment,” I said. “Do you think the government will give you a tax credit to buy more mutual funds?”

“Not that I know of,” said the pilot. “All I have seen lately is a capital-gains tax on money I’ve never made and, in fact, have lost. It sounds like I pay taxes on money I’ve lost, and you get a tax break on money you made. Anything else I should know about?”

“There is,” I said. “You can receive a tax credit for 50 percent of the cost of improvement related to the Americans with Disabilities Act. For instance, if you pay \$10,000 putting a wheelchair ramp in for handicapped people to have access to your commercial building, you could receive the maximum credit of \$5,000.”

“You get a \$5,000 tax credit?” asked the pilot. “What if the wheelchair ramp doesn’t cost you \$10,000 to put in? What if the ramp only costs you \$1,000 to build?”

“You still get a tax credit for 50 percent of the cost of the improvement,” I said. “But of course, I strongly advise you to check with your CPA before doing anything like this. You want to make sure you know the current regulations and benefits before doing anything.”

The pilot sat there quietly thinking. “Anything else?”

“Much more. Really too much to discuss just over dinner,” I said. “But let me give you three more advantages of real estate over mutual funds.”

“Just three more?” said the pilot with a sarcastic smile.

“One more advantage is that the bank will lend you the money to buy your real estate. As far as I know, banks will not lend you money to

invest in mutual funds or stocks. They may use such assets as collateral, but only after you have invested your own money to acquire them.”

The pilot nodded his head and said, “And number two?”

“Number two is no capital-gains tax,” I said, “if you know what you are doing.”

“You mean I must pay capital-gains tax on money I did not make, in fact lost, and with real estate you can avoid capital-gains tax?”

I nodded my head. “It’s done all the time via an exchange called the 1031 exchange. For example, let’s say I buy a house for \$50,000, putting only \$5,000 down and borrowing the remaining \$45,000 from the bank. And let’s say the rent more than covers my monthly expenses so I have cash flow from my investment.”

“So your money is working for you,” said the pilot.

“Yes,” I said, “and that income is passive income so it is taxed at a lower rate than ordinary income such as paycheck income and income from savings and your 401(k).”

The pilot shook his head in silence. Earlier in the evening, we had already discussed the differences between ordinary, portfolio, and passive income.

Continuing, I said, “After a few years, you find out your \$50,000 rental house is now worth \$85,000. You sell it for a \$35,000 gain, but you do not have to pay the capital gains if you want to put it into a bigger investment.”

Again the pilot shook his head silently, saying, “In this example, you make \$35,000 in capital gains and pay no capital-gains tax. I lose money in my mutual funds, and I pay capital-gains tax. You receive cash flow and have that income offset by phantom losses and expenses, and you pay less in taxes on the income that you do pay taxes on, because it’s passive income, not ordinary income.”

“And don’t forget the tax credits for improvements made for ADA in a commercial property or if the property is historical,” I added.

“Oh no,” said the pilot. “How could I forget the tax credits? Everyone knows about tax credits. So what is the third point?”

“The third point is that the bigger the real estate investment, the more the banks and the government want to lend you money,” I said.

“Why is that?” asked the pilot.

“When you go to your banker with a real estate investment over, let’s say, a million dollars, the banker is not lending money to you. The banker is lending money on the property.”

“What is the difference?” asked the pilot.

“When the average person goes to the bank to ask for a loan, the bank evaluates the credit-worthiness of the individual. When this same person wants to buy, let’s say a small rental property, a property such as a condominium or house or duplex, the banker still evaluates primarily the person. As long as you have a steady job and enough income to pay for these smaller properties, the bank will often lend you, not the property, the money.”

“But on bigger properties, when the price of the property is far beyond the income of the individual, the bank then looks at the income and expenses of the property itself,” said the pilot. “Is that the difference?”

“Pretty close,” I said. “On larger properties, the asset really is the property and its income stream, not the individual borrower’s income stream.”

“So it can be easier to buy a bigger property rather than a smaller property,” said the pilot.

“If you know what you’re doing,” I said. “The same is true with borrowing from the government. If you go to the government with a \$150,000 property, in many cases the government agency is not interested. But if you want to acquire a property that is a slum and you want to convert it to safe low-income housing, the government has millions of dollars to lend. In fact, if your investment is not over \$5 million, it’s hard to get anyone in the government to become interested in your property.”

“Anything else?” asked the pilot.

“The list goes on,” I replied. “But let me give you the downside to real estate.”

“Such as?” asked the pilot.

“Real estate is, in most cases, not as liquid as paper assets. That means it can take longer to buy and sell real estate. The real estate market is also not as efficient as the paper market. And real estate can be management-intensive,” I said with a smile.

“Why are you smiling?” asked the pilot.

“Because the disadvantages are often the biggest advantages to the professional real estate investor,” I said. “The disadvantages are often only disadvantages to new or unsophisticated investors.”

“Give me an example,” said the pilot.

“Very briefly,” I replied, “because real estate is not as liquid and it can be harder to find a buyer or seller, the professional investor can often take his time to make a deal.”

“You mean you can do a little one-on-one negotiation with the seller,” said the pilot.

“Or the buyer,” I replied. “In the stock market, it’s often just buy or sell. Very seldom is there any kind of one-to-one negotiation between buyer and seller, at least not for most investors.”

“You mean there can be one-to-one negotiations between buyers and sellers in the stock market?” asked the pilot.

“Yes,” I replied. “But that goes into the gray area of insiders and professional players. It can be done legally, but it is not usually done by the average investor.”

“Oh,” said the pilot. “But it is done all the time in real estate.”

“That’s the fun of real estate,” I replied. “That is where you can become creative, negotiate terms, cut a better deal, lower the price, or raise the price. Ask the seller to throw in a boat or pay your down payment for you. It becomes fun, once you learn the game.”

“What else?” asked the pilot.

“You can reduce expenses, improve the value of the property, add an extra bedroom, paint the place, sell off some extra land, and on and on. Real estate is great for the creative investor who is a good negotiator. If you are creative and a good negotiator, you can make a fortune in real estate, as well as have a good time.”

“I never saw it that way,” said the pilot. “All I’ve ever done is buy and sell the houses my family has lived in. But come to think of it, that was kind of fun and I have made a better return on my houses than I have made on my mutual funds.”

I could see the light was going on in his head. He could now see that there was something else he could invest in besides de-worsifying his portfolio with mutual funds. While the lights were coming on in his head, it was getting late and time to head home.

A few weeks later, he called to tell me he was out looking for his first rental property and he was having fun, instead of worrying. He said, “Even though my rental income breaks even with my expenses, I can still make money in real estate. Understanding phantom cash flow and the tax laws is like winning financially without making any money.”

All I said was, “You’re beginning to understand.”

Bad Advice from Advisors

Financial advisors are important. The problem is, many financial advisors are not rich nor are they successful investors. In a major U.S. publication, a certified financial planner had this to say about my advice on real estate: “Lots of people have made lots of money in real estate, but primarily in places like California or Connecticut. Our clients who are here in the Midwest haven’t experienced that kind of thing.”

Her clients should fire her. The reason her clients in the Midwest have not made any money in real estate is because they have her as an advisor. If you understand real estate, tax laws, and corporate laws, and have a good broker and accountant, you can make money in real estate even though the property does not increase in value or turn a profit from rental income. Her report about property increasing in value only in California and Connecticut is also wrong. If she knew her property market, she would know that the fastest-growing real estate markets in America were Las Vegas, Nevada, for small cities, and Phoenix, Arizona, for large-city growth. She only heard about California and Connecticut because she only knows what is in the news, and most investment news is about paper assets. She does not

know what professional real estate investors know, yet she gives advice as if she does know.

As rich dad often said, “Never ask an insurance salesperson if you should buy insurance.” Most financial planners are primarily insurance salespeople, not investors. Insurance is a very important investment product, but it is not the only investment product.

How to Find a Great Investment

As with any investment, I am often asked, “How do I find a good real estate investment?” My answer is, “You must train your brain to see what others cannot see.”

The next question is, “How do I do that?”

The answer is, “The same way any shopper finds a good deal.” At the start of this book I wrote about people who focused on saving by driving from store to store shopping for food bargains. The same is true for real estate, or for any investment. You need to become a professional shopper.

100:10:3:1

A great strategy for shopping for property is the 100:10:3:1 method. That means you should analyze 100 properties, make offers on ten of them, have three sellers say yes, and then buy one. In other words, it takes shopping and looking at over 100 properties to buy one property.

Kiss Many Frogs

As you know, rich dad loved fairy tales as teaching tools. He loved the story of the princess who had to kiss a frog in order to find her handsome prince. Rich dad often said, “You have to kiss a lot of frogs in order to know which one is a prince.” In investing, and in many aspects of life, that statement holds true. Today, I am always amazed

when I hear that someone took a job at age 25 and stayed there all their life. I wonder how they know the difference between a good job and a bad job. When I meet a person who decided to be a doctor at age 15, I wonder if they really used reality in making their decision. The same is true in relationships and in investing.

Rich dad said, “Most people avoid kissing frogs, and end up marrying them instead.” What rich dad meant was that when it comes to investing and their future, most people do not take enough time kissing. Instead of taking the time to look for good investments, most people act on impulse, hot tips, or let a friend or relative manage their financial investments.

Marrying a Toad

A friend of mine recently came to me and said, “I took your advice and invested in a rental property.”

Curious, I asked, “What did you buy?”

“I bought a nice condo near the beach in San Diego.”

“How many properties did you look at?” I asked.

“Two,” she said. “The broker showed me two units in the same complex, and I bought one.”

About a year later, I asked how her real estate investment was doing. “I’m losing about \$460 a month,” she replied.

“Why so much?”

“One reason is because the board that runs the homeowners association raised the monthly maintenance fee. The other reason is that I did not know how much rent per month I could collect. It was a lot lower than I thought,” she said a little sheepishly. “I’ve tried to sell it, but I found out that I paid \$25,000 more than the market is willing to pay. I don’t want to lose money every month, but I can’t afford to lose \$25,000 by selling it for less than I paid for it.”

As rich dad would say, “That is the price of not kissing enough frogs. If you don’t kiss enough frogs, you can wind up marrying a toad.” Because my friend did not do her homework, she wound up marrying a toad, an expensive one.

How do you evaluate a good real estate investment? Experience is the greatest teacher. Outlined below are ten very important lessons my friends and I have learned along the way. In addition, I will outline several other resources which may be helpful to you.

The Price of Not Going Shopping

When people ask me how I learned to find a great real estate investment, I simply say, “You need to go shopping.”

I practice the 100:10:3:1 formula for finding a great investment. Over the years, Kim and I have looked at and analyzed literally thousands of properties. When we are asked, “How did you learn so much about real estate?” we simply say, “We have looked at thousands and thousands of investment opportunities.” We have also made hundreds of offers to buy property, many offers that were laughed at. The point is, with each property we looked at and each offer we made, our knowledge and experience about the property market and human nature grew.

When we are asked, “What do you do when you don’t have any money?” the answer is the same, “Go shopping.” In my investment seminars, I often say, “When you go to a shopping center, no one asks you if you have any money. The retailers want you to shop and browse. The same is true with most investments. Shopping, asking questions, and analyzing deals is how I got my education. What I learned about investing cannot be found in a book. Just as you cannot learn to play golf from a book, you cannot train your brain to see investments others cannot see from a book. You must get out and go shopping.”

Hindsight Is 20/20

My friend who married the toad could have learned a few valuable lessons if she hadn’t decided to say, “Real estate is a lousy investment. You can’t make any money in real estate.” When I asked her what she had learned, she angrily said, “I should never have listened to you. The market has changed. You cannot make money in real estate today.”

There is a saying that goes, “Hindsight is 20/20.” The problem is, you do have to turn around and look behind you. My friend did not

look and learn. Even after I complimented her for taking action, she was still convinced that real estate is a lousy investment, which means her foray into real estate is extra-expensive because she failed to learn from her priceless mistakes—mistakes and lessons that could have made her smarter and richer in the future. That is the price for having a context that says, “Mistakes are bad.” If she had a context that said, “I’ve taken action, I’ve made some mistakes, and now I can learn from those mistakes,” she would be a much richer person. People who must be perfect, or cannot allow themselves to make mistakes, are often people without much 20/20 vision. They are the people who make the biggest mistake, which is to fail to learn from their mistakes.

The lessons my friend overlooked from this one simple investment are:

- Look at more properties.
- Take your time. There is more than one good deal. Too many people buy because they believe the deal they have found is the only deal in the world.
- Analyze the rental market as well as the purchase market.
- Talk to more than one real estate salesperson.
- Be careful of investing in condominiums. Condominiums most often have a board of directors made up of homeowners. Homeowners and investors do not always see eye to eye. Most homeowners want to keep their property nice, so they spend excessively on maintenance. While it is good to keep up your property, an investor loses control over that very important area of investing, the area of expense control.
- If expenses are out of control, that also affects the future sales price of the property.
- Never buy expecting the price of the property to go up. The property should be a good investment in a good economy and in a bad economy. As rich dad always said, “Your profit is made when you buy, not when you sell.”

- Don't invest emotionally. When you buy your own personal investment, it is okay to get emotional. When you buy a property for investment purposes, emotions can blind you. My friend was more excited about the beach being near the property than by the return on investment. She looked at the beach rather than the financial statements.
- There was not much she could do to improve the property. One of the ways you can make a lot of money is by having control over changing, modifying, or improving the value of the property, something you cannot do with stocks or mutual funds. Many times, just adding a garage or an extra room can greatly multiply your return on investment.
- She did not learn from this experience. Although a relatively expensive lesson, she could have turned the cost of this lesson into millions of dollars if she had been willing to be humble, learn, and try again. Instead, she would rather say, "You can't make money in real estate."

Mistakes Improve Your Vision

By investing the time to analyze thousands of investments, my vision slowly improved. Each time I made an offer to buy a property, I learned something, even if the offers were laughed at or flatly rejected. Each time I arranged financing with a banker, I learned something. Each time I bought a property, I learned something new and valuable, even if I lost money on the property. Today, the accumulation of all those lessons, good and bad, is the education and experience that make me rich and allow my wife and me to make more and more money in real estate.

Great investments are seen in your mind's eye, and nowhere else. In the real world, there aren't "For Sale" signs that say, "Here is a great deal." All the signs say is, "For Sale." It is your job to train your brain to see a great deal and to also negotiate a great deal. That takes dedication and practice.

What Everyone Can Do

As promised, I stated that everyone can do what it takes to become rich. The thing that everyone can do is go shopping for real estate. If you and a partner will agree to look at 5, 10, 20, or 25 properties a week, even if you have no money, I promise you that your vision will improve. After analyzing 100 deals, I know that you will find one or two investments that will excite you. When you are excited about becoming rich, your brain shifts into another context and you begin to seek new content that can answer the question, “How do I raise the money so I can get rich?”

Everyone can do this, even if they do not have any money. This is all Kim and I do on a regular basis. Now that we have a little more experience, the process of analyzing properties goes faster. In the best and worst of economies, we have always managed to find a great deal. We don't always buy them or put offers on them, but the process of looking for investments and analyzing them keeps our minds sharp and it keeps us in touch with the abundance of opportunities to be found, if only you would just go looking for them.

One last point. Investing in real estate, or any investment product for that matter, requires more than buying one thing and expecting that one product to make you rich. In real estate, if Kim and I have a plan to buy ten properties, that means we need to look at 1,000 properties. Of those ten properties, we expect two to be great investments and two to be dogs, investments that we could lose money on. These are generally sold immediately. That leaves six investments that we either have to improve or sell. Regardless if it is real estate, stocks, mutual funds, or building businesses, the ratios tend to remain the same. A professional investor knows this.

Rewards That Others Missed

Every fisherman has a story of “the one that got away.” Every real estate investor has a story of the one he or she found, the one that others missed. The following are two stories that are written for the purpose of inspiring you to begin looking at your first 100 investments.

Turning Problems into Opportunities

Story number one: A few years ago, Kim and I were traveling in the mountains, a few hours away from our home. We had decided to take a few days off and enjoy the peace and solitude of the forests. As we always do, we stopped at a real estate office and looked at what they had for sale. The agent showed us the usual overpriced properties that we passed on. Then in her sales book, she had a run-down little cabin with fifteen acres of land listed at only \$43,000. I asked her why it was so underpriced.

Her reply was, “It has a water problem.”

“What kind of water problem?” I asked.

“The well does not always provide enough water. It is intermittent. That is why it has been for sale for years. Everyone loves it, but it just doesn’t have enough water.”

“Take me to see it,” I said.

“Oh, you won’t like it,” she replied, “but I will take you there.”

About half an hour later, we were walking this lovely piece of forested land with a lovely old cabin sitting on it. “This is the problem,” the real estate agent said as she took us to the well. “This well and land does not have enough water.”

Nodding, I said, “Yes, this water problem is serious.”

The next day, I went back to the property with a well expert from the area. He looked at the well and said, “This problem can easily be solved. The well produces enough water, but it produces it at different times. All you need to do is add an extra holding tank and the problem is solved.”

“How much is a holding tank?” I asked.

“A 3,000-gallon tank will cost you \$2,300 installed,” he said.

Nodding, I went back to the real estate office and made my offer. “I’ll offer the seller \$24,000 for the property.”

“That’s really low,” she said, “even with a water problem.”

“That is my offer,” I replied. “By the way, when was the last time an offer was presented?”

“It’s been a long time,” she said. “I believe it’s been more than a year.”

That night, the agent called and said, “I can’t believe it. Your offer has been accepted. I can’t believe they accepted your price and your terms.”

“Thanks,” is all I said. In my head and heart, I was jumping up and down with excitement. The seller had not had an offer in more than a year and was sick and tired of paying to make repairs to the house. The seller had accepted my price, my down payment of only \$2,000, and the terms of only paying him the balance in a year. In other words, I got the property for a small down payment and no payments for a year.

The next morning, I met with the well expert and asked him to install two 3,000-gallon tanks. The water problem was solved for less than \$5,000. A month later, Kim and I went to stay in our new cabin, with lots of fresh water. As we left town, we put the property up for sale. We listed it for \$66,000 and it was sold two weeks later. The problem was solved, and the property is in the hands of a young couple who now have their dream home in the mountains.

A Change of Context

Story number two: I have a friend, Jeff, who is a landscape architect. He told me a great real estate investment story that I will pass on to you.

Jeff said, “About a year ago, a woman called and said, ‘I have 40 acres of land I want you to look at.’ She had purchased this piece of land for \$275,000 on an option. The small town the land was in was against any kind of development.”

“Why did she call you?” I asked.

“She wanted me to draw a vision of the future for the town and the property. She had also hired a former city planner to be part of the team.”

“So what happened?” I asked.

“Well, we did our drawings, wrote our proposal for the future, and went before the city council. We were turned down three times,” he said.

“Why?” I asked.

“The city council had concerns and kept asking us to revise our drawings and our proposal.”

“They kept asking you back?”

“More or less. In reality, we kept asking for their concerns and we kept coming back with plans and drawings that addressed their concerns. Finally, the council approved our plan and then rezoned the property from agriculture to commercial.”

“They rezoned your property?” I asked. “From agriculture to commercial? How much did that rezoning increase the value of the property?” I asked.

“After her plans were approved, she sold the property to a national insurance company for \$6.5 million. They’re going to put a large hotel on the property.”

“How long did the process take?” I asked.

“A total of nine months,” said Jeff. “She paid the city planner and me \$25,000 each, as agreed.”

“So she spent \$50,000 and made nearly \$6 million?” I gasped.

My friend Jeff smiled and nodded his head. “That property had sat there for years. Everyone looked at it and said it was too expensive. But she could see what we could not see, and she professionally went about showing all of us what was right beneath our noses.”

“Are you upset that you only made \$25,000?” I asked.

“No. It was a fair return for the work I put in. Besides, I agreed to that amount and she took the risk. If we had not had the property rezoned, she would have lost money. But what I will forever be grateful for is that she gave me vision. She taught me to see what I could never have seen. She taught me to see the abundance that sits in front of each and every one of us, if we will only invest the time to train our brain and eyes to see.”

Congratulating him for his new reality, I said, “You gained something much more valuable than your \$25,000 fee, didn’t you?”

Jeff said, nodding, “Something much more valuable. The city planner feels ripped off, but I don’t. I’ve always heard you talk about your rich dad’s context and reality, but those words never made much sense to me. Now they do. I realized that, from my context, I thought in terms of thousands of dollars. I realized that she is richer because

her context is bigger and she thinks in terms of millions. I also realized that I still think from the S quadrant, and she thinks from the B and I quadrants. Even if she had not paid me anything, what I learned is priceless because it has changed my life forever. She has taught me how to be a rich man.”

Rezoning a piece of real estate is simply a change of context. The transition from poor to rich is also simply a change of context. Everyone can do it, if they want to.

Where to Keep Your Money

Most rich people either made their money in real estate, or they held much of their wealth in real estate after they made it. Rich dad did too. Although he made a lot of money in his businesses and from playing the stock market, he parked his wealth in real estate. There are many reasons the rich do this:

- Tax laws encourage the rich to invest in real estate.
- There is greater leverage in real estate. A rich person can become even richer by investing with their banker's money.
- The income from real estate is passive income, the least taxed of all incomes. If there are capital gains from the sale of a property, the capital gains can be deferred for years, allowing the investor to reinvest with what normally would have been the government's tax money.
- Real estate gives the investor much more hands-on control over their assets.
- It is a much safer place to park money, if the investor knows how to manage money and property.

The average investor is at tremendous risk by holding the bulk of their wealth in paper assets. As stated all throughout this book, what happens if a retiree's paper portfolio is wiped out in a market crash? Is it all lost?

The answer is no, not if the person knows how to protect their paper assets from loss in a bear market. If you only want to hold your wealth in paper assets, however, the following chapter is very important.

Chapter Seventeen

THE LEVERAGE OF PAPER ASSETS

How to Invest with Less Risk and More Returns

A friend of mine told me he lost over a million dollars in the market. He now has to go back to work. When I asked him why he lost so much, he said, “What else could I do? I did as my advisors advised me to do, which was to ‘buy the dips.’ So I bought the dips, and I kept losing. Now that I have lost over a million dollars, those same advisors are telling me to sit tight and invest for the long term. I don’t have many years left to wait.”

Investing does not have to be risky. As rich dad said, “While there is risk, investing does not have to be risky.” Nor do you have to lose if the market changes direction. In fact, if the market starts to go down, many sophisticated investors make a lot of money. The following are my rich dad’s lessons on how to invest in the stock market and make money, regardless if the market is going up or going down.

Keep an Open Context

It is in this section of the book that an open mind and a flexible context are important. If you hear your context saying, “That’s impossible,” or “You can’t do that,” or “That’s illegal,” or “That’s too risky,” or “That would be too hard for me to learn,” simply remind yourself to keep your context open so you can hear the content that is being delivered.

Investing with Insurance in Paper Assets

“Would you drive a car without insurance?” rich dad asked me.

“No,” I replied. “That would be foolish. Why do you ask me this question?”

Rich dad smiled and asked, “Would you invest without insurance?”

“No,” I replied. “But I’m investing in real estate. I always insure my property from losses. In fact, the bank requires I carry insurance on all property I own.”

“Good answer,” rich dad replied.

“Why are you asking me these questions about insurance?” I asked again.

“Because it’s time for you to learn how to invest in paper assets, such as stocks, bonds, and mutual funds.”

“You can invest with insurance in paper assets?” I asked.

“You mean you can insure against loss, or minimize your losses?”

Rich dad nodded.

“So investing in paper assets doesn’t have to be risky?” I asked.

“No, it doesn’t,” said rich dad. “Investing doesn’t have to be risky at all, if you know what you’re doing.”

“But isn’t investing risky for the average paper-asset investor?” I asked. “Isn’t the average investor investing without insurance?”

Rich dad again nodded, looking me in the eye, and said, “That’s why I’m teaching you this. I don’t want you to be an average investor. The average investor is interested in averages, which is why he or she is average. That is why there is a Dow Jones Industrial Average. Averages are for average people. That is why there are so many people who listen to their financial advisor and get excited when he or she says, ‘The market has averaged a 12-percent return for 40 years,’ or ‘This mutual fund has an average return of 16 percent over the past five years.’ Average investors like averages.”

“What is wrong with averages?” I asked.

“Nothing really,” said rich dad. “But if you want to be rich, you need to be far better than average.”

“So why do averages prevent you from being rich?” I asked.

“Because averages are the summation of wins and losses,” said rich dad.

“For example, while it is true that the stock market has gone up on average over the past 40 years, in reality, it has gone up and down.”

“So what?” I said. “Don’t most people know that?”

“Yes, most people do know that,” said rich dad. “But why lose when you don’t have to? Average investors make money when the market goes up, and lose money when the market goes down. That is why they are average. What would your averages be like if you made money when the market went up and made money when the market went down?”

“That would be good,” I replied. “But what do sophisticated investors do?” I asked. “Don’t they use averages?”

“Yes, they do use averages, but they use different averages. The point I am making here is that the average investor only knows how to make money in an up market. That’s why they’re happy to hear that the market has generally averaged up over the years. The sophisticated investor is not looking for average information. The sophisticated investor does not really care if the market averages up or down because they make money in either market condition.”

“You mean they never lose?” I asked.

“No. I did not say that. All investors lose at one time or another. What I mean is that the sophisticated investor is *capable* of winning in up markets and down markets. The average investor only has a strategy for winning in an up market and takes a beating in a down market. Sophisticated investors don’t like to take the financial beatings the average investor takes. The sophisticated investor is not always right and is capable of losing. The difference is, because of their training, skills, tools, and strategies, their losses are generally far less and their gains are far greater than the average investor.”

Over the years, it seemed strange to me that people would invest their hard-earned money, but not invest much time in learning how to invest. After all my years with rich dad, I could never understand why so many people would rather work hard all their lives than learn to have their money work hard for them. And when they did invest their hard-earned money in the stock market, they were willing to risk it without any insurance from losses. I thought about my poor dad, who worked hard and always said, “Investing is risky.” He said that without ever doing any research or taking any classes on investing. Rich dad had taught me how to invest safely with real estate, and now he was teaching me how to invest safely in paper assets.

“So investing in the stock market does not have to be risky?” I asked for further clarification.

“No. Absolutely not,” said rich dad.

“Yet millions of people invest without protection from loss and without much education. That makes them risky investors.”

“Extremely risky,” said rich dad. “That is why I asked if your real estate investments had insurance. I knew they did because your banker requires it. But the average person in the stock market has no insurance. Millions and millions of people are investing for their future retirement without any catastrophic loss insurance. That is risky. Very risky.”

“So why don’t financial advisors, stockbrokers, and mutual-fund salespeople tell them?” I asked.

“I don’t know,” said rich dad. “I’ve often wondered that myself. I think the reason is because most financial advisors, stockbrokers, and mutual-fund advisors are themselves not really investors, much less sophisticated investors. Most financial-services people are salaried or commissioned salespeople, working for a paycheck just as their clients are working for paychecks.”

“And they give advice to other people, average investors,” I said, “people just like themselves.”

Rich dad nodded. “A sophisticated investor can make money in an up market or a down market. The average investor occasionally makes money in an up market and loses money in a down market. Then after

losing a lot of money, the average investor calls his or her advisor and asks, ‘What do I do now?’”

“And what does their broker say?” I asked.

“They often say, ‘Sit tight. The market will come back in a few months.’ Or they say, ‘Buy more and dollar-cost-average down.’”

“You wouldn’t do that,” I said.

“No,” said rich dad. “I would not do that. But the average investor does.”

“You’re telling me I can invest with less risk and make more money in the stock market.”

“That is correct,” said rich dad. “All you have to do is not be an average investor.”

Words That Make You Rich

In *Rich Dad’s Guide to Investing*, I wrote that the poor and middle class were primarily invested in mutual funds.

I then wrote that the rich preferred hedge funds. Again, the power of words comes into play. The very word *hedge* is an important word for the sophisticated investor. There is a world of difference between a mutual fund and a hedge fund. Most of us have heard the phrase, “hedge our bets.” The term *hedge* in this context is another word for *insurance*. Just as a gardener might grow a hedge to protect their garden from grazing animals, a sophisticated investor will put up a hedge to protect their assets.

Simply put, the word *hedge* in this context means “protection from loss.” Just as you would or should not drive a car without insurance, you as an investor should not invest without insurance or a hedge against catastrophic loss. As common sense as this is, the average investor invests *naked*, which is another term used by sophisticated investors. *Naked* in this instance does not refer to the human body. It refers to an asset that is exposed without some form of protection from losses. A sophisticated investor does not like to invest naked, which means “being exposed to unnecessary risk.” A sophisticated investor will invest with his or her financial positions covered. Just as

an insurance salesperson would ask, “Are you covered?” sophisticated investors will also ask themselves the same question. In general, the average investor and mutual-fund investor is investing naked because they are not covered against losses.

Not Protecting Your Assets Is Risky

Some time ago, I was one of the keynote speakers at a conference for investors. The main speaker was a very famous television personality who reports on one of the bigger financial television networks. Her talk was informative, and I learned a lot. Yet I found it interesting to hear her say that she only invests in mutual funds.

Suddenly, a participant raised his hand and said, “Don’t you feel guilty that you are responsible for the billions of dollars your viewers have lost in the stock market?” His tone was angry, and as he spoke, I could sense that many investors were in agreement with him. It seemed that many investors had come to this conference, not to learn about what to invest their money in, but to find out what happened to the money they had lost.

“Why should I feel guilty?” she replied. “My job is to give you information, and I do give you a lot of information. I did not give you investment advice. I only gave you market information. Why do you say I should feel guilty?”

“Because you were a cheerleader during this bull-market boom,” said the angry participant. “Because of you, I kept investing and now I’ve lost everything.”

“I wasn’t cheerleading,” she said. “I was just giving you information in a good market, just as I am giving you information in a bad market today.”

For the next five minutes, the anger in the room flared. Some people agreed with the angry participant, and others were taking the side of the female reporter. Finally things calmed down. The television reporter asked for more questions. A hand shot up and asked her, “Why didn’t you tell your audience about minimizing their risk with options?” he asked. This participant was not angry. He sounded more curious and wanted to let the audience know that they could minimize their risk exposure by using options.

“Options?” she said. “Why would I tell them about options?”

“As a hedge against loss in a bear market,” he said.

“Oh, I would never do that,” she replied. “Options are too risky. Any other questions?” she asked, signaling the person who asked about options to sit down.

I could not believe what I was hearing. This TV personality is one of the most respected people in financial journalism. She influences millions of people’s lives. Many people look to her for investment advice, and now she was saying, “Options are risky.” To me, not protecting your assets is risky. To me, being financially ignorant is risky. Knowing how to use options to protect your paper assets is easy and not that hard to do. In fact, if you have a good stockbroker, the process is pretty easy. A kid could do it. All you have to do is learn the definitions of a few new words, find a good broker, and start small to gain some experience. Instead, I watched many of the thousand people in the room nod, agreeing that investing with options is risky.

As I sat there, watching her faithful followers nodding with her in agreement that options are risky, my mind drifted back to rich dad’s earlier lessons on investing in paper assets. I could hear him saying, “Hundreds of years ago in ancient Japan, Japanese farmers began using options to protect the price of their rice crops.”

“Hundreds of years ago?” I asked. “Hundreds of years ago they were using options as hedges against loss?”

Rich dad nodded, “Yes, hundreds of years ago. Beginning in the Agrarian Age, smart businesspeople have been using options to protect their businesses from losses. Smart businesspeople continue to do so today.”

My mind returned to the room in Chicago where this TV journalist was speaking. I wondered to myself, “If smart businesspeople have been using options for years, why is this very influential person misinforming her viewers?” I then asked myself, “What is more risky—buying a stock or mutual fund and watching it drop 40 to 60 percent, even to 90 percent in value, and not protecting yourself? My banker requires me to have insurance on my real estate. Why doesn’t

the paper-asset industry require all investors to buy insurance on their paper assets, assets that millions of people are counting on for their old age?” To this day, I do not have an answer to those questions.

As stated earlier, if your house burns down, it can be replaced in less than a year and paid for by your insurance company. But if your retirement plan crashes with the stock market after you have retired, what will you do then? Buy, hold, and pray again? Hope for another bull market? So I continue to wonder why bankers require investors to invest with insurance, yet the paper-asset industry doesn't. I continue to wonder why professional investors invest with insurance, yet the average investor, who is counting on the stock market for their financial security once their working days are over, invests naked and uncovered.

Vocabulary of Insurance

If you want to retire young and retire rich, it is important that you invest some time learning how to protect your assets, especially if you plan on holding your wealth in paper assets. You do that by learning and understanding what my rich dad called “the language of a sophisticated investor.” I call it the vocabulary of insurance.

Before getting into those words, I believe it's important to review a few other words. The following are other words that need to be defined before getting into the words of insurance:

- **Investor vs. Trader**

Most people who think they are investors are really traders. Just as most people think their liabilities are assets, many investors are traders rather than investors. One more point. Many people who think they are investors are really savers. That is why most people who have 401(k) retirement plans, or IRA, Keogh plans, often say, “I am saving for retirement.” A saver simply puts money into an account and does nothing else. An investor is a person who actively manages his or her own portfolio or account.

So what is the difference between an investor and a trader? An investor buys to hold. A trader buys to sell. When a person says, “I bought this stock or piece of real estate because I know the price is going up,” I know this person is really a trader. In other words, they are buying only to trade, not to use. That is why I say most people are traders rather than investors. A trader generally wants the price of their asset to move up so they can sell it for a profit. An investor wants the investment to return their money as quickly as possible, all the while holding on to the asset. Rich dad said, “An investor buys a cow for milk and for calves. A trader buys a cow to slaughter.”

If you want to be successful in the world of investing, regardless if it is in paper assets, businesses, or real estate, you need to be both an investor and a trader. An investor knows what to analyze and how to manage investments. A trader knows how and when to buy and sell. An investor usually wants cash flow from the asset. The trader wants to realize a capital gain from buying low and selling high.

- **Fundamental investor vs. Technical investor**

A fundamental investor looks at the financial statement of a company or property. A fundamental investor is often concerned with earnings, the management team, and the long-term potential of the business. A pure technical investor does not care about the company’s fundamentals. They don’t even care if the company is profitable or well run. The technical investor only cares about the market’s sentiment at that moment. While a fundamental investor looks at financial statements, a technical investor would rather look at historic charts that reflect the market’s sentiment. (Later in this chapter there will be some charts to look at.)

A technical investor can be a good technical investor and lose money simply because he lacks proper fundamentals. Many “day traders” eventually lose or go broke because they have poor personal money-management fundamentals.

The same is true for fundamental investors. Many fundamental investors wonder why they do not make money, or lose money, even though they are investing in good, solid, profitable companies. Many fundamental investors lose, even though they invest with good fundamentals, because they lack the knowledge of technical trading.

This reality is why rich dad wanted his son and me to be qualified, or sophisticated, investors with both good fundamental skills and good technical skills.

- **Average investor vs. Sophisticated investor**

The average investor barely knows what a financial statement is. The average investor is better off investing for the long term, de-worsifying their portfolio, investing in mutual funds, and then buying, holding, and praying.

The sophisticated investor is someone who has money and understands both fundamental investment techniques as well as technical trading techniques.

Words That Help You Win in Any Market

If you want to retire young and retire rich, protecting or insuring your assets from catastrophic loss is vital. The average investor in paper assets never feels secure. That is why the average investor feels that investing is risky and, for them, it is. Because they feel insecure, they entrust their money to a fund manager, or their brother who is a stockbroker, or a financial planner, hoping and praying that this person will protect them from market disasters. The problem is, the average mutual-fund manager or stockbroker cannot protect them

from a crash, nor can they help them make money in a flat market that is moving sideways.

The way to win and protect your assets in any market is to learn and truly understand the vocabulary of the fundamental and technical investor, especially in paper assets. It is easy to do if you will invest a little time. Just as a banker will ask to see your financial statement before giving you a loan (which is fundamental) and require you to have property, title, and mortgage insurance on a real estate investment (which is to insure the technical or catastrophic risk), you too should require the same of yourself if you want to invest in paper assets. The way you do that is to begin understanding the words of insurance when investing in paper assets. A few of these words are:

1. Trends
2. Moving averages
3. Stop orders
4. Call options
5. Put options
6. Straddles or collars
7. Shorts

The average investor may have heard some of these terms but probably does not understand them or has never used them. Many average investors simply discount these very important words by saying, “It’s too risky.” Saying something is risky may also be saying, “I’m just too lazy to study the subject.”

What You Must Know

If you want to retain your wealth in paper assets, you must know how to insure your paper assets against market crashes. The following is a sampling of what you must know. Again, it begins with words.

1. Trends

Every sophisticated investor must understand trends. There is a saying that all sophisticated investors say and that is, “The trend is your friend.” Please remember and use that saying.

So what is a trend? The best way to explain it is by telling you a story. When I was a teenager growing up in Hawaii, most of my friends were training to be big wave surfers. Every winter when the large swells rolled in from the north, we would enter the water to prove our courage and improve our skills. One year, a new student arrived from the mainland. He was a pretty good surfer in the small summer swells. When winter arrived, he ventured into the water thinking nothing had changed except the height of the waves. On his first ride on a large wave, he lost control and wiped out at the bottom of the wave. The huge wave curled over him and we did not see him for a long time. Finally, he popped up some distance from us, coughing and swimming as hard as he could. Those of us who were surfing with him could not believe what we saw. We could not believe he was trying to swim against the current. One of us finally said, “Oh no. I can’t believe he’s trying to swim against the current. No one is that strong a swimmer.”

When large waves hit the shore, all that water must find a way back out to sea. It is this movement of water out to sea that causes a rip current. It is like a river of water moving parallel to the beach and then out to sea. For those of us raised in the islands, we know to simply relax and let the current take us out to deeper water. Once the current has dissipated, we know to simply swim or body surf in through a safer channel. This new friend did not know how powerful a rip current could be. Instead of going with the flow, he tried to fight it, became exhausted, and nearly drowned. The same thing happens with new investors.

Investment cycles come in waves, as do ocean waves. They also change with the seasons. Surfers learn to respect the change in the power of the waves and water with each change of season. Sophisticated investors do the same thing. That is why sophisticated investors say, “The trend is your friend.” Just as experienced surfers learn not to fight the waves or currents, sophisticated investors go with the trends, changing strategies when appropriate, or standing on the sideline if things are too choppy. Average investors continue to buy and hold, buy the dips, or call and ask their brokers, “Is this the bottom?” as they get pounded.

Three Basic Trends

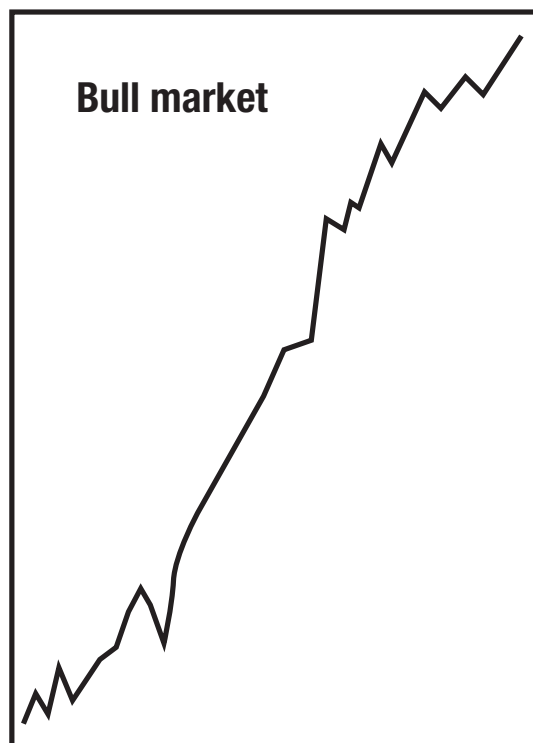
There are three basic trends that affect paper assets as well as all other investment products. One is an up-trending market, often called a bull market. The second trend is a market heading down, and that is called a bear market. The third trend is a sideways-trending market, which is a market that is not going up and not going down. The sophisticated investor uses different strategies for the different trends. The average investor has only one strategy and tries to use it on three different trends. That is why they ultimately lose. The idea of investing for the long term is basically a good idea, but investing for the long term with only one strategy is a loser’s way of investing.

Even animals are aware that there are changes of seasons. When the first chills of winter arrive with the fall season, most animals know they need to prepare for the change that winter brings. The same is true for sophisticated investors. It is only the average investor who believes the words of their financial advisors, “Invest for the long term. Buy and hold even though the market goes down.” If animals are smart enough to know that things change, why aren’t humans?

2. Moving Averages

Trends are caused by buyers and sellers. If there are more buyers, then the trend is up. If there are more sellers, then the trend is down. An average investor takes comfort when their financial advisor says to him, “The market has gone up over the last 40 years.” The sophisticated investor is not watching a long-term average, but a moving average. Just as a surfer watches the daily rise and fall of the tides, the sophisticated investor watches the ebb and flow of money in and out of the market. The sophisticated investor watches these charts because these charts tell them when to change strategy.

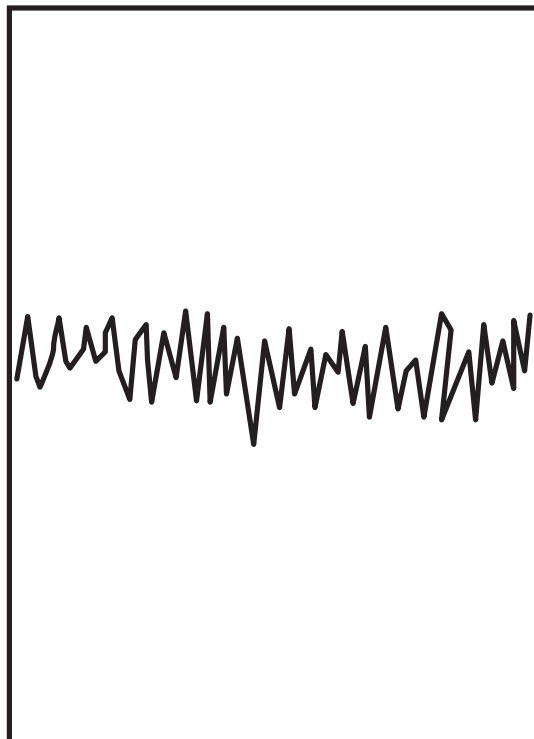
Fundamental investors look at financial statements and management teams. A technical investor looks at charts such as the following moving-average charts.



Point one is an up trend.



Point two is a down trend.



Point three is a sideways-moving trend.

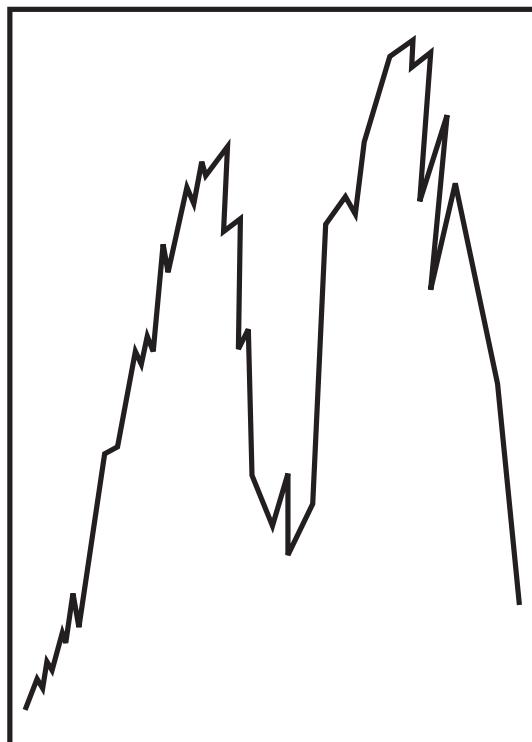
How Do You Know if the Trend Is Changing?

Does the market give you signs that it is about to change? The answer is yes. It is not an exact science, but it sure beats guessing, going on hunches, and investing on hot tips.

Most of us know that meteorologists can predict a hurricane. Although predicting the weather is not an exact science, nonetheless today we are given ample warning if a large storm is brewing. A technical trader can do almost the same thing. That means, while the average investor is holding and praying the market stays up, the professional investors are selling before the storm hits.

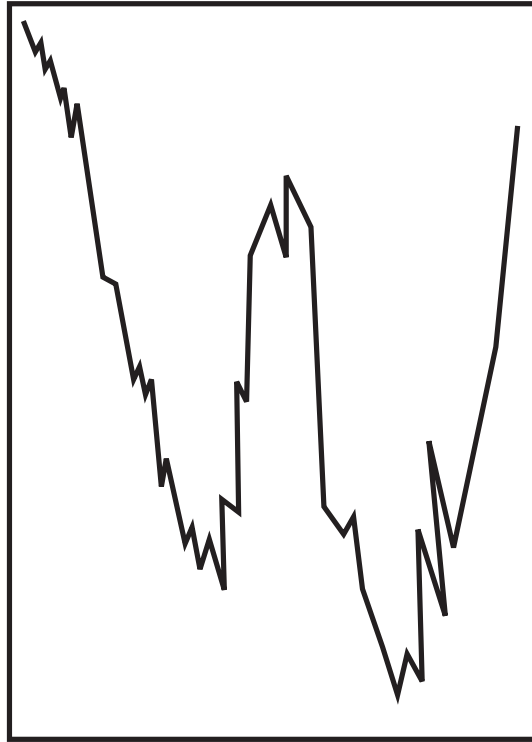
There are many signs a technical trader looks for. The following charts show one of the telltale patterns a technical investor watches for.

Technical traders call this chart pattern a double top. When technical investors see this pattern, they become cautious and begin to change investment strategies, or get out of the market entirely. If you notice, the price of the stock tumbled down sharply right after a double top.



Double Top

A similar pattern occurs at the bottom of the market. This pattern is called a double bottom. When technical investors see this pattern emerging, they again change strategies or begin to buy stocks while average investors have given up hope and are selling.



Double Bottom

There are many different types of patterns that technical investors look for. Nor are these patterns absolutes or guarantees. Yet they do give the sophisticated investor a significant advantage over the average investor who is clueless about these market signals. One big advantage a technical investor has is that they have the time to protect their asset prices with insurance. The average investor sits there fully exposed, uninsured, and unprotected. Millions of investors have their financial future sitting at risk, hoping and praying their financial advisor's advice will protect them from the storms that return on a regular basis to any financial market.

Every time I hear the so-called financial experts advising, "Invest for the long term. Don't panic. Just sit tight. Always remember that the market on average has gone up over the past 40 years," I cringe.

When I hear these experts saying such words, I shake my head and feel badly for those millions of people who listen to such experts and entrust their financial future to them. Investing does not have to be risky, if you know what you're doing.

Tools of the Sophisticated Investor

The average investor only has two choices once the market changes directions. They can hold and lose, or sell and lose. A sophisticated investor has choices other than buying and losing or selling and losing.

The following are some of the mental tools that sophisticated investors use to protect their assets and make money in up and down markets. These are the tools that help them make money and protect their money when the market goes down.

3. Stop Orders

A sophisticated investor may call their broker and request a stop order if he or she suspects the price of their stock may go down, especially if the market trend is down. The average investor does nothing. If the price of their stock goes down, they just watch it go down. Not knowing what to do, their “buy, hold, and pray” strategy turns to a “buy, hold, and lose” strategy.

This is how a stop order works. Let's say your stock is at \$50 today, and the charts tell you that the market is trending down. All you have to do is call your broker and put in a stop order at, let's say, \$48. If the stock price begins to drop to, let's say, \$30 because more sellers have entered the market, your stop order becomes a market order and the stock is sold at \$48. Your losses are limited to \$2. The average investor would lose \$18 and still be clinging to the stock.

Although stop orders are often used as “insurance” by investors, they are not always used by very sophisticated investors. Often the share prices tend to gap on the opening transaction. Sophisticated investors already have the news and

have decided whether to sell their shares or cancel the stop limit order.

The following are two reasons why stop orders might not succeed in a falling or volatile market:

- The first reason a professional investor might not use a stop order is because the trend is heading down too fast. Sometimes in a rapidly falling market, the stop order can be passed by without being executed. For example, let's say the price of the stock is at \$50. Since the trend is down, the investor puts in a stop order at \$48. That means if the price drops to \$48, the stock is automatically sold. But if the market should drop rapidly, it is possible that the \$48 price can be "gapped" or skipped. That's because so many people are selling that there are no buyers at \$48, so the stop is passed, or gapped. If the price stops at \$40 because a few buyers step forward, the best the investor can do is to hold on at \$40 or sell at \$40. Their stop was passed over.
- Another reason a stop may not be used by a professional investor is because they are not certain of the trend of the market. For example, let's say again that the stock is at \$50 and a stop is put in at \$48. As expected, the stock drops to \$47, so the stock is sold at \$48. The investor feels relieved until he or she realizes the market has suddenly trended up and the price of their stock is now \$65. Not only have they lost \$2 a share. They have lost out on a \$17 move up.

Making a Killing or Being Killed

We have often heard someone say, "I am making a killing in the market." During the dotcom boom and bust, there were many people who went into the mania with the idea of making a killing. Instead, they were the ones that were killed. Many people laugh and chuckle at such mania, saying, "How could people have been so foolish?" What

many people do not hear about are the people that did make a killing on the way up and on the way down.

A friend of mine made a fortune buying early in the dotcom IPO craze. He “made a killing,” as they say. He also made a killing on the way down. Just before the top in late 1999, he sold every share of dotcom stock he owned. Then as the top neared, he began selectively shorting (explained below) some of the same dotcom company stocks that made him rich on the way up. Three of those companies fell so far that they went into bankruptcy. So he made a fortune on the way up, and he made an even bigger fortune on the way down. Why? The reason he made more of a fortune on the way down was because he did not use any of his own money and he has not paid taxes on the money he got from shorting the stocks of companies that went bankrupt.

When I asked him why, he said, “I shorted shares at the top, which means I borrowed them. Then the companies went down and went bankrupt. I have yet to pay taxes because there has been no closing transaction, so I owe no tax. All I did was sell shares of stock I did not own or I borrowed, and now I await the time when I can buy them back and return them to the person I borrowed them from.” Today, he has nearly \$875,000 in money he made by shorting a few stocks, sitting in a tax-free municipal bond fund, collecting tax-free interest from money he received by selling stocks he did not own. He says, “I’m waiting for the opportunity to buy those shares back, but until then, I collect the interest on tax-free capital-gains money.”

If you do not understand this transaction, do not worry. Most people do not. If you would like to understand it better, contact a stockbroker or your accountant and ask them if they can better explain it to you.

The point is, if you want to make a killing on the way up, you also need to know how to make a killing on the way down. If you don’t, then you are often the one being killed by the people making a killing.

There is a lot more to learn about using professional trading tools such as stops. There is also a lot more to investing with these tools than just asking your broker to put in a sell stop or a buy stop, which is a stop in the other direction. Sophisticated investors need to have many

more tools than average investors. If they don't, they too will get killed while their peers are making a killing.

This unfair advantage that sophisticated investors have is the reason why, when I am asked, "What advice would you give to the average investor?" my answer is, "Don't be average." I say that because your financial future and your financial security are too important to just be average.

A word of caution and warning: This is not a book on technical trading. The above example on a stop is a very simple explanation. A sophisticated investor knows how and when to use a short because there are times when stops work well and times when they do not work at all. Before running out to use any of these technical processes, please read, ask, attend classes, and gain experience before attempting to use any of the techniques I have described and will be describing.

The primary reason I list a few of these techniques is to let people who think that investing is risky know that investing does not have to be risky. It is still up to the individual to seek further knowledge if they want to use these techniques.

4. Call Options

Another word for *options* is *insurance*. Simply put, a call option gives the owner of the option the right to buy shares of stock at a certain price per share over a predetermined period of time. A call option is an insurance policy, protecting the investor from missing out on a sudden increase in the price of a stock. For example, let's say the trends and moving-average charts indicate that more buyers are entering the market, so prices are moving up. The investor wants to insure he or she can buy the stock at a better price in case the stock goes up in value. Let's use as an example a stock with a price of \$50 per share today. The investor calls his broker and says he wants to buy a call option to buy 100 shares of stock at \$50 per share. He might pay \$1 per share for that call option, costing him \$100 (each option covers 100 shares). He's protecting himself from a sudden upside move.

Three weeks later, the investor returns from a fishing trip and finds out that the stock has risen to \$60 per share. The call option technically allows the investor to buy 100 shares of the stock at \$50 per share. He could then, if he chooses, sell the same 100 shares at \$60 per share.

Otherwise, if the stock had stayed at a market price of \$50 per share or below, the option would expire worthless, or as sophisticated investors say, “out of the money.”

In the example of the stock rising to \$60 per share, the average investor might then exercise his right to buy 100 shares at \$50 per share for \$5,000 and simultaneously sell 100 shares for \$6,000, realizing a gain of \$900 (\$6,000 less the \$5,000 less the \$100 cost of the option). On the other hand, a sophisticated investor would just choose to sell his option for \$10 per share, or \$1,000 for the unit of 100 shares, realizing a gain of \$900 (\$1,000 less the \$100 cost of the option).

When you examine the transaction, the average investor put up \$5,000 to make \$900. The sophisticated investor put up \$100 to make the same \$900 gain. In this oversimplified example, which investor made more money with his money?

The answer I would give is, “The investor who bought and sold options,” or the sophisticated investor. The average investor put up \$5,000 to make \$900, or an 18-percent return in a month. The sophisticated investor put up \$100 and made \$900 in less than a month for a 900-percent return.

Again, this is an oversimplified example and I strongly recommend you study more, gain some experience, and find a competent stockbroker to assist you through this learning process.

This example illustrates why rich dad did not want to own much, but instead sought only to control. Options give you control over the buy-and-sell process. It also illustrates one example on how leverage can be created in paper assets and how leverage can be

used with less risk and higher returns if you know what you are doing. In this example, the sophisticated investor only put at risk \$1 per option. The average investor put up \$50 per share. When you go back to the discussion on the velocity of money, which investor's money is moving faster? Which investor can become richer faster?

Rich People Don't Like to Own Things

You may have noticed something with this last example. You may have noticed that you do not necessarily have to own the stock in order to own an option. This often-overlooked detail can have large financial consequences if you understand it.

The point is, my rich dad never wanted to own anything. My poor dad did. My poor dad often said, "This house is in my name." "My car is in my name." My rich dad said, "You don't want to own anything. All you want to do is control it." Options are another example of this way of thinking. My poor dad wanted to own the stock. My rich dad only wanted to own the option to buy or sell the stock. Today, I notice many people take pride in owning stock when, in many ways, there is far better leverage in buying and selling options. In other words, it may take far less money to make a lot of money trading options rather than buying shares of stocks.

5. Put Options

In the previous example, you saw how call options are used to make money in an up-trending or bull market. When the trend of the market is down, the sophisticated investor will use put options not only to make money, but also to protect the value of her stock in case prices begin to fall.

For example, the stock price is \$50. The market moves down, and the price of the stock falls to \$40. The average investor has lost \$10 per share. If she had 100 shares, she lost \$1,000 on paper. The point here is that the investor has only lost on paper,

but not in reality. If she sold at \$40 per share, then she would have lost. This idea that the loss is only a paper loss is why so many losing investors suddenly say, “I’m in for the long haul.” Those words usually mean this investor will now wait until that stock goes back up to \$50, which may happen overnight, over years, or never. This is the “buy, hold, and lose” strategy of someone who is the eternal optimist or someone who hates to admit they made a mistake and lost.

The sophisticated investor would invest differently. Instead of sitting there worrying about the price of her stock falling, this investor would have her broker put in a stop order or buy a put option. Again, there are different reasons for using a stop and for using a put option, and those reasons are beyond the scope of this book. The point here is that the sophisticated investor will do something in case the market changes directions and begins to trend down.

Instead of praying the market does not go down, let’s say the sophisticated investor buys a put option for \$1 per share for the right to sell her shares at \$50 per share. The put would cost her \$100, or \$1 per share for 100 shares. The market goes down as more sellers enter the market and the price of the stock drops to \$40 per share. The sophisticated investor is happy because she has just protected her position at the share price of \$50. What she continues to lose in the long stock position as the shares drop under \$50 she recaptures in the increasing value of the put. The investor without a put loses dollar for dollar as the share price drops. The sophisticated, or hedged, investor is really flat. The loss on the stock has been recaptured with a gain in the put.

How does the sophisticated investor make money with a put when the average investor lost? The sophisticated investor could exercise her put, or right to sell 100 shares at \$50 per share, and receive \$5,000. If she chooses, she could then go to

the market and buy 100 shares at \$40 a share for \$4,000. The net result is, she has her 100 shares of stock and an extra \$900 (\$1,000 less the cost of the put). (Keep in mind that there are many security rules and regulations that must be followed and considered.)

The average investor, with no put option, only has his or her shares, which are now worth less. The average investor still has not gotten any of his or her money back.

If this is confusing to you, do not worry. It is confusing to most people the first time. It is important to remember about the need to think in opposites. For many people, learning to use options is much like learning how to eat with your left hand after you have spent years eating with your right hand. It can be done. It just takes a little practice. The point to remember is that the process of using options to protect your assets as well as make money in up or down markets is not a complex process. Most people can learn it if they give themselves a little time to understand it.

It is important to remember that investing does not have to be risky if you have the right advice and right advisors. You don't have to spend your life worrying about your paper-asset portfolio being wiped out by a market crash. Instead of worrying about market crashes, you can prepare to become richer and richer the more the market goes up, down, and sideways. What is important to note is that the average investor who lost money is often sitting, waiting, and listening to their financial advisor's advice of, "Hold on and invest for the long term." They do that because they only have a strategy for only one market trend. As you now know, there are three different market trends.

A Sophisticated Investor May Not Buy Stocks

There are sophisticated investors who never buy or sell stocks. They trade only in options. When I asked one of my option-trader friends why he only invested in options rather than stocks, he said, “Investing in stocks is too slow. I can make much more money with less money investing in options. I can also make more money in less time. Investing in stocks and hoping to make money is like sitting around waiting for the paint to dry.”

6. Straddles or collars

Straddles or collars are the ultimate insurance protection. In overly simple terms, a straddle or collar is placing a put and a call around a price position. For example, if the price of the investor’s stock is \$50 per share, a sophisticated investor may have a call option placed at \$52 per share and a put option in place at \$48 per share. If the market suddenly goes up to \$62 per share, the investor has the right to still buy his or her shares at \$52. If the market goes down to \$42, the investor has the right to sell his or her shares at \$48, minimizing the loss. If the stock’s market price is at \$42 and the investor has a put option, which is the option to sell a stock at \$48, that option suddenly becomes very valuable—in some cases, much more valuable than the stock itself. The point is, collars or straddles are used to protect both the up- and the downside risks and opportunities. It can be an ultra-conservative strategy, if you know what you are doing.

Again, this is not meant to be a book on options trading. Obviously, I have oversimplified the process for the sole purpose of promoting a basic understanding of options. Also, there are much more sophisticated strategies that are used to protect assets and increase returns.

7. Shorts

When I was a kid, I was told not to touch or use things that did not belong to me. That is not true in the stock market. When someone shorts a stock, that literally means they are selling something they do not own. If my mom knew I was doing this, she would have a strong and long discussion with me. But then again, my mom was not an investor.

First of all, a short is not an option. When someone says, “I am shorting this stock,” they are trading in stocks, not options. A sophisticated investor knows the differences between a short and options and knows when to use them and when not to use them. Again, knowing when and when not to use them is beyond the scope of this book.

Why short a stock? Generally, if the investor feels the price of a stock is too high and the market is trending down, a sophisticated investor may find it profitable to begin to use shorts to make money. Shorting a stock is simply borrowing someone else’s stocks, selling them into the market, and putting the money into your pocket. If and when the market price of the stock comes down, the investor buys the stock back and returns it to the person they borrowed the stocks from.

For example, let’s say XYZ Corporation’s stock price is \$50 and the market is trending down. The following is a sequence of events involved in shorting a stock:

- The investor calls his or her stockbroker and asks to short 100 shares of XYZ stock.
- The broker then borrows 100 shares from another client’s account and sells the 100 shares for \$5,000.
- The broker then deposits the \$5,000 into the account of the investor (who did not own the stock).
- In the account where the stock was borrowed from, there is an IOU for 100 shares of stock, not for \$5,000.

- Over time, the stock price of XYZ drops to \$40 a share.
- The investor who borrowed the shares calls the stockbroker up and says, “Buy me 100 shares of XYZ at \$40.”
- The broker buys the 100 shares of stock at \$40 and returns the initial 100 shares to the account that loaned the shares to the investor.
- The stockbroker pays for the 100 shares from the \$5,000 in the investor’s account. The \$5,000 has come from the original sale of the 100 shares of stock at \$50.
- The investor has realized a \$1,000 profit (less fees, commissions, and taxes) by selling shares of stock they did not own. The investor made money without any money. That is, in simplified terms, the process of shorting a stock.

A few more points:

Point #1

The moment the investor bought the shares at \$40 and returned the 100 shares to the original investor, the shorting investor is said to have “covered their short position.” Those are very important words to remember.

Point #2

As you can tell, there is tremendous risk in shorting a stock. A person can lose a lot of money shorting a stock if the market trends up and the stock price goes up. In this example, this same investor would have lost \$1,000 if the stock price went to \$60. But as rich dad often said, “Just because there is risk, does not mean it has to be risky.” There are sophisticated investors who will straddle a short by buying a call option for \$51. If the trend did turn up and the stock price went to \$60, the investor would pay \$51 per share instead of \$60 a share, again minimizing their exposure.

Point #3

You may have noticed that I made reference to the market trends. Remember the saying, “The trend is your friend.” Don’t be like my friend who tried to swim against the rip current. More than knowing the definition of words such as shorts, straddles, and call options, it is important to know how they are related to one another. In other words, using a short is pretty safe in a down-trending market, and much more risky in an up-trending or sideways-moving market.

Point #4

If you have no idea what has just been covered, do not worry.

It only takes a little time and a little practice to make these words a part of your vocabulary if you want to. The main point of all this is that investing does not have to be risky, if you are willing to invest a little time to increase your education, as you are doing now. Once you learn to minimize risk, you can greatly increase your returns because you are not doing what average investors do.

Why It Does Not Take Money to Make Money

People often ask me, “Doesn’t it take money to make money?” If you understood the process of shorting a stock, you will know the answer to that question. When a person shorts a stock, they receive money for selling something they do not own. So it really does not take money to make money. Yet, the real answer to the question, “Doesn’t it take money to make money?” is, “It depends upon who is doing the investing.”

Rich dad said, “The less financially intelligent you are, the more money it takes to make a little money. If you are financially intelligent, it doesn’t take any money to make a lot of money.” The following example further illustrates this point and also illustrates the value of having a strong and rich financial vocabulary.

A few months ago, I called my stockbroker and said, “Write a naked put option on XYZ. Write it for ten contracts.”

My broker asked me a few more questions and then said, “It’s done.” What he asked me was the time horizon for the option and other questions that are again outside the realm of this book.

What I had just done was sell put options, not buy them. This is an important point. The reason it is important is because, up to now, options have been used as insurance policies, which is why most people buy options. When you use the words, “write an option,” it means you are selling the option, not buying it. The very rich sell options just as the very rich sell shares of stock, not buy them. Bill Gates became the richest man in the world by selling shares of Microsoft, not by buying shares of Microsoft. The same is true in the world of options—only it is much faster, easier, and can be more profitable—again, if you know what you are doing.

When I said to my broker, “Write a naked put option,” I was saying, “I want to sell options on stock I do not own.” In this case, they are put options and I wanted ten contracts, which means 1,000 shares, since a contract is 100 options.

My broker called back later that day and said, “You got \$5.”

I said, “Thank you,” and the transaction was over for the time being. I did not have to watch the stock or the market and was free to go about doing what I wanted to do. When he said he “got” me \$5, that meant he put 15,000 into my account that day. In other words, it took me less than five minutes to make \$5,000. On top of that, I did not put up any money nor did I sell anything tangible. In many ways, I sold nothing and made \$5,000 in less than five minutes. (As a point of clarification, while I did not put up any money or sell anything tangible, I have other assets in my brokerage account that act as collateral on the transaction, which allows me to work with my broker in this way.)

A few weeks later, he called back and said, “It expired out of the money.”

“That’s great,” I replied. “By the way, when are we going to play golf?”

The Power of Words

First of all, I do not write about this transaction to brag. I write about this one actual transaction only to illustrate the power of words. Those words are more than words to me. They are real and alive in my brain. Those words are tools that make me rich, tools that allow me to make money without any money. As rich dad always said, “There are words that make you rich, and words that make you poor.”

When I said to my broker, “Write a naked put option on XYZ,” I was saying, “Sell to someone the right to sell me the stock they own for a certain price.” On that day, XYZ was selling for around \$45 per share. My put option assured the person buying the put option that I would buy his stock at \$40 per share. In other words, I was selling insurance to the owner of XYZ stock. If the stock price had fallen to \$40 per share and the put had been exercised, I would have bought it at that price, protecting him from further losses.

When my broker called me back and said, “You got \$5,” he meant I got \$5 per share covered by the put option. In the vocabulary of options traders, writing means selling. It is also the same word used in the insurance industry. Many of us have had an insurance salesperson say, “I am writing you a life-insurance policy with a death benefit of \$100,000.” Another word the insurance industry uses is underwriting, which means they are guaranteeing you something for a price. In other words, writing means selling in the world of insurance and in the world of options. In this case, I was underwriting the investor’s \$45 risk exposure for \$5 a share. I was guaranteeing the investor that I would buy their stock for \$40 if the price went down that low. In this case, I became the insurance company, which is why I was “writing a naked put option.” I was insuring something I did not own, which is what insurance companies do.

A Loser’s Context

I can hear some of your mind’s context saying, “But that is so risky. What if the stock market crashes? What if you have to buy the shares at \$40?” As stated all throughout this book, a person needs to keep

their context open if they want to learn anything. Or as rich dad said, “Just because there is risk does not mean it has to be risky.”

I saved this section for the end of this book because I wanted to make sure your context was somewhat prepared to receive this information. I have never written about this before because I never wrote about the importance of context before. For most people, their context is not able to grasp, much less accept, what I am about to explain. If you have stuck with me this long I say, “Congratulations.” When I speak to some of my friends or others with a loser’s context, which is a context that is driven by the fear of losing, the noise from their fear is so loud, they cannot hear what I am saying or about to say. Their fear of risk and losing kicks in and their minds start chattering away, saying, “That’s too risky. Don’t tell me any more. I can’t do that.” So thank you for hanging in for all this time.

In that five-minute transaction, I basically agreed to buy 1,000 shares of XYZ stock for \$40 per share if the investor who held the stock would pay me a \$5 per share premium. The money, or \$5,000, was deposited into my account. A few weeks later, the price of the stock was around \$43 and so the option or insurance policy expired worthless, or “out of the money” as they say. The \$5,000 was mine to keep—less commissions, fees, and taxes. The point I want to emphasize is that it took less than five minutes, I sold nothing and did nothing after that, meaning I did not have to sit in front of a computer screen watching the ups and downs of the market. I still made \$5,000.

There are many people who do not make \$5,000 a month and, if they do, they pay far more in taxes than I did on the same amount of money. A worker would pay self-employment tax on that \$5,000 and I would not, because it was not the same kind of income. A worker earns \$5,000 in ordinary income and I earned \$5,000 in portfolio income.

Making Money Out of Thin Air

Before going further, it is important for you to ponder how the \$5,000 was made, because it was made out of thin air. When you inspect this transaction, you will begin to realize that I made the money by selling

something I did not own. I also made the money by selling something that did not exist until I decided it existed. The transaction was like making money out of thin air. If you can truly understand what went on in this transaction, physically as well as mentally, you can begin to understand the power of your mind to create money out of nothing. That ability is often called “the power of alchemy.”

Now you may further understand why rich dad had me work for free when I was a kid. He wanted to train me to think about creating money rather than working for money. He wanted me to develop a different context, a context not dependent upon hard work to become rich.

Making Losers Happy

Rarely do I tell people about this process. I have gotten tired of arguing and trying to explain this process to a loser’s context. When I have talked about this option process, I often hear comments such as:

- “It takes too much time. I don’t want to spend my days watching the market.”
- “It’s too risky, and I can’t afford to lose.”
- “I have no idea what you’re talking about.”
- “You can’t do that. It’s illegal.”
- “My stockbroker says it’s not that simple.”
- “What if you’re wrong and you make a mistake?”
- “You’re lying. You can’t do that.”

In other words, losers lose because they cannot listen without their context kicking in.

This book has been about context and a person’s reality. The reason I hesitate giving people content is because most people’s context can’t handle the content I just discussed. Now that the book is drawing to a close, I am more willing to give you the content that so many people want. I just trust your context will allow you to absorb and allow you to use the content and turn it into action.

In other words, when I am asked to tell what I do and I tell them, in many cases it is their context that fights back. Their context fights back, closes shut, argues, or finds reasons why it can't be done. Now that I have spent time explaining context, I will give you the final content on why this writing of naked puts is a low-risk, high-return investment, even if things do not go your way.

The Price Drops to \$35

First of all, I was not really concerned about having to come up with the \$40,000 in order to cover my naked position. There are three reasons why I was not concerned about being wrong.

The reasons are:

1. I had the money to cover my position in case I did have to buy the stocks.
2. History proves that 85 percent of all options expire without being exercised. An 85-percent chance of winning is far better than the odds offered by the stock market or Las Vegas.
3. I wanted to own the stock anyway. I just wanted to buy it at a deep discount.

So the question is, could the stock price have dropped and could I have been forced to buy the stock at \$40 per share? The answer is yes. That is the agreement I sold as a naked put option. The difference is, a person with a winner's context knows that he or she can win even when they lose. That is why they are not afraid of losing. A loser can only think of losing. That is why they rarely win.

Let's say the price of the stock drops to \$35 per share. A person with a loser's context would only see the loss and never the win. A loser would say, "I just lost \$40,000 because I had to buy 1,000 shares of stock at \$40 per share." The loser would see how much risk they had and never do the deal. Their context would slam shut or chatter on about how risky this idea was.

They would not be able to think any further because their emotions have taken over their brain. The loser would see the \$40,000 exposure to be a greater risk of loss than the \$5,000-in-five-minutes potential for gain. On top of that, if the stock had dropped to \$35 a share, they would have seen an additional \$5,000 loss. Their loser's context would be in full control of the person.

The reason I spent so much time at the start of the book on the leverage of the mind is because of the examples of such transactions. When I tell people what I do—regardless if it is in building a business, investing in real estate, or investing in paper assets—it is most often the person's context that determines the validity of my content.

A loser will always, and I do mean always, think that what I do is too risky, even though it is not. A poor person will always, and I do mean always, think that they cannot afford to do what I do. A hardworking person will often say, "I don't have the time to do what you do because I am too busy working." And a person who is not interested in what I do will say, "It sounds too complicated. I just don't understand. Besides, I'm not that interested in money."

Most people will never retire young and retire rich simply because they do not have a context capable of making that idea a reality. That is why I spent so much time at the start of this book on the leverage of your mind and the leverage of your plan. Context is more important than content. What I did and I continue to do in order to have retired young and retired rich is simple, if you have the appropriate context. What I do is not hard, nor is it complicated. As I said, it took me less than five minutes to make \$5,000. To many people, that possibility is out of their context, which is the same as saying that it is out of their reality. Many people would be willing to work 30 days just to make \$5,000. They are willing to work for 30 days because their context allows them to think that \$5,000 in 30 days is possible or real. But \$5,000 in five minutes is not within their context, so that idea is met with, "He's lying. It's too risky. I can't do that." In other words, their context rejects the possibility. Instead, they come up with ideas that fit their context. That is why so many people spend their lives working

hard physically rather than working hard on expanding their context. They physically work hard for money rather than expand their financial context and increase the financial content they put into their brain.

A Winner's Context

The questions a person with a winner's context would ask is,

- “How do I win if I lose?”
- “What happens if the price of XYZ goes below \$40? How do I win then?”

That is the context of a winner. They know they can win even if they lose. Most importantly, they can keep an open mind, even though what they are hearing is beyond their context. In other words, a winner can keep an open mind, even though what they are hearing frightens them or is completely new to them. As rich dad always said, “A loser's mind closes faster than a winner's mind.”

Earlier in this book I wrote about the importance of an exit strategy. A winner is always looking for a winning exit strategy, even if they are losing. Let's use this naked put option as an example. Before going into the transaction, I already had an exit strategy that would allow me to win, even if things did not go my way. Again, it is the context more than the content. Regardless if it is in stocks, real estate, or business, it is a winning context that allows winners to win, regardless if they are losing. In this example, it is the context of having a winning exit strategy that is part of the winner's context.

A loser only sees the risk or the losses and never sees the possibility of winning, even if they do lose. A loser only takes a risk if they are guaranteed that things will go their way. That is why so many people want guaranteed pay and guaranteed benefits. They would rather have guarantees than possibilities.

A winner will look for opportunities knowing they will win even if things do not go their way. It is not simply being an optimist. As rich dad said, “There are many people who think positive thoughts, but they think those thoughts inside a loser's context. Having a winning context is knowing you will win, even if you lose.”

How to Win if You Lose

On the day I called my broker, I had already done my homework, which took less than a minute. This is what I knew before placing the order:

- The market was trending down.
- The price of XYZ had recently been battered, dropping nearly \$20 to \$45. The investors who held the stock had to be pretty nervous.
- I knew XYZ was a good company with good earnings and dividends. It was well managed and it would do well in a good economy and a bad economy.
- It is a widely followed company, which means it has many investors who are interested in this company.
- It is a company I wanted to own and hold on to, if the price was right.
- I had \$100,000 in an interest-bearing account if I had to buy the stock. All my broker had to do was transfer the money, and he had the authority to do so.

If the stock had fallen to \$35 per share, I would have been ecstatic, even if I had to pay the \$40,000 to fulfill my put-option agreement. Why? Again, the answer is my exit strategy.

Let's say I had to pay \$40,000 for 1,000 shares of stock. What is my real price of the stock?

The answer is \$35,000, because I had already received \$5,000 for the option. So even though the price fell below my put option price of \$40 per share, I was still paying only \$35 per share, which would have been a great price for that stock anyway, and I would have owned the stock.

The next step would be to immediately sell ten covered-call options (100 shares per call option) at \$5 per share on the 1,000 shares I owned. The reason it is called covered is because this time I actually did own the shares I was selling the option for. I used the term *naked*

in front of put option because I did not own the stock. Again, most people would simply say, “It’s too risky to sell something you do not own.” And it is, if you do not have the right context and content.

Why sell a covered call? The answer is found in the term velocity of money. By selling a covered call, I agree to sell my stock for, let’s say, \$40 per share, in case the price should rapidly shoot up. A person afraid of missing out on a market move up will pay for an option. If the stock price had gone up to, let’s say, \$50 per share, I would then be obligated to sell my 1,000 shares for \$40,000. In this case, I would have gotten all my money back plus the money I collected from my options. So I would have won even if I had lost.

If the stock price did not go up, I would still have collected some money, in this case \$5,000 for the call options, even if the price of the stock did nothing.

The average investor would be holding a losing position in this stock and listening to their financial advisor say, “Invest for the long term. Be patient. The stock market on average has gone up over the past 40 years. So sit tight and wait.” That is more of the “buy, hold, and pray” mentality that most investors and many investment advisors have.

By selling covered-call options, I might have put another \$5,000 in my pocket, again dropping the basis of my stock down to \$30 a share, which would have made me even happier since I wanted to own the stock anyway. Because of my puts and call selling, instead of paying \$40,000 for stock I wanted to own, I was actually paying \$30,000, even though in this example the market would have been at \$35,000.

It’s Like Learning to Eat with Your Other Hand

Again, if you did not fully understand this, do not worry. In theory, it is simple and not hard to understand, if you spend a little time studying the subject. It is much like learning to eat with your left hand after spending your life eating with your right. It is simple in theory and simple once you learn to do it. It’s learning to think and do things in different ways that is sometimes hard.

What Everyone Can Do

To me, buying options to protect your assets makes sense. Selling options for cash flow is fun. One of the reasons I do not worry about money is simply because I know I can go to the market and make more money in minutes than most people make in months, and pay less in taxes.

Can everyone do what I do? Absolutely, but only if they are willing to invest some time in expanding their context and increasing their financial context.

So what can everyone do? The following are some suggestions:

- Borrow a book from the library on options trading. First learn the definitions of words. Then read for greater understanding.
- Buy a book. I recommend physically reviewing the book before buying it because you may want to start with a simple book first.
- Attend a seminar on options trading. There are many available.
- Find a stockbroker who will teach and guide you through the process.
- Play *CASHFLOW 101* at least 12 times so you learn the mindset of fundamental investing. After you have mastered 101, you can move on to *CASHFLOW 202*, which is the game that teaches people how to use call options, put options, shorts, and straddles. Most importantly, *CASHFLOW 202* teaches you to think in multiple directions, depending on changing market trends. I believe the most powerful aspect of *CASHFLOW 202* is that it is a physical, mental, and emotional way of learning a multidimensional subject. In other words, the game will teach you to think in different directions. The reason most investors lose is because they have been trained at home, in school, and in the workplace to think only in one direction. A sophisticated investor needs to think about how to make money in an up-trending market, a down-trending market, and a sideways-trending market. *CASHFLOW 202* teaches you to think that way, have fun, and learn by using play money instead of real money.

Is Investing Risky?

So is investing risky? My answer is, “Absolutely not.” In my opinion, being ignorant is risky. If you want to retire young and retire rich, learning how to insure your assets against loss is fundamental. It is the average investor who would rather not study and would rather say that investing is risky. That is the greatest of risks.

Never in the history of the world have so many people bet their financial future and their financial security on the ups and downs of a stock market. That is risky only because these investors know it’s risky, and yet they do nothing about the risk. As my rich dad said, “The I in the I quadrant stands for ‘Investor,’ not ‘Ignorance.’” He also said, “Investing in itself is not risky. But being financially ignorant and taking advice from financially ignorant advisors is very risky.” Not only is it risky, but it is also expensive. It is expensive not only in terms of money. It’s more expensive in terms of time. Millions of people spend their lives clinging to job security rather than seeking financial freedom. Because of financial ignorance, many people cling to a small paycheck rather than seek the abundance of money that is available. Because of financial ignorance, people put money in their retirement accounts and then worry about it being there when they need it. Because of financial ignorance, millions of people spend more time at work making the rich richer, rather than spend their time enriching the lives of those they love. I would not say investing is risky. But I would say that being financially ignorant is risky, and it is expensive.

Information contained herein is for educational purposes only, and is based on reports, communications, or sources believed to be reliable. However, such information has not been verified, and we do not make any representation as to its accuracy. Options transactions can entail an additional level of risk. Before undertaking any options transactions, all investors should seek the guidance and advice of a licensed options professional.

THE LEVERAGE OF A B-QUADRANT BUSINESS

The Richest Game in the World

The richest self-made people in the world are entrepreneurs from the B quadrant. They are far richer than movie stars, sports stars, and highly paid professionals. When I made my decision to not follow in my poor dad's footsteps after returning from Vietnam, it was my rich dad who suggested I start by learning to build businesses. He said, "The reason the richest people in the world are from the B quadrant is because it is the hardest quadrant to be successful in. But if you are successful, the floodgates of abundance open up and wealth showers down upon you. If you can build a B-quadrant business, you are playing in the richest game in the world."

When you look back upon recent history, it is people like Bill Gates, Steve Jobs, Thomas Edison, Henry Ford, John D. Rockefeller, and others who are at the top of the famous B-quadrant list. There are many more who are not as famous. All of them became financial giants because they built a giant asset. They used the biggest leverage of all, the leverage of building a business that served millions of people.

It has been said that the best investment you can make is an investment in your own business, and I agree. The returns on your investment defy normal investment calculations, if you know what you are doing. It is possible to take a few hundred dollars and turn

it into billions of dollars. It is also possible to not only make yourself rich, but make your friends, family, business associates, employees, and investors richer beyond their wildest dreams. That is why it is called the richest game in the world.

When I was younger, rich dad constantly reminded me that there are four basic classes of assets. They are:

1. Real estate
2. Paper assets
3. Business
4. Commodities

While I do dabble in paper assets, real estate, and commodities, it was the business asset that rich dad encouraged me to focus on. He said, “Start with the hardest first, and the rest will be easy.” Today, I tend to agree with him.

Exit Strategy

In this book I wrote about the importance of an exit strategy. They are:

Poor	\$25,000 or less per year after they retire
Middle class	\$25,000 to \$100,000 per year
Affluent	\$100,000 to \$1 million per year
Rich	\$1 million or more per year
Ultra-rich	\$1 million or more a <i>month</i>

I ask that you begin to pay some attention to the idea of your own personal exit strategy. Also note your mindset or your context as you ponder your choice. Is your mind saying, “I can’t do that,” or “That would be too much trouble,” or “I’m not smart enough,” or other such context-defining personal realities?

When my rich dad worked with me on my personal exit strategy, I had to go through the doubts and limitations caused by my limited context. After a few months of discussion, I knew my best chances

were in the B quadrant. In my opinion, even before choosing your exit level, you may want to assess your personal strengths and weaknesses, and which quadrant offers you the best shot at retiring young and retiring rich.

Someone in my investment class said, “Oprah Winfrey became the richest woman in entertainment through the S quadrant.”

I asked the individual why he thought that. His reply was, “Because she is a self-employed person. If she stopped working, her income would stop.”

“How do you know that?” I asked. I then asked him what HARPO Productions was. He did not know.

My answer was, “HARPO (“Oprah” spelled backward) Productions is Oprah’s company, her B-quadrant business. That business is run by other people and invests in other ventures. She may be a star in the S quadrant, but her context is in the B quadrant.”

The point of saying all this is that the quadrant you are in has little to do with what your profession is. Michael Jordan may have been an employee of the Chicago Bulls, yet he still had his own B-quadrant business on the side. Medical doctors can be in the E, S, B, or I quadrant, depending upon their context. So can a janitor be in all four quadrants.

I say all this because too many people have a mindset in only one context, rather than learning to have more than one context. Those people with tight or rigid context walls often work the hardest, the longest, and often wind up with the least. In today’s Information Age, it is imperative that we all have more than one context and be in more than one quadrant. If you can do that, you will find that your possibilities of attaining a higher-level exit strategy will become easier, and possibly more realistic.

In other words, the reason Kim and I can exit at or above the ultra-rich level is because we operate primarily from the B quadrant. Instead of working for thousands or millions, we work to have tens of millions, and maybe more, as our exit strategy.

Rich Dad's Guide to Investing

In *Rich Dad's Guide to Investing*, I wrote about my decision to learn to become an entrepreneur. In all my books, I write about the number of times I failed, and what it took to stand back up. In my opinion, it is the context of being successful, regardless of which quadrant you are in. The reason I mention book number three is because the second half of that book is about building a business, the biggest and richest asset of all. If you would like to build a B-quadrant business, you may want to read or reread that book, since I will not be going into how to build a business in this chapter.

Also, the reason I support network marketing so much is because the word network is the word that the very rich use.

I wrote a book for the network-marketing industry entitled, *The Business School for People Who Like Helping People*. That short and simple book is written primarily for anyone who wants to make the switch from the E and S quadrant. The book supports anyone who wants to invest the time to change their context from the E and S quadrants to the B quadrant, the quadrant that produces the richest people in the world. The book explains why people like John D. Rockefeller and Bill Gates built networks. It opens with rich dad's statement, "The richest people in the world look for and build networks. Everyone else looks for work."

A friend came to me and said, "I made a 35-percent return on my mutual funds." I replied with a sincere congratulations. When he asked me what my returns were, I said, "I really do not know." It is not that I do not know, but I did not know how to tell him that my returns do not fit normal standards of measurement. While my friend's mutual-fund investments had returned him 35 percent on his money, which is good, my personal returns were in the millions of dollars without any of my original money invested. You may recall the previous chapter discussing the velocity of one's money. The reason I had trouble answering his question is because my money had already moved on. My return on investments was technically infinite. That is why I said little about my returns and congratulated him on his success.

Again, my point in stating this is not to brag about my results. The point I want to make is about the differences in context. My friend is happy to receive a 35-percent return, while a person who builds a business would not be. In my opinion, it is the power found in the differences in context. A person from the E and S quadrants often has a different point of view on what is possible financially. A person from the E or S quadrant is often willing to work hard forever, never really asking himself if there is another way to accomplish what they want to accomplish. So the reason I recommend the network-marketing industry and its educational programs is primarily to give individuals a chance to open their context to other points of view.

By the way, my friend's 35-percent return turned into a negative return the following year with the market downturn.

Why Don't More People Build B-Quadrant Businesses?

The question is: If building a B-quadrant business is so lucrative, then why don't more people do it? A part of the answer is found in the following lesson from rich dad.

When I was making my decision to start my first real B-quadrant business, I asked rich dad, "If building businesses is the richest game in the world, why don't more people play the game? Is it because of lack of money, skills, or talent?"

Rich dad's answer was short and to the point. He said, "The hardest thing about business is working with people."

"People?" I asked. "Working with people is the hardest part of business?"

Rich dad nodded and said, "Most people cannot build a business simply because they lack people skills. People work with people all day long, but just because they work together does not mean they can start a business together. And just because they start a business together does not mean that business will grow into a very large business."

"So if I learn to work with people, I can play the richest game in the world?" I asked. "If I learn to work with people I can become very rich?"

Rich dad nodded.

***If You Can Work with Different People,
You Can Become Rich Beyond Your Wildest Dreams***

Over the years, rich dad spent a substantial amount of time teaching his son and me how to work and deal with different types of people. If you read *Rich Kid Smart Kid*, you may recall that rich dad often had his son and me sit with him as he interviewed people. Learning how to hire and fire people was an interesting learning process, especially when the people rich dad was hiring and firing were as old as my mom and dad. To him, teaching his son and me how to deal with different types of people was one of the most important educational headstarts he could give us. He would say, “If you can work with different people, you can become rich beyond your wildest dreams.”

For those of you who read *Rich Dad’s CASHFLOW Quadrant*, you may remember how important this simple diagram was to rich dad:



Rich dad created this diagram to illustrate his point that the world of business is made up of four different types of people. The E quadrant represents employees, the S represents small business or the self-employed, the B quadrant represents the business owner, and the I quadrant represents the investor.

The primary point of this diagram was that people from the different quadrants are different at the core. Rich dad would say, “To be successful in the B quadrant, you need to know how to communicate with and work with people from all four quadrants. It is the only quadrant that absolutely requires that ability.” In other words, one of the reasons so many businesses fail is because the entrepreneur is often unable to work and get along with different types of people.

During the 1980s, I was back in Hawaii, and rich dad invited me to sit in on a board meeting where he was one of the directors. The company was in trouble, and rich dad wanted me to learn from this unpleasant experience. The company was a small start-up company that explored for oil in Canada. Rich dad did not form the company, but now that the company was in trouble, he had been invited to join the board and see if the company could be saved.

The company got into trouble due to a single decision by the CFO. This decision had left the company deeply in debt and about to go bankrupt. After the meeting began, rich dad asked the rest of the board, “Why was he [the CFO] allowed to make such a big financial decision without checking with the board?”

The answer from another board member was, “Because he was a senior vice president of XYZ Giant Oil Company.”

Rich dad raised his voice and said, “So what? So what if he was at one time a senior vice president of a large oil company?”

“Well, we thought he knew much more than we did. So we let him act on his own,” said another board member.

Rich dad rapped his fingers on the table and then said, “He may have been a senior vice president, but he was still an employee for 30 years. He was an employee of a large company. He has not a clue on how to run a small start-up business with a very limited budget. I recommend you replace him, preferably with someone who owned his or her own company and has had full financial responsibilities, even if it was not an oil company. There is a very big difference between an employee and an entrepreneur, regardless of what industry they come from. There is a very big difference between running a small company and a big company. In a big company, a mistake of this size doesn't hurt the company. In a small company, a mistake of this size destroys the company.”

The company eventually went bankrupt. A year later, I asked rich dad why it finally went down. He said, “The company was grossly mismanaged from the board of directors on down. Although the company had hired great people and paid them a lot of money, those

people never became a great team. Successful entrepreneurs create great teams. That is how they compete with big companies with more money and more people.”

The Different Skills

In *Rich Dad's Guide to Investing*, I wrote about rich dad's B-I Triangle.



The B-I Triangle is important for anyone who wants to start a B-quadrant business or already owns one. It is also important for anyone who has a million-dollar idea and plans on turning it into a business. In other words, one of the reasons people have a difficult time starting a B-quadrant business is because a true business needs more than one skill or specialty.

Our school system produces people with specialized skills. It takes a true entrepreneur to pull these skills together and have them work as a team in order to build a power company.

The Big Problem

The big problem goes beyond just having all four quadrants in your business and having the different technical skills of the B-I Triangle. The problem is finding a leader, an entrepreneur who can get these different people with different skills and different core values to work together as a team. That is why rich dad said, “The hardest thing about business is working with people.” He also said, “Business would be easy if it weren’t for people.”

In other words, an entrepreneur must first be a great leader, and all of us can work on improving our leadership skills.

What Is an Entrepreneur?

Rich dad taught his son and me to be entrepreneurs. When I asked him what an entrepreneur was, he said, “An entrepreneur sees an opportunity, puts together a team, and builds a business that profits from the opportunity.”

I then asked him, “What if I see an opportunity, and I can take advantage of it by myself?”

“Great question,” said rich dad. “If you see an opportunity and you can take advantage of the opportunity by yourself, then you are a small businessman or a self-employed person.” Rich dad went on to explain the difference between a tradesman and an entrepreneur. He said, “A tradesman or craftsman is someone who can produce a product or provide a service primarily by themselves. For example, artist can paint pictures by themselves or dentists can fix teeth by themselves. True entrepreneurs cannot do what they need to do by themselves. An entrepreneur must be able to pull together smart people from different disciplines and skills and have them work together to achieve a common goal. In other words, an entrepreneur builds teams that take on products that no one individual can do on their own. The reason most people remain small is because they solve problems they can solve themselves.”

“So an entrepreneur takes on a task that requires a team,” I said. “A B-quadrant person does not get paid unless their team can do what needs to be done as a team. Most employees and self-employed people get paid for what they can do as individuals. Entrepreneurs don’t get paid unless their team is successful.”

Rich dad nodded and explained further by saying, “Just as a building contractor uses trades people (such as plumbers, electricians, and carpenters) and professional people (such as architects and accountants) to build a house, an entrepreneur brings in different trades people, technicians, and professional people to help him or her build a business.”

“So in your mind, an entrepreneur is really a team leader, although they may not physically work on the team?” I asked.

“The better you can lead a team of smart, qualified people without having to work as part of the team, the better and bigger entrepreneur you can become,” said rich dad. “I own several companies, but I do not do any of the work inside the company. That way I can make more money and do more things without having to do the work. That is why leadership is an essential skill required to be a true entrepreneur.”

“Can leadership skills be learned?” I asked.

“Yes,” said rich dad. “I have noticed that all of us have some leadership skills. The problem with most people is that they devote their lives developing their professional or career skills, which is why there are more people in the E and S quadrants. Very few people devote their lives developing their leadership skills, which is the skill most required for the B quadrant. So, yes, leadership can be learned.” Years later, rich dad said, “Leaders rise to challenges, while others look for job security.”

Leadership Lessons from Vietnam

Some of you may know that I went to Vietnam for several reasons. One was because both my dads thought it was the obligation of sons to defend or fight for their country. Another reason was to learn leadership skills. Rich dad said, “Asking soldiers to overcome their fears

and perform courageously while under intense pressure and risk of life is a test of anyone's leadership skills."

While in Vietnam, I saw men do horrible things, but I also saw men perform feats of bravery I will never forget. One of my commanding officers said, "Inside every soldier is a hero. It is the leader's job to bring out that hero that lives in each of us." Today, I use many of the leadership skills I learned in combat in my business. In combat, we did not give young men orders and expect them to follow orders blindly. In combat, we learned to ask young men to be heroes, and that skill works in business as well as in combat.

Develop Your Own Leadership Skills

You don't have to go to war to develop your own leadership skills. All you have to do is take on challenges that others run away from. Most of us have heard the saying, "Never volunteer for anything." To me, that is the creed of a person who is going to go backward in life. Rich dad often said, "Leaders take on challenges that others are afraid of." He also said, "The size of the leader is measured by the size of the task they undertake." Dwight Eisenhower is famous because he took on the D-Day invasion and the European campaign during World War II. John Kennedy took on the task of putting a man on the moon. Leaders seek challenges that others back away from. Too many people never develop their leadership skills simply because they make it a habit to back away from the challenges placed in front of them. They make it a habit of never volunteering.

Every business, every church, every charity, and every community needs more leaders. Each organization gives you the opportunity to step forward and be accountable. Each opportunity gives you a chance to learn those priceless leadership skills required in the world of entrepreneurship.

Many people are not qualified to participate in the richest game of all, the game of building businesses, simply because they fail to gain the skills of leadership.

If you step forward to be responsible for your church's potluck dinner, you are stepping forward to gain more leadership skills. Even

if no one volunteers with you, you will learn something important. You will learn how to reach out and speak to the hero that rests inside each and every one of us. If you learn to do that, the next leadership task you undertake will be easier, more successful, and you will learn more about leadership. If you do not develop your leadership skills, the chances of you building a business and participating in the richest game in the world may never be developed. I have met so many smart people with great business ideas, but they simply lack the leadership skills required to build a business team and have that team turn their ideas into millions, maybe billions, of dollars. In the richest game in the world, leadership is the key, because it takes a leader to turn individuals into a team.

A Tip from the Marine Corps

As a new Marine Lieutenant in Vietnam, I had a commanding officer put up this simple list:

MISSION
TEAM
INDIVIDUAL

He said, “The highest priority is the mission. The individual is last.”

After returning from Vietnam, I often saw more people with a different ranking of priorities. In business and in the civilian world, I often see people with their list in this ranking of priority:

INDIVIDUAL
TEAM
MISSION

In other words, they come first, their group second, and the overall mission of the business or the organization comes last, if at all.

In Vietnam, my commanding officer explained that as junior officers, our job was to protect the mission and the team from the betrayals of individuals. In other words, we were trained to *take out*, in one way or another, anyone from within our ranks who thought of himself first and, in doing so, jeopardized the team and the mission. Learning and practicing that in combat has greatly affected my way of leading in business.

For those of you who saw Steven Spielberg's *Saving Private Ryan*, the most realistic movie on war I have seen, there is a great lesson. In the movie, Tom Hanks, a schoolteacher who became an Army lieutenant, could not shoot a German prisoner. To me, that was the pivotal point of the movie, and also one of its great lessons. Because Tom Hanks could not do his job, which in this case was to take out the German prisoner, he put himself, his team, and the mission of the team in grave jeopardy. In the end, not only were many of his men killed because of his inability to shoot a German prisoner, but the mission almost failed. Tom Hanks was ultimately killed by the man he would not kill.

It is fortunate that most people will never have to face the horrors of war and some of the tough, heartbreaking decisions that are often required. Nonetheless, we all face such tough decisions in our personal lives and in our business lives. Some examples are:

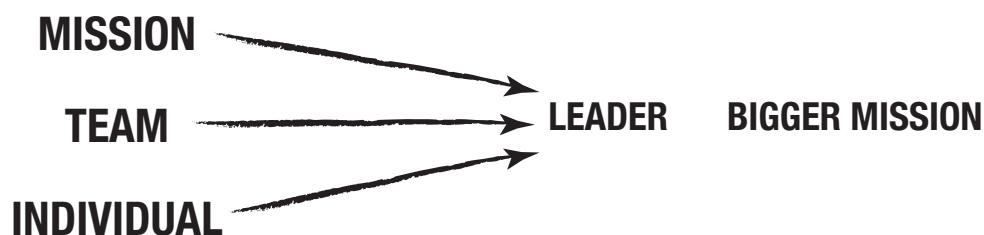
- The other night at a party at a friend's home, one of the guests got very drunk. When he stood to leave, the host asked him for his car keys and offered to call a cab. The guest became very upset, denying that he was too drunk to drive. An unpleasant scene erupted and the host persisted, finally wrestling the guest to the ground and forcibly taking his keys. A cab was called, and the guest was sent away safe, but very upset. The guest and the host have not talked since. To make matters worse, some of the other guests think the host overreacted and they too have decided not to talk to the host. Personally, I think the host was very brave and did the best thing at that time. Could the host have handled it differently? Sure. But he did what he thought was best at that moment. That is what leaders do, even if what they do is not the best thing to do.

- Years ago, my rich dad found out that one of his top managers was having an affair with one of the secretaries in his company. He immediately called the man in and asked him to leave. The secretary was also asked to leave. When I asked him why, he simply said, “Both are married with children. Anyone who would cheat on their spouse and their children is someone who will cheat on anyone.” I am not saying rich dad did the right thing, but again, he did what he thought was best at the moment. Although both employees were very important to him, he felt that their actions were not in keeping with the values he wanted for his company. He said, “When I take a stand, everyone else knows where they stand.”

Both stories are examples of leadership. It has been said that “leaders do the right things, and managers do things right.” Rich dad agreed with that statement. He said, “Leadership is not a popularity contest. Leaders inspire others to be leaders.”

A Final Lesson from Vietnam

At the end of his talk to his junior officers, my commanding officer added the following words to his talk and his diagram:



The officer then said, “A leader is responsible to the mission, the team, and the individuals. But as you can see, a good leader must also be a good follower. He must realize that his team’s mission is important because it is a part of a bigger mission, and he must answer to a higher calling.”

Rich dad said, “A slingshot is just a slingshot. When David stepped forward to take on Goliath, the greatest forces in the world stepped forward with him.” He also said, “Always remember that the richest game in the world is just a game with a mission and a higher calling.”

In closing, I leave you with this thought. Each and every day, new Goliaths are born and new Goliaths step forward. What the world needs are more and more new Davids, armed with just a slingshot, but backed by the most powerful forces in the world. Regardless whether or not you choose to play the richest game in the world, just know that you too can access the power that powered David’s slingshot. All you have to know is who your Goliath is, and then find the courage to step forward bravely. The moment you do that, you begin playing the richest game in the world, a game where the rewards are far more important than money. When you step forward, you tap into the power that was behind David’s slingshot. When you find that power, your life will never be the same.

As they said in *Star Wars* (the modern version of David and Goliath), “May the force be with you.” This invisible force is the greatest of all leverage, and it is a leverage that is available to all of us. All you have to do is step forward and take on something bigger than yourself.

The conclusion of this book is about the rewards from building or acquiring assets that work hard so you do not have to.

Chapter Nineteen

HOT TIPS

Things You Can Do to Get Rich and Stay Rich

The process of retiring young and retiring rich is a mental and emotional process, more than a physical process. If you are prepared mentally and emotionally, what you physically have to do is very little. The following are some additional mental and emotional processes that you may want to incorporate into your life. If you do these suggested simple processes regularly and they become a part of your life, I trust you will find that retiring young and retiring rich will become more of a possibility for you.

Why Do You Need a Paycheck?

When I was in high school, rich dad often had me sit next to him when people came in to apply for a job. During one of these interviews, a man a few years older than rich dad came in to apply for a management position in one of rich dad's companies. This applicant was about 45 years old, was well educated, had a very impressive resume, a great employment record, was well dressed, and seemed confident and competent. As the interview progressed, this gentleman continually reminded rich dad that he had gone to a great state college and had received his MBA from a prestigious university on the East Coast, with honors.

"I'm interested in hiring you," said rich dad, after interviewing him for about an hour, "but why do you want such a high salary?"

Again, the applicant referred back to his impressive education and his work record, saying, "I'm well educated and I have the right job

experience, which makes me highly qualified for the job and deserving of the salary.”

“I don’t disagree,” said rich dad, “but let me ask you this. If you’re so well educated and so experienced, why do you need a job? If you’re so smart, why do you need a paycheck?”

The applicant was taken aback by that question. He stammered a little and then said, “Well, everyone needs a job. We all need a paycheck.”

The room became very quiet as rich dad let his answer echo in the room. It was obvious that the applicant came from a different reality, a different context, a different mindset from rich dad. He was becoming argumentative and beginning to defend his reality, instead of trying to understand rich dad’s reality. Looking up at the applicant, rich dad quietly said, “I don’t. If this business folded, I still would never need a paycheck.” He then turned to his son and me and said, “These boys don’t. They work for me for free. That is why they’re going to be far richer than you someday, even if they don’t go to as good a school as you did or receive the academic honors you have. I don’t want these boys to ever want or need a paycheck.” With that, rich dad picked up the applicant’s resume, placed it on top of a pile of other resumes, and said, “I’ll call you if I’m interested in hiring you.” The interview was over.

Tips on How to Get Rich

In *Rich Dad Poor Dad*, I wrote about how rich dad took my 10-cents-an-hour job away and offered me his reality, the reality that I could become richer faster if I worked for free. People often say, “You didn’t really work for free,” or “My house is an asset.” Little do they know that they may have read the book, yet they continue to see the world from their same reality, context, or mindset.

When rich dad asked that applicant, “If you’re so well educated and so experienced, why do you need a job? If you’re so smart, why do you need a paycheck?” he was asking the applicant to expand his reality. But instead of doing his best to expand his reality, the applicant argued and defended his reality, closed his mind, and for all practical purposes, ended his chances of being employed by rich dad.

A World Without Paychecks

I created the *CASHFLOW* game to teach people how to live in a world without paychecks. People who play the game repeatedly often find the possibility of such a world to be far more exciting than working hard all their life for a paycheck. If you want to retire as young and as rich as possible, you will need to consider a world without a paycheck. If, in your reality, context, or mindset, you need a paycheck, the chances of you retiring young and retiring rich are slim.

Rich dad often said, “People who need a paycheck are slaves to money. If you want to be set free, you must never need a paycheck or a job.” So if you are serious about retiring young and rich, you too will need to change your reality to the possibility of a world without a steady paycheck or a job. When I state this context to most people, you can almost feel their blood pressure rise, their chest and stomach tighten, and hear their subconscious mind take over their conscious thought. The fear of not having a steady paycheck to cover one’s financial survival is a fear most of us know well. If you have difficulty seeing yourself in a world of not needing a paycheck or a steady job, then your first step is to begin asking yourself, “How can I get rich without a paycheck or steady job?” The moment you begin asking yourself that question, you open your mind and begin your journey into another reality.

When rich dad asked the person applying for the job, “If you’re so well educated and so experienced, why do you need a job? If you’re so smart, why do you need a paycheck?” he was asking him to stretch his reality and see another reality. Instead, the applicant argued and defended his reality, thinking his reality was the only reality. I have seen rich dad ask that question of other applicants. It was his way of actually trying to help the applicant. It was his way of trying to teach the applicant a very important and basic financial lesson, the lesson that money will not make you rich, that a high-paying job alone will not solve your financial needs.

When rich dad asked anyone that question, he was trying to have that person understand that academic success does not necessarily equate to financial success. As rich dad often said, “A high academic IQ does not necessarily mean you have a high financial IQ.” During

the interview with the person who was so proud of his academic achievements, rich dad was really doing his best to find out if this person was interested in learning how to increase his financial IQ. As I said, I have seen rich dad ask that same question of other applicants. Those that listened to his reality and studied with rich dad as they worked for him became very wealthy, retired early, and went on to live lives of financial freedom, even though they were not paid the high salaries they initially wanted.

The point is this: If you want to retire young and retire rich, financial IQ is more important than academic IQ. The following are really tips on how to increase your financial IQ so you can begin to live in a world without needing a paycheck. The sooner you can see a world without paychecks, the better chance you have of becoming rich quicker.

Hot Tip #1

So hot tip number one is: *Begin to see yourself in a world or reality where you will never ever need a paycheck or job again.* It does not mean you will never work again. It simply means that you will stop being so financially needy or even desperate, selling your precious life for a few dollars, living in fear of losing your paycheck or being destitute.

Once you can entertain a world of never needing a paycheck again, you can begin to see the other world, the world without jobs or paychecks.

Bill Gates Is Low Paid

A number of years ago, I saw a headline that read, “Bill Gates is Not the Highest-Paid Man in the World.” The article went on to say that there are many executives in the world of business who are paid much more than Bill Gates, yet Gates was the richest man in the world. The article stated that, at that time, Gates was only paid about \$500,000 a year, but his asset base was in the billions and growing.

Hot Tip #2

If you let go of the idea of needing a steady paycheck from ordinary income, the next question to ask yourself is: What kind of income do you want? Earlier in this book I stated that there are three basic kinds of income. They are:

- Ordinary 50-percent money
- Portfolio 20-percent money
- Passive 0-percent money

These are the three main categories, yet there are many other types of income. Most people have spent their lives studying and working hard for ordinary income, which is why so few people can retire young or retire rich. If you are serious about retiring young, begin studying the different types of income which will allow you to become rich without working forever. Some of the other types of income are:

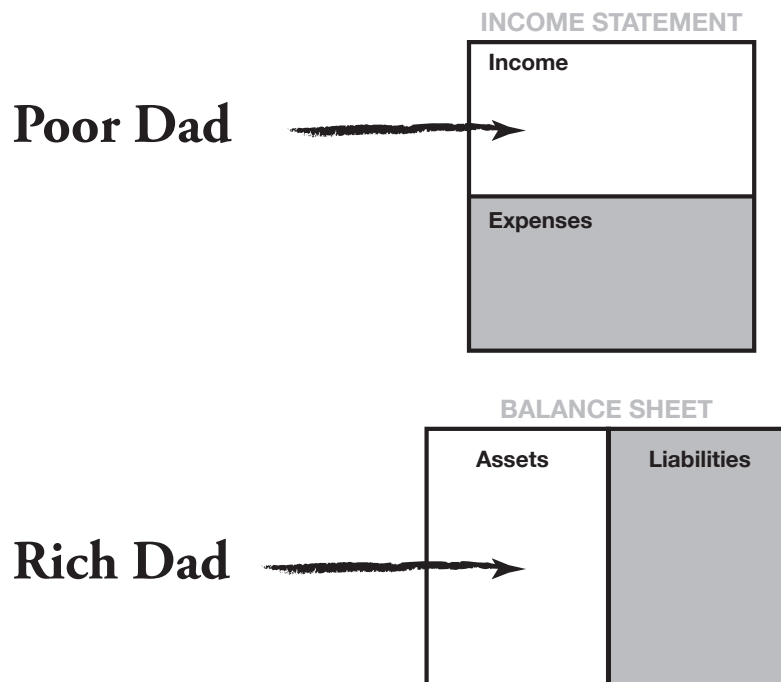
- *Residual income*, which is income from a business, such as a network-marketing business or a franchise business you own, but someone else runs.
- *Dividend income*, which can be income from stocks.
- *Interest income*, which is income from savings or bonds.
- *Royalty income*, which can be income from songs or books you have written, and trademarks and inventions (whether or not patentable) that you have created.
- *Financial instrument income*, such as income from trust deeds from real estate.

So the hot tip is, once you get used to the idea of not having income from a job or your labor, then you can begin researching different types of income that come from different types of assets. Rich dad had Mike and me study and research the different types of income and then decide which type we wanted to study further.

You can go online or ask your accountant about the different types of income there are, income that is derived from things other than your labor. The moment you begin to study and find the different kinds of income that interest you, they begin to become a part of your new and expanding reality.

The point is, don't do too much. Just let other types of income and assets come into your reality. The more the idea of different types of income settles in and the more you think about such income without the pressure of having to do anything, the more the idea takes root in your brain and begins to grow. Most people think they must do something immediately, but that is not my experience. I simply let the idea of investing in real estate for passive income rattle around in my brain for years before I bought my first property. One day I woke up and I knew it was time to begin taking classes and begin investing. It was relatively effortless, but only after I let the idea become a part of my new reality.

When you look at a financial statement, it is understandable why my poor dad insisted on job security.



Since my poor dad had no assets and always said, “Investing is risky,” he naturally clung desperately to his job. After all, that is all he had and the only income he knew of was ordinary income.

My rich dad had his son and me focus our attention on acquiring assets and developing the financial IQ to acquire those assets. Because we had learned the importance of financial IQ, his son and I worked diligently to increase our skills to acquire those assets. Although we were nervous at the start, today, acquiring assets is fun, easy, and exciting. When I say it is easy to get rich and stay rich, it is true, if you give yourself the time to allow that reality to grow into your reality.

While on a trip through Australia, a young baggage handler took my bags at the airport and said, “I love your books.”

I thanked him for telling me and asked him what he had learned.

“Well, the first thing I learned is that this job will never make me rich. So I work a job at nights and I invest the money from my second job into real estate.”

“That’s great,” I replied. “How have you done so far?”

“I’ve bought six properties in a year and a half.”

“Great,” I said. “I’m proud of you. Have you made any money?”

“No, not yet,” the handsome young man said. “But I have learned something very important.”

“What is that?” I asked.

“It gets easier. Once I got over my initial doubt, fear, and lack of money, I find it’s getting easier to be an investor. The more deals I look at and the more investments I buy, the easier investing becomes. My financial IQ would never have gone up if I had let my doubt and fear keep me paralyzed. Instead of feeling fear today, I feel excitement, even though I still have not made much money. In fact, I lost money on two of my six investments. As you say in your books, mistakes are learning experiences. They are priceless if you learn from them. So now I can see myself being a full-time property investor someday soon. In a few years, I will never need a job or a paycheck ever again.”

“Do you have a goal, a specific date you will be out of the Rat Race and financially free?” I asked.

“Definitely,” said the young man with a smile. “I have three other friends about the same age. We all are doing this together. We don’t waste our time like other guys our age do. We study together, go to

seminars together, and we help each other invest. We don't plan on following in our parents' footsteps. We don't want to make the same mistakes they did, working for 45 years, afraid of losing our jobs, hoping for a pay raise, and waiting until 65 to retire. My parents worked so hard climbing the corporate ladder that they had no time for the kids or for the things they really loved. They're now getting ready to retire, but they're old. I don't want to be like them. I don't want to be old when I stop working. All four of us are under 24, and we all have goals of being financially free by the age of thirty."

"Congratulations," I said and shook his hand. As he finished processing my bags for the flight, I thanked him for reading my book and making me feel like a proud dad.

As I left the counter, the young man smiled and shouted, "The biggest thing is that it's getting easier. The more I focus on building my assets, the easier it's getting."

I waved good-bye and rushed for my flight.

In my reality, the better you are at acquiring assets, the easier it becomes to become richer faster and faster. If you keep your humility, even though rich, and are grateful rather than arrogant about your wealth, I believe you have a better chance of keeping that money forever.

Hot Tip #3

Hot tip #3 may sound strange, so please read carefully. Hot tip #3 is to *tell lies about your future*.

The young baggage handler could see his future, and he was excited about it. Not everyone can see such a bright future, which is why hot tip #3 might sound strange, yet it is an important part of the process in retiring young and retiring rich.

Not long ago, I was teaching an investment course, and several of the participants could not stop saying such things as:

- "I can't do that."
- "I'll never be rich."
- "I'm not a good investor."

- “I’m not smart enough.”
- “Investing is risky.”
- “I’ll never get the money to do what I want.”

There was a very successful psychotherapist in the class who raised her hand to help out. She said, “Anything said about the future is a lie.”

“The future is a lie?” I asked. “Why do you say that?”

“First of all,” she said, “I want to be clear that I am not encouraging anyone to lie for the purpose of deception. Is that clear?”

I nodded my head. “I understand, but my question is, why do you say that the future is a lie?”

“Good question,” she said. “I’m glad to hear that you keep an open mind. What I mean by the future is a lie is that anything said about the future is not yet a fact, so anything you say about anything in the future is technically a lie.”

“So how is that useful for these participants who cannot seem to shake some of their negative perceptions about themselves or their abilities?”

“When the person who said, ‘I’ll never be rich,’ made that statement, he was making a statement about something that was supposedly true in the future, in this case, the idea that he’ll never be rich,” said the therapist. “Well, that statement is technically a lie. I’m not calling the individual a liar. I am just saying that the statement is a lie, since the future has not yet happened.”

“So what does that mean?” I asked.

“It means exactly what you have been trying to get this class to realize. They need to understand that what they say and what they think has the power to become real and become their reality. So many people tell lies about their future, and those lies become their future.”

“You mean when someone says, ‘I’ll never be rich,’ they are telling a lie because they are referring to an event projected sometime into the future. Is that what you mean?”

“Exactly,” said the therapist. “And the problem is, a lie becomes true.”

“So when someone says, ‘Investing is risky,’ they are in some ways telling a lie if they are speaking about the future?”

“Yes, and then a lie becomes truth if they do not change the lie. Always remember that anything in reference to the future is technically a lie, simply because nothing in the future is yet a fact or truth.”

“So how is this bit of information useful?” I asked again.

“Well, as a therapist, I have found that most unsuccessful, unhappy, unfulfilled people tell the most horrible lies about themselves. They say what you have been trying to stop people from saying. They say, ‘I’ll never be rich.’ ‘I could never do that.’ ‘That will never work.’ All lies, but lies that have the power to become truths.”

“And if they don’t say those lies, they spend time with other people who will tell them those same lies,” I added.

“That is true,” said the therapist. “Birds of a feather do spend time together.”

“And so do liars,” I said.

The therapist chuckled and nodded in agreement.

“So I ask you once more, how is this bit of enlightened information useful?” I asked.

“Well, since anything you say about the future is technically a lie, why not tell lies about the kind of future you want rather than the kind of future you do not want?” replied the therapist.

I thought about what she had said in silence, as did the rest of the class. Finally I said, “Lie about the future on purpose?”

“Sure, we all do it. Some of us do it unconsciously or automatically. Let me ask you this: When it came to money, did your rich dad speak of the future positively?”

“Yes,” I said.

“And did much of what he said come true?” she asked.

Again I said, “Yes.”

“And when it came to money and the future, did your poor dad speak negatively?”

“Yes,” I said.

“And did what he said come true?”

I nodded my head.

“So both sets of lies came true,” said the therapist.

I just nodded, realizing that both men were lying about their future, and yet their lies came true. “So are you saying that I should lie about the future I want, rather than the future I don’t want?”

“Yes,” she said. “That is exactly what I am saying. In fact, I’ll bet you do it already. I’ll bet that when you were down and out, you kept telling your wife and close friends about how good the future was going to be and how much money you were going to make. You kept saying that, even though you had not a penny to your name.”

Chuckling, I said, “Yes I did. But I only told my lies to friends who loved and supported me. I never told my positive lies about my future to people who would put down my lies about the future.”

“Very wise of you,” said the therapist. “So what lies did you say to your wife during your darkest of financial hours?”

“You want me to tell the class?” I asked, becoming somewhat embarrassed.

“Yes. Tell the class what you really said when times were at their worst.”

I thought for a while and remembered a moment when Kim and I were at our lowest point financially. Slowly I said to the class, “I remember holding Kim tightly and saying, ‘Someday all of this will be behind us. Someday we’ll be rich beyond our wildest dreams. Today our problem is not enough money, but someday soon, our problem will be too much money.’”

“And has that come true?” asked the therapist.

“Yes, it has,” I replied. “More than we could have dreamed. I’m kind of embarrassed to say that today we have a big problem of too much money. I realize how poor a background I came from because today, Kim and I have a hard time trying to think of things we can buy. Much of our money goes to charity, but there is still plenty left and we need to stretch our reality on what to buy since we can afford almost anything. Trying to find things to buy beyond what we can afford is a very interesting process.”

“Why do you think your lies came true?” she asked.

“Because both dads insisted that I never make a promise I could not keep. And if I could not keep the promise, I should be the first one to inform the person I broke the promise with that the agreement could not be kept. Both dads stressed that we are only as good as our word, and both men were good to their word.”

20 Percent of All People Are Hard-Core Liars

“Very good,” said the therapist. “You see, 80 percent of all people are basically honest. About 20 percent are hard-core liars, and no matter what they do, they have to lie. So even if they lie positively about their financial future, it becomes a negative lie anyway, since hard-core liars have no integrity in their soul. But I have found that most people are honest, so even when they lie, their lies come true.” The therapist paused for a moment and then said, “Enough talking about lying. Let’s start learning how to lie positively about our futures. And remember, the purpose of this exercise is not to deceive, but to help each of us move to a new and better reality about ourselves.”

I agreed, and the therapist had the class get into pairs. “Now,” she said, “I want you to tell your partner the biggest and best lie about how rich you will be in the future. Tell them about the millions of dollars you receive each month from your real estate investments, the revenue from your oil company, and how big your mansion is.”

Some people had a difficult time telling exaggerated lies about their future financial success. Others were quite well rehearsed at the process. Nonetheless, in a matter of minutes, the energy in the room was up 100 percent, and the noise was deafening. There were outbreaks of hysterical laughter as people told gigantic and exaggerated fibs about their future. Most people really loved being granted permission to tell exaggerated stories about their future financial success. Many reported that their lives and their futures changed at that moment.

So hot tip #3 is, whenever you find yourself feeling down and telling negative lies about yourself and your financial future, find a

trusted friend and ask them if you can tell them a big fat lie about how financially successful you will be in the near future. I think you will find it great therapy and, who knows? The lie you tell about your financial future might someday come true.

If you are brave enough, do not wait till you feel down before you begin lying positively. As soon as possible, find a trusted friend or loved one and ask permission to allow you to tell them your great big lies about how fantastic your financial future will someday be.

As I said, it can be great fun, and the lie you tell today might come true tomorrow.

The Home-Run King

The point is that your future is yet to be made. You may as well make it up today and make it up the way you want it to be, rather than what you're afraid it might not be. Too many people go to the *worst*-case scenario, rather than the *best*-case scenario, when they think about changing their financial future. Worst or best, the future scenario is a lie anyway, at least according to the therapist. The great Babe Ruth had a habit of taking his bat and pointing it to the home-run fence. It was his way of saying, "I'm going for the wall." He did this continually, although he struck out more times than most people. Although he struck out the most, he never stopped pointing his bat at the far wall. Today he is known as the home-run king, not the strike-out king.

The Boogeyman

When we were kids, many of us imagined a boogeyman hiding under our bed or in our closet. Some of us stayed up late at night when all the lights were out, shaking and worrying about this character that existed only in our minds.

After we grow up, many of us replace the boogeyman with the bill collector or some other horrible financial disaster that has not yet happened. Regardless if it is the boogeyman or the bill collector, the results are the same. We lie awake at night worrying about things we really should not worry about. We also depress our future, telling lies

to ourselves about some financial disaster or calamity that has not yet occurred and may never occur.

So instead of waking up in the morning and acting like Babe Ruth pointing our home-run bat to the fence, we trundle off to a job, selling our precious lives for a few dollars, living with a false sense of financial security from some imaginary boogeyman, and asking ourselves, “What if this happens?” “What if that happens?” “What happens if.. ?” The child may have become an adult, but the boogeyman still exists, and he continues to rob people of the wonderful possibilities of life. That is why this process of lying about your future can be a valuable one for honest people who want to move forward boldly, pointing their baseball bat to the far, far fence.

Rich dad said, “We all have good luck and bad luck. Unsuccessful people live lives doing nothing, avoiding bad luck and also avoiding good luck. It’s hard to have any kind of luck if you’re doing nothing, paralyzed by fear. A successful person is one who takes action and takes the good with the bad, knowing that he or she can turn bad luck into good luck.”

One day a reporter was asking me how I overcame my fear of failure and asked for some tips on the secret to my success. I thought for a moment and said, “My rich dad taught me to turn bad luck into good luck.” So for good luck, start with baby steps, and go for the life you dream of rather than live in fear of some imaginary nightmare. Don’t let the boogeyman steal your dreams. Be like Babe Ruth. Tell big lies about your future and boldly swing for the fence.

An important note: Please remember that this tip is not a license to lie with the intent to deceive or cover up the truth. I would never endorse such a practice. The above recommendation is for honest people only, not for habitual liars. If you are a habitual liar, please seek professional help and begin learning to tell the truth rather than lying.

11 More Tips for You

In the introduction, I promised that I would provide a list of things that anyone could do to improve their chances of retiring young and retiring rich. Most of them have already been discussed, but a simple, condensed review list may be helpful.

These are things I do on a regular basis. These are things that have assisted me greatly in retiring young and retiring rich. I trust they can also be of use to you. Always remember that the process of retiring young and retiring rich is primarily a mental and emotional process. Once you begin that journey in your mind and in your heart, the rest of you should soon follow.

1. Decide.

Every day I get up and I choose who and what I want to be. I ask myself, “Do I want to live today as a person with a poor context, a middle-class context, or a rich context?”

Remember that a person with a poor context will say something like, “I’ll never be rich.” A person with a middle-class context might say, “Job security is important.” A person with a rich context might say, “I need to increase my financial IQ so I can work less and make more money.”

2. Find a friend or loved one who wants to go on the journey with you.

I know that I would not have made it without my wife, Kim, and without my friends. Be sure to have friends who demand more of you, rather than tell you why you cannot do what you want to do.

Choosing the right friends or life partners is very important to a successful life. If you have friends or family who are not committed to improving their financial IQ, life can be a long financial struggle, regardless of how much money you make.

3. Seek competent advice and begin building your own team of financial and legal advisors.

Always remember what rich dad said, “Your most expensive advice is the free advice you receive from your financially struggling friends and relatives.” Rich dad later expanded his statement to include financial advisors who do not practice what they preach or do not buy the investment products they sell you. Again, choosing the right people is a very important skill. People can be either assets or liabilities.

One day rich dad said to me, “If your car is broken, you take it to a trained mechanic to fix. The moment you pick up the car, you know whether or not the mechanic was a good mechanic or not. The problem with these so-called professional financial advisors is that you will not know if they gave you good advice or bad advice until years later. What happens if you begin taking a financial advisor’s advice at age 25, and you don’t find out your financial advisor was giving you bad advice until age sixty-five? You can’t take your ruined financial life back to the financial advisor like you can take your broken car back to the mechanic. I trust auto mechanics and used-car salesmen more than I do most financial advisors, simply because I can see the results of their work faster. The reason most people end up poor or middle class is because they spend more time selecting a used car than they spend time looking for good financial advice.”

The point is, be very careful about the advice you place in your head.

4. Set a retirement date.

Sit down with your loved ones and your advisors, and set a date for your early retirement. This is like Babe Ruth pointing his bat at the far wall. If you will actually do this process and discuss an actual date with these people, your present context will begin to argue with your future context. It is a great and fun process to go through. You will definitely hear many different realities and different contexts.

Hold quarterly meetings with this group, and continue to discuss your early retirement date.

5. Write down a plan on a piece of paper once you have set the date for your early retirement.

Put that plan on your refrigerator so you have to look at it every day. Update the plan as you progress and learn more and more.

When Kim and I spent that week up on Whistler Mountain, frozen in the snow, the plan we came up with changed the direction of our lives. That is the power of a plan. The point is, just because you may be poor today does not mean you have to be poor tomorrow. Becoming rich and staying rich requires a plan and the determination to follow it, one day at a time. Kim and I followed our plan one day at a time for nearly ten years. As I said, today our problem is that we have too much money, and we struggle to find ways to spend it wisely. It may be a struggle, but it's the kind of struggle I like and want you to have also.

6. Plan your early retirement party.

Be excessive and be lavish. Once you can retire early, money will no longer be a problem. Even if you do not achieve your goal, you will have great fun going through this process. And who knows? You might even have to throw that early-retirement party early!

7. Look at a deal a day.

Remember—it costs you nothing to go shopping.

The point is to do something every day to improve your financial intelligence for at least ten minutes a day. It may be something as simple as reading one article from the money or business section of your online news site, even if you are not interested in it. It will begin to improve your vocabulary. Listen to financial or business information recordings while you

drive or work out at the gym. Attend a financial seminar at least once a year. If you do not want to pay for a seminar, just look in the financial section of your local newspaper, and you will find many free investment seminars. Even if you do not learn anything, you are bound to meet other people just like you.

8. Remember that all markets follow three main trends: up, down, and sideways.

Some markets go up, down, and sideways over years. Sometimes markets can trend up, down, and sideways in less than a minute. That is why, when someone advises you to “Invest for the long term,” ask them what they mean. Ask them for a more detailed explanation. Most financial advisors are simply parroting what they have been taught by their sales manager, so they may have difficulty explaining what they say.

One of the best ways to get rich is at the point where a trend changes. There is a lot of truth to that old saying, “Being at the right place at the right time.” If you will look at deals daily, you will better sense changes and improve your chances of being at the right place at the right time. For example, if you had entered the stock market in 1991 and invested a lot of money in technology stocks you would be rich today. But when the trend changed down in March of 2000, if you did not change your strategy, you would have lost all that you had gained. If you had changed strategy in March of 2000, you would have made money faster on the way down, increasing your wealth instead of losing it.

That is why, if you want to get rich and stay rich, you must be aware of trends and have three different strategies for three different trends. I have met many people who made money on one trend, and went bankrupt when the trend changed.

Buy High, Sell Low

The June 2001 issue of *Forbes* magazine ran an interesting article. The headline read, “Buy High, Sell Low. What you always knew: Analysts are great advisors if you do the opposite.” Quoting the article:

New research by four California professors shows that, not only would you have lost money buying stocks that analysts pushed last year, but you would have made money if you bought those they recommended selling. And not just a small return. You would have made 38 percent on your money, better than the S&P 500 has done since 1958.

In another article from *Fortune* magazine entitled “Is Wall Street Serious About Reform?” the writer, Shawn Tully, seems to agree. That article reads:

On a humid morning in June, Representative Richard Baker, a homespun Republican from Louisiana, opened a dramatic congressional hearing by hammering a theme that stirs everyone from bartenders to soccer moms. Call it, “How Wall Street Screws the Little Guy.” In a molasses drawl, Baker voiced his outrage at how the Street’s new aristocrats-securities analysts fleece small shareholders.

In my opinion, most analysts and financial advisors are not professional investors. They do not know what a professional investor must know. So most advice about investing is good advice for the average investor, but the same advice is bad advice for the professional investor, especially if you want to get rich and stay rich.

A professional investor knows that the trend is your friend. A professional investor is someone who knows that no one is strong enough to go against the trend. As kids surfing, we always had tremendous respect for the changes in the trends or mood of the ocean. It was the tourist, who came only knowing what swimming in a lake or pool was like, who got into trouble in the ocean, some even drowning. You must respect the trends, just as a surfer respects the power of the ocean.

When someone says to you, “Invest for the long term,” ask them what they mean by “long term.” Long term means one thing to the average investor, and something else to a professional investor. If you want to get rich and stay rich, you cannot be an average long-term investor. You must be a professional investor who is far better educated than the average investor.

One of the problems with following your parents’ advice on money is that technology and financial IQ are changing faster than most people can change. Today, it is possible to get rich and stay rich if you stay abreast of the changes in technology and financial intelligence.

For example, in the world of options, there are new options coming out today that are called “knockout options.” They are far faster than the standard puts and calls that most day-traders are using today. The reason most people do not know about knockout options is because they were invented by foreign-exchange or foreign-currency traders. In a few years, these new “exotic options,” as they are called, will begin to filter into the stock market. Without going into much detail, simply put, a knockout option means you can make more money, faster, and safer than with standard options.

Just remember this, as we make advances in technology, so will humans make advances in financial intelligence. That means it’s getting easier and easier to become rich quicker with more safety. The catch? You need to keep up and keep learning and get good advisors.

Old Dogs Learn New Tricks

As you may have guessed, I love *Forbes* magazine. In the May 2001 issue of *Forbes Global*, their magazine for international businesspeople and investors, there was an interesting article about Sir John Templeton. Sir John Templeton is known as a value investor, investing globally in undervalued stocks and watching them grow. The *Forbes* article, entitled “Old Dog, New Tricks,” describes how even Templeton, a hard-core bull and fundamental investor, learned to be a technical trader investing into a bear market. The article talks about how, in the year 2000, instead of investing for the long term, which

he used to advise, he went short for the first time. It was a new way of investing for him. In one year, he made over \$86 million by learning a new way of investing.

As rich dad said, “Money is just an idea.” In this day and age, you do need to keep coming up with new ideas. If Sir John Templeton can change his context at 88 years of age, so can you.

While the average investor was listening to their financial advisors about investing for the long term, the real investors were changing strategy and going short. Millions of investors going long ultimately lost trillions of dollars. Can this happen again? Most certainly. That is, if you want to get rich and stay rich, you need to be careful about who is giving you your financial advice.

9. Always remember that words are free.

If you want to get rich, you need a rich vocabulary. Always remember that there are four basic classes of assets: business, paper assets, real estate, and commodities. Each of these assets uses different words. Each of these assets is like a foreign country with a foreign language. Begin to learn the vocabulary or the jargon of the asset class you are interested in. Once you learn the words, you will be better able to communicate to yourself and others in that asset class.

Words are the most powerful tools we have as human beings, so choose your words carefully. Always remember that there are two basic types of words:

- One type is content words.

For example, “internal rate of return” is an important group of words, especially for real estate investors who use a lot of leverage to invest with. Internal rates of return are content words.

- The second type is context words.

For example, when someone says, “I’ll never understand internal rates of return,” this person is describing their mental context about the content words.

Be aware of constantly improving your content vocabulary and watching your context vocabulary because words are the tools that power one of your most powerful assets—your brain. That is why I suggest you forbid yourself from ever saying, “I can’t afford it,” or “I can’t do it,” or “I could never learn that.”

Ask yourself instead, “How can I afford it?” or “How can I do it?” or “How can I learn it?”

Remember that a big difference between a rich person and a poor person is simply the quality of their words. Your financial IQ begins with your financial vocabulary. So watch your words because words do become flesh and do become your future. If you want to retire young and retire rich, your words hold the key... and words are free.

10. Talk about money.

When I was in China and Japan, many people came up to me and said, “In Asian culture, it is not polite to talk about money, so we never talk about it.” When I am in America or Australia or Europe, many people say a similar thing. They say, “In our family, we did not discuss money.”

So the hot tip is to talk about money. If your friends don’t want to talk about it, you may want to find a new group of friends. In my group of friends, we talk about money, business, investing, successes, and problems. Most of my friends are also very rich and do not have the context that talking about money is evil or dirty. Kim and I talk about money constantly. To us, making money, getting rich, and having an abundant lifestyle is fun. And we enjoy the game of money so we talk about money. We enjoy the game of money just as people enjoy other sports. Because we have money as a game in common, our marriage is closer, educational, exciting, and fun. Money is a subject all people all over the world have in common, so why not talk about it?

11. Make a million dollars starting with nothing.

One of the reasons I do not need a job or a paycheck is because rich dad trained me to make money from nothing.

One of the saddest things I see today is people not knowing how to make money out of nothing. The other day, a young woman applied for a job in one of my companies. She came from a large multinational corporation where she was a senior vice president of marketing. She had been downsized and wanted to try her hand as vice president of marketing in my small entrepreneurial company. So, as a test, I asked her to prepare a media budget for this company. She came back three days later with a budget of \$1.6 million for the year.

“\$1.6 million,” I gasped. “That is a lot of money.”

“I realize that,” she said in her most big corporate tone, “but if you want to achieve the result you want, that is what it will cost.”

“I am willing to pay that,” I replied. “But before I agree to this budget, tell me how we could achieve the same result for \$160,000, or even nothing.”

“Oh, you can’t do that,” she said in her haughty corporate tone. “You have to spend money to make money.”

Needless to say, she did not get the job. We obviously come from a different reality or context. The success of my companies is because rich dad taught his son and me how to make millions out of nothing, or virtually nothing.

The point is, it saddens me to see grown, highly paid executives of major corporations know how to spend a lot of money, but not really know how to make a lot of money on their own. I sit on boards of a few public companies, and I watch these executives churn through investors’ money but not be able to turn a profit.

Rich dad often said, “There are big differences between entrepreneurs and bureaucrats. Most people are bureaucrats because our schools train

people to become bureaucrats. An entrepreneur must know how to be both. Many bureaucrats dream of becoming entrepreneurs, but most never will.” Rich dad said, “A bureaucrat only knows how to make money if it is given to him. An entrepreneur can make money out of nothing.”

A few months ago, I was sitting with an executive of a large international publishing house. He had just come from one of my talks on entrepreneurship and how to grow a business. He looked me straight in the eye and said, “I will never be rich because it takes a lot of money to make money. I have a \$20-million advertising budget, and I need every dollar of it to produce the sales volume I want.” At that moment, I knew why he was a bureaucrat of a large corporation and not an entrepreneur. His reality will forever keep him there.

It also saddens me to see small companies not able to grow because the entrepreneur does not know how to make money out of nothing or next to nothing. Rich dad said, “There is a big difference between a “baby business” and a small business. A baby business has the potential to grow into a big business in the B quadrant. A small business may be profitable, but it has no potential of growing into a B-quadrant business.” Rich dad went on to explain that the difference was not found in the business, but in the mindset of the entrepreneur behind the business.

A classic example is the story of the McDonald brothers and Ray Kroc. Ray Kroc took a small hamburger stand run by two brothers and turned it into the very, very, very big worldwide business we know today as McDonald’s. Ray Kroc was an E-quadrant employee selling milkshake mixers. He bought an S-quadrant business from the McDonald brothers and turned it into a big B-quadrant business.

That is the power of this simple process I will share with you now, a process you can do on a regular basis and it will cost you nothing—but it could make you rich beyond your wildest dreams.

So the last tip is, with your loved one or friends who are on the journey with you, spend time together brainstorming how you can take an idea and turn that idea into millions of dollars, starting with no money or very little money. This process is like going to the gym for your muscles. This regular exercise strengthens your brain and gets it ready for the moment you make your move.

Before I met Kim, I would sit in a coffee shop with some friends on the ground floor of the office building where the Xerox office was located. We would spend hours over many cups of coffee coming up with ideas on how to make millions of dollars out of nothing. We came up with some really good ideas, some bad ideas, and many, many stupid ideas. We came up with T-shirt ideas, puzzles made out of wood, a tourist product involving sugar packets from Hawaii, and a financial newsletter. Most of those ideas never got off the ground, yet they gave us great mental exercise. Even though most of the ideas did not work, we did come up with the nylon-and-Velcro surfer-wallet idea. We took that idea and turned it into millions of dollars. Unfortunately, we didn't take the steps to protect the idea and ended up losing it to competition.

The capitalization of the Coca-Cola company was over \$8 billion, but the value of the Coca-Cola brand is closer to \$80 billion, almost ten times the capitalization of the entire company. How is that possible? Coca-Cola has aggressively protected its intellectual property internationally and, as a result, the Coca-Cola brand has become incredibly valuable.

“Rich Dad” Is Just Two Words

Let's review the success of just two words: “Rich Dad.”

When Kim and I started our company in 1997, the words “rich dad” were just two meaningless words and worth nothing.

Today, the words “Rich Dad” are worth hundreds of millions of dollars. How did that happen? We took the time to create a strategy to intentionally build intellectual-property assets. We made sure that we protected our inventions with patents. We have created and protected strong “Rich Dad” and “CASHFLOW” brands and have a strong trade dress that is recognizable all over the world. The initial trademark cost us less than \$1,000 to file. Our experience proves that you can make money with little to no money.

In Conclusion

You and I know that your brain is still your most underused asset. It has plenty of horsepower yet to be used. Rich dad used to say, “Lazy people want to get rich quickly, and successful people want to get financially smart quickly and keep getting smarter.” The point is, if you want to retire young and retire rich and you don’t have much money, education, or experience, begin using your brain. In my reality, it does not take money to become rich. In my reality, it does take mental and emotional power. All the hot tips listed are there for you to consider and practice if you want.

The final point of all these tips is that none of them requires much time or money, but they will help you retire young and retire rich if you do them regularly and faithfully. Always remember that your future is determined by what you do today, not tomorrow.

If you will faithfully make some of these simple exercises a part of your everyday life, you may find yourself going through the looking glass and into a completely different world. And that is the subject of the next section.

You Are Already an Expert

As you may already realize, it is not so much what you do that makes you rich or poor. It is more the context surrounding what you do that makes you rich or poor. That is why, when people ask me what I do or what I invest in, I reply, “Please don’t ask me what I do. Ask me what I think about what I do.” For example, many people invest in stocks, but only a few people become rich investing in stocks. The same is true for real estate or building a business. What is the difference? I say it is the context surrounding the actions or content. I have met people who say to me, “Real estate is a lousy investment. I have not made any money in it.” Well, in my opinion, it is not real estate that is the lousy investment. It is the person who is a lousy investor. A person with a rich investor’s context can take a bad investment and turn it into a rich investment. In fact, that is what most rich investors do.

Use Debt in Your Favor

The same is true with the subject of debt. Most people know how to get into debt. Most people are experts at getting into debt. The problem is, they get into debt and get poorer. Most people take good debt and make it bad. As rich dad said to me, “All debt is good debt. But not all people know how to use debt, so they turn good debt into bad debt.”

If you want to be rich, you first need to work on your context more than on what you do. As rich dad said, “Most people already know how to get into debt. The problem is, they do not know how to use debt in their favor. If someone wants to get rich using debt, they first need to change their context. Then they can use debt to become very rich.” If you cannot change your poor or middle-class person’s context regarding the subject of debt, it is best that you cut up your credit cards, pay off your house as quickly as possible, and just try and save money.

If you want to retire young and retire rich, you must first change your context. That is why I recommend you occasionally review these hot tips and continually work on upgrading your context. If you have a rich person’s context, you will become richer and richer no matter what you do. If you have a poor person’s context, no matter what you study or what you do, the results will be the same—a poor person’s results. Remember, it is your context, or what you think is real, that becomes your reality, regardless of what you do. As rich dad said, “Debt does not necessarily make you poor, but a poor or middle-class context will.”

DIFFERENT REALITIES

The following is an optional exercise that you can do if you are brave enough. These questions are to be asked at your next dinner party or over lunch with co-workers, friends, and family. The reason I say that it is optional is because the following questions will bring up different realities about money from the people you ask.

If you give the person time to fully answer each question, you will hear many different realities, reasons, excuses, lies, assumptions, and other psychobabble that people have about money and their lives. You may hear such responses as, “What a stupid question.” “Who does this guy think he is?” “You can’t do that.” “That’s impossible.” “I love my work. I’ll never stop working.” Rather than agreeing or disagreeing with the answers or comments to the questions, simply listen and see if you can more clearly pick up the person’s reality about money and his or her financial life. If you have the courage to ask these questions of your loved ones, friends, or co-workers, I wish you luck. If you do the exercise with other people, I think you will learn a tremendous amount about the power of one’s reality over those people’s financial condition in life.

What Kind of Life Do You Want to Live?

The following are the questions or groups of questions to ask:

- If you had all the money in the world and never had to work again, what would you do with your free time?

- If you (and your spouse if married) stopped working today, what would happen to your life? How long could you survive and still maintain your standard of living and lifestyle?
- At what age will you be able to retire if you are not already retired? Would you like to retire earlier? When you retire, will you be making more money than you are today or less?
- Would you rather live a life where you no longer need a paycheck, or would you rather live a life where you're always working at or looking for a higher-paying job? Would you rather be unemployable or more employable? Which life are you leading today?
- Do you want to live a life where you work hard trying to spend more money because you have too much money, or live a life working hard trying to save money? Which life are you leading?
- Would you rather live a life where you do not have to work hard to earn more, or would you rather live a life where you have to work harder to earn more? Which life are you living?
- Do you think investing is risky? Do you think it takes money to make money? Would you like to be able to invest without any money and without much risk for very high returns? If you could invest with someone else's money, would you?
- Who are the six people other than your family that you spend the most time around? What is their attitude toward money? Is it rich, poor, or middle class? Of those six people, how many will be able to retire young and retire rich? Is it time for you to make new friends?
- Would you rather live a life where you work to become rich building or buying assets, or would you rather live a life working for job security and a steady paycheck? Which life are you living?

- If you were offered a billion dollars to quit your job, would you? If a billion dollars is more important than your job, why not go for the billion dollars? What specifically holds you back? If you would not quit your job for a billion dollars, then why not? Could you not use the billion dollars to do more good than you are doing now?
- Do you live a life where you make money regardless if the market goes up or down, or do you live a life where you live in fear of market crashes and losing money? Which life do you live? Why?
- Regarding the subject of money, if you could do things differently, what would you do differently? If there is something you would do differently, why aren't you doing it?

A Comparison of Realities

The reason I suggest this exercise only if you are brave enough is because, after the discussion, you may wind up without any friends and need to make new ones. If you find your family, friends, and co-workers are not coming from the context you want to come from, then go meet people who are.

The most important thing is that you will see the different realities and different worlds different people come from when it comes to the subject of money. As rich dad said, "Money is just an idea." When you ask these questions, you will find out many different ideas and different realities.

The most important thing from this exercise is to listen to different thoughts and realities, and decide what kind of reality or financial world you want to see. Having two dads allowed me to see both worlds, and I made my choice which world I wanted to see. So the choice is up to you. If you ask these questions of your family and friends, you will hear their ideas. After listening to their ideas, then you can begin to better choose the ideas you want and what kind of life you want to live.



Section Four

THE LEVERAGE OF YOUR FIRST STEP



Rich dad said, “The first step is to decide what kind of world you want to live in. Do you want to live in the world of the poor, the middle class, or the rich?”

“Wouldn’t most people choose to live in the world of the rich?” I asked.

“No,” said rich dad. “Most people dream of living in the world of the rich, but they do not take that first step, and that is to decide. Once you decide, and if you have truly decided, there is no coming back. The moment you decide, everything in your world will change.”

Chapter Twenty-One

HOW TO KEEP GOING

I am frequently asked, “After you made the decision to retire young, what kept Kim and you going? How did you handle the adversity and not turn back when times got tough?” Most of the time, I answer with clichés such as “determination, strong will, and vision.” I use such overused clichés because I rarely have the time to explain much of what I have already explained in this book. Since you have read this far and hopefully understood most of what has been written to this point, I will share with you in greater depth a more honest explanation of what kept us going.

Two of the more profound fairy-tale type of stories rich dad had me read were the classics by Lewis Carroll, *Alice’s Adventures in Wonderland* and *Through the Looking Glass*. Both stories share the journey into different realities. In *Alice’s Adventures in Wonderland*, Alice follows the White Rabbit down its burrow and into a different world, a world that reminds me of the financial-services industry. In *Through the Looking Glass*, Alice again journeys to another reality behind the looking glass. Behind the looking glass, Alice finds looking-glass books that cannot be read unless held up to a mirror, much like a personal financial statement. Nonetheless, to rich dad, the value of both stories was the idea of traveling from one reality to another. Rich dad said, “The problem is that most people live only one reality and tend to think that their reality is the only reality.”

Answering a Frequently Asked Question

Most of the time, when asked such a question as, “What kept you and Kim going? How did you keep going when you were out of money, out of a job, and on a financial losing streak?” I answer with tried and true simple cliches. I reply with, “It took determination,” or “We knew we were never going back.” But those cliches do not tell the real story. I hesitate beginning the true explanation because the answer is out of the reality of most people, so I just say very little.

Not long ago in a seminar, I had the time to more fully explain the reason Kim and I kept going. Since you have read this far, I will tell you the answer I shared with the class. I do not think it fully answers the question of how we kept going, but I think the answer will give you a little extra food for thought.

As the seminar drew to a close, a student raised his hand and asked, “When it seemed the darkest, what kept you and Kim going? I want to hear the real reason, not the ones you have given us so far.”

The Answer

I considered his request for a while and finally decided to disclose our driving motivation to keep going, once Kim and I had made our decision to retire young and retire rich. The explanation began:

“In my late twenties, rich dad imparted a lesson that began with this question. The lesson and dialogue lasted for years. Even though he is gone, I continue to review the lesson and seek further answers.”

A World of No Risk That Requires No Money

“What would you do if there were no risk and it required no money to become rich?” asked rich dad.

“No risk and no money?” I repeated, not certain where rich dad was going with this question. “Why ask the question?” I finally asked. “Such a world does not exist.”

Rich dad let me sit with my answer for a moment. His silence was my cue that I had best listen to my answer and take the time to

rethink it. Once he knew I had rethought my answer, he finally said, “Are you sure such a world does not exist?”

“A world of no risk and no money required?” I asked, seeking to make sure we were discussing the same points. All I could hear was my own dad saying, “Investing is risky,” and “It takes money to make money.”

Rich dad nodded his head. “Yes. What would you do if such a world existed?”

“Well, I would go find it,” I said, “but only if it existed.”

“And why would it not exist?” asked rich dad.

“Because it’s impossible,” I replied. “How could there be a world where there was no monetary risk or money required to become rich?”

“Well, if you have already decided that it is impossible for such a world to exist, then it cannot exist,” rich dad said softly.

“Are you saying it does exist?” I asked.

“It does not matter what I think. What is important is what you think,” said rich dad. “If you say it does not exist, it does not exist. What I think is inconsequential.”

“But such a world is impossible,” I repeated. “I know it is impossible. There has to be risk.”

“Then it does not exist,” shrugged rich dad. “If you think it is impossible, then it’s impossible.” Rich dad was now answering me with a little more energy and a hint of frustration in the tone of his voice. “The reason such a world does not exist is because you still have your dad’s reality and his beliefs. You cling to those beliefs because that is the reality you were raised in. I cannot teach you much more unless you are willing to change that reality. I can give you more and more answers about how to become rich, but my answers are no good if you cling to your family’s reality on money and how life is.”

“But no money and no risk? Come on,” I said. “Be real. No one believes there is a world of no money and no risk.”

“I know,” said rich dad. “That is why so many people cling to job security and often assume investing is risky or that it takes money to

make money. They do not question their assumptions. They do not challenge their assumptions. Instead they believe their assumptions are real, never asking if there might be another reality or maybe a different assumption. You cannot become richer if you do not first question the assumptions under your beliefs. That is why so few people become rich or ever become truly financially free. But you're still not answering the question."

"So repeat the question," I replied, feeling very frustrated and wondering what he meant by not questioning my assumptions.

"The question was, 'What would you do if there were no risk, and it required no money to become rich?'" rich dad said, repeating himself slowly and deliberately, doing his best to get through my reaction so I could hear the question.

"I still think it is a ridiculous question, but I'll answer anyway," I replied.

"Why do you say it's ridiculous?" asked rich dad.

"Because such a world does not exist," I snapped back. "It's a silly question and a waste of time. Why should I even answer or think about such a question?"

"Okay," said rich dad. "I got my answer. I also hear your underlying assumption. To you, it's a waste of time to even think about such a world so you would not bother to think about the question. You already assume such a world does not exist so you think questioning that idea is a waste of time. You don't want to question your assumption. So because you don't think such a world exists, you don't want to think about it. You only want to think the way you have always thought. You want to become rich, but live in fear of losing money or live with the idea that you don't have enough money. To me, that is a strange reality, but I can accept your answer. I understand your assumptions, because they are very common assumptions."

"No, no, no," I said. "I'll answer your question. I'm just asking you if you are saying that such a world exists," I said, raising my voice, becoming angry and defensive.

Rich dad sat quietly, again not answering my question and letting me listen to myself. He was letting me listen to my reality.

“Do you want me to believe that world exists?” I asked heatedly.

“Let me repeat myself. It does not matter what I believe,” said rich dad. “It’s what you believe.”

“Okay, okay, okay,” I said. “If such a world existed, a world without financial risk and a world that did not require me to use any money to become rich, then I would be richer beyond my wildest dreams. I would not be afraid. I would not make the excuse that I don’t have any money or that I might fail. I would live in a world of infinite abundance, a world where I could have anything I wanted. I would live in a completely different world, definitely not a world I was brought up in.”

“So if such a world existed, would it be worth the journey?” asked rich dad.

“Of course,” I replied sharply. “Who wouldn’t make the journey?”

Rich dad just shrugged his shoulders in silence, again letting me listen to my own words.

“Are you saying such a world exists?” I asked again.

“That is for you to decide. You can decide what kind of world exists. I can’t do that for you,” said rich dad. “I made my decision years ago as to what kind of world I wanted to have exist.”

“Did you find your world?” I asked.

Rich dad never answered the question. His only reply was, “Do you remember the story of Alice and the looking glass?”

I nodded my head.

“Years ago, I went through the looking glass. If you believe such a world exists, then you may decide to make the journey through the looking glass. But you will only make the journey if you believe the possibility that such a world exists. If you don’t believe it exists, then you will only see a mirror, and you will stay on this side of the mirror, looking at you looking at you looking at you looking at you.”

My Answer to the Class

When I shared this story with the class, it was silent. I do not know if my answer was making any sense. Regardless if it made sense or not, I had given them the story behind the story. Wrapping up the answer, I said, “So that is when my journey began. After that conversation with rich dad, I became very curious. I thought about what he said for several years. The more I thought about it, the more what he said became a possibility. When I was in my early thirties, I knew I had to push my reality. I knew my school days with rich dad were over. I knew rich dad could not teach me much more or give me any more answers until I decided to change my reality and begin my journey. More answers were not going to help. I needed a new expanded reality. I knew it was time to leave the nest, as they say. I did not know if such a world existed, but I wanted it to exist. So my journey began once I made the decision that such a world was possible. With that decision, I went looking for that world, a world where there is no risk and a world that does not take money to make money. I was tired of looking in the mirror and not liking what I saw. That is when I went looking for a world through the looking glass.”

The class remained silent. I could sense that some of them were open to the idea, and some were fighting it. A student raised his hand and said, “So you believed such a world existed? Is that what you’re telling us?”

I did not answer his question. Instead, I just continued on with the story. “Soon after making the decision that such a world might be possible, I met Kim and told her of the journey I was embarking on. For some reason she wanted to come along. She said, ‘Well, what you talk about beats the reality I have right now, the reality of working at a job all my life. I don’t like my current reality so I’m willing to find a new reality.’”

The student who was trying to get me to answer his question finally put his hand down and just listened. “Kim was the first woman I met who was willing to entertain such a crazy thought. I was hesitant about telling her, yet she did not fight my ideas. Instead, she listened

for days as I told her of the world I thought might be possible. That was when our journey began. It was not about money, but more about a search for a different world. So I faithfully say to you all that, more than anything else, it was the search for that world that kept Kim and me going.

“Once we made the decision, we began our journey through the looking glass. We knew that once we started the journey we needed to be brave, be humble, study, keep learning, learn quickly as lessons appeared, and most importantly, we kept pushing our reality, for we knew the journey was a journey only in our hearts and in our minds. We knew the journey had little to do with the world outside of us, and everything to do with the realities inside of us. When times got really bad, it was this search of a different reality, a different world, that ultimately kept us going. Once the journey began, we knew we were never turning back. That search for a different world is what kept us going.”

There was a long silence in the room. Suddenly, a student shot her hand up in the air and asked, “So did you find it? Tell me if you found it. If it does exist, I want to go there. I don’t want to spend 50 years of my life working for money. I don’t want to spend a lifetime taking orders from money, living in fear of not having enough money. Tell me if another type of world exists.”

I paused for a moment, doing to them as rich dad had done to me years and years ago, allowing them the time to listen to their own realities. “That is for you to decide,” I finally responded after an extended silence. “It is not what I believe. It is what you believe exists. If you think such a world exists for you, then you’ll go through the looking glass. If not, then you’ll stay on this side of the looking glass, looking at you looking at you. When it comes to money, you have the power to decide what is real and what kind of reality you want to live in.” The class was over. Most of the class was in deep thought. As I finished packing my briefcase, I turned to them and said, “Thank you for your attention. Thank you for listening. Class is dismissed.”

IN CLOSING

In the fall of 1994, Kim and I took an extended break in Fiji. A friend had recommended this small exclusive resort on a small, private island. Before the sun came up one morning, a staff member from the hotel greeted us at our luxurious grass hut. “Your horses are ready,” he said with a smile and in a whisper.

We had been on the island for five days at this point. I was finally relaxing, winding down, and becoming more in sync with the slow gentle pace of this beautiful island paradise, surrounded by the crystal blue waters of the Pacific Ocean. It had been nine years since Kim and I had sat on Whistler Mountain, north of Vancouver, British Columbia, covered in snow, freezing, and creating our plans for financial freedom. As I climbed up on my horse, I reflected back to that time on the cold freezing mountain. Settling in the saddle, I thought about how different things now were in our lives. We were not shivering with cold anymore, and we were not poor with no money anymore. More important than just having a lot of money, we were now free. We never had to work again for the rest of our lives.

The horses slowly wandered along the trail that paralleled the beautiful white sand beach that surrounded the island. Although I could not see anything since it was still dark, I could hear the ocean just a few feet away and feel the ocean’s breeze as the horse gently navigated the narrow beach trail. The smell of the island soil and the tropical plants combined with the salt air, took me back to my childhood in Hawaii, to a time when Hawaii was still Hawaii. Although the horse ride was a short one, the memories that came back spanned a lifetime.

After a half-hour ride, the staff member from the hotel stopped the horses and assisted us to the ground. In the near distance, I could see several candles dancing in the wind. The guide took our hands and gently walked us toward the candles. The candles were sitting on a white tablecloth on a table in the sand, just a few feet from the gently lapping waves. The staff member sat Kim and me at the only table in the most beautiful restaurant in the world. As soon as we were seated, another staff member appeared with a bottle of my wife's favorite champagne. Through the candlelight, Kim and I toasted ourselves and our journey. Never in my life had I felt more love for my beautiful wife. She had stuck by me through some of the most trying times of my life. We did not say anything. We silently reached across the tiny table and held each other's hand, held our champagne glasses in the other hand, and said, "Thank you and I love you," with our eyes. We had made it.

As if on cue, the glow of the sun peaked over the ocean's horizon and we began to see nature's masterpiece surrounding us. On one side, we could see the lush green island rising from the sea. In front of us was pristine white sand, and behind us were tall green trees with birds beginning to call out. Across the sand, seeming to bring all things together, was a calm blue ocean stretching away from the beach and greeting the sun.

The waiter brought our breakfast of fresh tropical fruits as we sat silently watching the sun rise out of the water, slowly illuminating the beauty that surrounded us. Except for the waiter, we were the only people there. There was perfect silence, except for the sounds of nature. There were no neighbors, no cars, no beachgoers, no loud music, no cell phones. Best of all, there was no business to go back to. No meetings. No deadlines. No budgets. The business was gone. It had done its job, and we had sold it. We had nothing to go home to except our freedom. All there was at that moment was Kim and me and the overwhelming beauty of nature—God's magnificent creation.

Just as the sun finally broke free of the water, something snapped inside my head. My vision did not blur. It just seemed to vibrate,

and then the rest of me shook very briefly. It was a tiny earthquake, a tremor had suddenly moved through my body and my soul. Something was changing deep inside of me. The experience caused me to loosen up even more. As the warmth of the sun began to reach us from across the water, a feeling of immense gratitude started in my chest and spread throughout my body. Without realizing it, my context had completely shifted. I had stepped through the looking glass and now could clearly see a new way of life. I began to cry, not with sadness, but with profound wonder at the perfection, bounty, and abundance that surrounded not just Kim and me, but all of us.

Slowly, I realized that too much of the time, my fear of not being enough or not having enough prevented me from allowing the abundance that life here on earth offers. I realized that my personal struggle to become rich was primarily my personal struggle against my fear of being poor. I also realized why my rich dad always said, “It is your fear that makes you your own prisoner. It is your fear that locks you in your own cell, a prison that does not let the abundance of God in.” My mind drifted back to my youth and I could hear him saying, “Too often we think we are alone and we have to survive on our own. Too often we believe that, in order to survive, we need to do our job on our own. We are often taught that it is the survival of the fittest and if we are not fit, we do not survive. That is the way a prisoner thinks. Many people are financial prisoners of their fears. That is why they cling to threads of security, become greedy, and fight for scraps of money like starving dogs fighting over a meatless bone, rather than seek financial freedom.

“Finding your own freedom is easy. All you have to do is first look and see what God wants done, and then do what God wants done with the gifts that God has given you. If you will faithfully do that, the abundance of God will pour into your life. Life is not about earning a living. Just look at the birds, the plants, and all of nature’s creations around you. Birds don’t earn a living. Birds and God’s other creatures simply do what they were sent here to do. If you will simply trust in God and do what you were sent here to do, God’s abundance will be with you forever.”

Rich dad also said, “You don’t have to do the bird’s job. The bird is already doing it.” He said that because he saw too many humans competing for jobs, rather than looking to see what needs to be done. He said, “If you will look to see what needs to be done, and do what needs to be done, you will tap into God’s abundance.”

Kim and I sat at our little table on the beach for another hour. For the first time in my life, I understood what rich dad was saying. I had not fully understood him before this. I still had my personal context or reality in the way of letting his words in. But sitting on that beach, I finally stepped through the looking glass, and fully understood my rich dad.

As the wind off the ocean began to pick up, I could hear the horses in the background becoming restless. It was time for them to go home, and so it was for Kim and me.

A year later, I was sitting silently in my cabin on my mountaintop, asking myself the questions, “What needs to be done?” and “What can I do?”

When people ask me today why I keep working even though I do not need the money, the answer is my rich dad’s answer. I say, “I keep working because there are things that need to be done.” Today, all Kim and I do is leverage what we have learned to do more of what needs to be done. Ironically, the more Kim and I apply leverage in order to do what needs to be done, the happier and richer we become.

The good news is that you do not have to quit your job to do what needs to be done. You do not have to retire to do what needs to be done. Just look around you, and you will see what needs to be done. All you have to do is do what needs to be done with the gifts you have been given. If you will do that, you will tap into the abundance that has always been here for all of us, not just some of us.

My last day on that beautiful private island in Fiji was spent sitting on the beach, doing absolutely nothing. I had nothing to go home to except a whole new way of living, living as a free person. I squeezed Kim’s hand, letting her know how much I loved her, respected her, and thanked her for sticking with me through this journey. I could not have made it without her. Just before we picked up our beach mat

and headed back for dinner, I could hear rich dad saying, “Many small people spend their lives attacking giants. They criticize, gossip, spread rumors, and lie about them, doing their best to tear them down. They see what is wrong with the giant, rather than what is right. That is why they remain small. David may have been young, and he did not have much, only a simple slingshot. He may have been physically smaller than Goliath, but David was not a small person.”

The point of this book is that each of us has a small person, a David, and a Goliath inside of us. David could have stayed a small person by taking on the context of a small person, saying, “He’s bigger than I am. How can I take on a giant with only a slingshot?” Instead, David became a giant by choosing to take on the context of a giant. That is how he beat Goliath and became a giant himself. You can do the same.

In closing, leverage is everywhere. Leverage is power. Leverage is found inside of us, all around us, and invented by us. With each new invention—inventions such as the automobile, airplane, telephone, television, and the Internet—a new form of leverage is invented. With each new form of leverage, new millionaires and billionaires are created because they used the new leverage, not ruined or abused the new leverage. So always remember that the power of leverage can be used, abused, or feared. How you choose to use the power of leverage in your life is up to you and only you.

Thank you for reading this book. Remember to keep an open context. The future is very bright. The future will bring freedom for more and more people.

About the Author

Robert Kiyosaki

Best known as the author of *Rich Dad Poor Dad*—the #1 personal finance book of all time—Robert Kiyosaki has challenged and changed the way tens of millions of people around the world think about money. He is an entrepreneur, educator, and investor who believes the world needs more entrepreneurs who will create jobs.

With perspectives on money and investing that often contradict conventional wisdom, Robert has earned an international reputation for straight talk, irreverence, and courage and has become a passionate and outspoken advocate for financial education.

Robert and Kim Kiyosaki are founders of The Rich Dad Company, a financial education company, and creators of the *CASHFLOW*® games. In 2014, the company will leverage the global success of the Rich Dad games in the launch of a new and breakthrough offering in mobile and online gaming.

Robert has been heralded as a visionary who has a gift for simplifying complex concepts—ideas related to money, investing, finance, and economics—and has shared his personal journey to financial freedom in ways that resonate with audiences of all ages and backgrounds. His core principles and messages—like “your house is not an asset” and “invest for cash flow” and “savers are losers”—have ignited a firestorm of criticism and ridicule... only to have played out on the world economic stage over the past decade in ways that were both unsettling and prophetic.

His point of view is that “old” advice—go to college, get a good job, save money, get out of debt, invest for the long term, and diversify—has become obsolete advice in today’s fast-paced Information Age. His Rich Dad philosophies and messages challenge the status quo. His teachings encourage people to become financially educated and to take an active role in investing for their future.

About the Author

The author of 19 books, including the international blockbuster *Rich Dad Poor Dad*, Robert has been a featured guest with media outlets in every corner of the world—from CNN, the BBC, Fox News, Al Jazeera, GBTV and PBS, to *Larry King Live*, *Oprah*, *Peoples Daily*, *Sydney Morning Herald*, *The Doctors*, *Straits Times*, *Bloomberg*, *NPR*, *USA TODAY*, and hundreds of others—and his books have topped international bestsellers lists for more than a decade. He continues to teach and inspire audiences around the world.

His most recent books include *Unfair Advantage: The Power of Financial Education*, *Midas Touch*, the second book he has co-authored with Donald Trump, and *Why “A” Students Work for “C” Students*.

To learn more, visit RichDad.com



Real Estate, Investing... Tanks.



Break away from the evil SuperCorp by exploring the city, planning your investment strategy and acquiring the ultimate assets before your friends (or the evil SuperCorp Robots) can.

Test your mettle against the rest of the world while learning REAL-LIFE investment strategies (don't worry, you won't even notice 'til it's too late).

Dominate your friends and foes in this fast-paced investment strategy game. Download and play **Capital City** on your iPad or tablet today!

CASHFLOW® The Investing Game



Claw your way out of the Rat Race, build your CASHFLOW Empire and claim dominion over the realm (realm being your living room)! Based on the original board game proclaimed as "Monopoly® on Steroids" by *USA Today*, learn what it takes to build real wealth - all while having fun playing a game.

Begin the game in the Rat Race working in a variety of professions and work your way to become the next business or real estate mogul. Avoid the pitfalls of bad deals, friends asking for handouts, and getting laid off from your job. Craft your strategy to get out of the Rat Race using real estate, business, and the stock market and master CASHFLOW - The Investing Game!

Download and play **CASHFLOW® The Investing Game** on your iPad or tablet today!

FREE



CASHFLOW® The Web Game

INCOME	
Teacher at 100 Salary	Cash Flow
Interest On Bonds	
Real Estate Business	
HOUSING	
EXPENSES	
Taxes	5000
Home Mortgage Payment	1000
School Loan Payment	500
Car Loan Payment	500
Credit Card Payment	500
Spill Payment	500
Loan Payment	500
Child Support	1000
ASSETS	
Stock/Products	Cash/Bank
Real Estate Business	Real Estate Business
HOUSING	HOUSING
LIABILITIES	
Home Mortgage	100,000
Student Loans	10,000
Car Loans	5,000
Credit Cards	5,000
Auto Debt	5,000
Loan	5,000
Real Estate Business	Liability
HOUSING	HOUSING

Interactive Financial Statement

Learn what's really important in entrepreneurship and investing: Your Financial Statement.

Play **CASHFLOW® The Web Game** with up to six players online. Meet and interact with players who have the same goals and aspirations as you do. Test your skills and strategy against the rest of the world.

Anytime. Anywhere.

Play CASHFLOW® anywhere you have an Internet connection— any time of day.

The Best Part?

Learn to be wealthy by playing CASHFLOW online for **FREE!** Visit www.RichDad.com and start playing today!

CASHFLOW FOR KIDS



Teach your future entrepreneurs

CASHFLOW For Kids teaches you the difference between an asset and a liability and the principal of cash flow versus capital gains.

Kids get to practice real-world investing scenarios with play money.



Play CASHFLOW For Kids at home with your kids and friends. Visit the online store at www.RichDad.com

Asset or Liability?

Kids can tell if their investments were good or not.



BEST-SELLING BOOKS

BY ROBERT T. KIYOSAKI

Rich Dad Poor Dad

What the Rich Teach Their Kids About Money –
That the Poor and Middle Class Do Not

Rich Dad's CASHFLOW Quadrant

Guide to Financial Freedom

Rich Dad's Guide to Investing

What the Rich Invest in That the Poor and Middle Class Do Not

Rich Dad's Rich Kid Smart Kid

Give Your Child a Financial Head Start

Rich Dad's Retire Young Retire Rich

How to Get Rich and Stay Rich

Rich Dad's Prophecy

Why the Biggest Stock Market Crash in History Is Still Coming...
And How You Can Prepare Yourself and Profit from It!

Rich Dad's Success Stories

Real-Life Success Stories from Real-Life People
Who Followed the Rich Dad Lessons

Rich Dad's Guide to Becoming Rich Without Cutting Up Your Credit Cards

Turn Bad Debt into Good Debt

Rich Dad's Who Took My Money?

Why Slow Investors Lose and Fast Money Wins!

Rich Dad Poor Dad for Teens

The Secrets About Money – That You Don't Learn In School!

Escape the Rat Race

Learn How Money Works and Become a Rich Kid

Rich Dad's Before You Quit Your Job

Ten Real-Life Lessons Every Entrepreneur Should Know
About Building a Multimillion-Dollar Business

Rich Dad's Increase Your Financial IQ

Get Smarter with Your Money

Robert Kiyosaki's Conspiracy of the Rich

The 8 New Rules of Money

Unfair Advantage

The Power of Financial Education

Why "A" Students Work for "C" Students

Rich Dad's Guide to Financial Education for Parents

