Rich Dad's Guide to Becoming Rich

Commentary by Leo Schreven.

All credits go to Robert Kiyosaki and the book, "Rich Dad's Guide to Becoming Rich."

This month we are going through another book by Robert Kiyosaki. Many of you know he is one of my favorite authors—we have already gone through several of his books in our monthly CDs. This month's book is, "Rich Dad's Guide to Becoming Rich" (without cutting up your credit cards). In it he deals with a simple principle. Who is willing to pay the price? Many people say they want to be rich but they are not willing to pay the price.

According to the latest research, if you were to take 100 sixty-five year-old Americans, one would be wealthy, four would be well off, five would still be working because they had to, 54 would be living with family or on government support, and 36 would be dead. What we want to discover this month is the difference between the first 5% and the rest.

There are different ways to become wealthy. Many want the easy way like winning the lottery or winning on a game show. Some can become rich by being cheap, becoming a crook or marrying a millionaire. Each of these ways carries a price. There are better ways to become rich, with much better odds, but most people are not willing to pay the price. Some people want to have a body like Arnold Schwarzenegger, but they are not willing to pay the price to exercise and eat right. People want to keep eating like they always have, then have a little magic pill to take that makes them lose weight. And there are always people who create products promising a quick and easy way to get whatever you want.

In my personal experience, I have met many people who are looking for answers that will make their lives better or make them wealthy. The problem is, when they find the answer they don't like it. So I believe the primary reason people never become rich is because they simply don't like the answers they are getting. At the root of this the real problem is they don't want to pay the price.

In the first chapter Robert asked the question, "What is the price of being cheap?" There are those who promote the idea of frugality, living below your means, cutting up your credit cards, etc. But this goes against human nature because we want the nice things, and that is what most often gets us in financial trouble. So Robert introduces a very commonsense balance. There's nothing wrong with wanting—it is a good desire. So, be willing to pay the price—everything has a price.

The price of being rich is different for different people. We all come into this world with unique gifts and talents. But just because God gives us these talents does not mean that we will become rich. We have to develop our talents, and developing those talents is often the price. Also, while each of us has gifts, we each have personal challenges as well. Because we all have strengths and weaknesses, the price is different for different people. Financial wealth is the reward for paying the price.

It is well at this point to consider another price—the price of security. For most people, the price of security is personal freedom. Without freedom, most people spend their lives working for money, rather than living out their dreams. You have to ask yourself if you are willing to pay the price for security. People who seek security over freedom pay a very, very heavy price. Rich people have figured out how they can have both security and freedom. To get both however, you have to pay **twice** the price. Most people go through life paying for one or the other, but not both. So recognize there is a price for security, and also a price for freedom.

Robert then brings out a profound truth that is worth the entire price of the book. He talks about Newton's law—"for every action there is an equal and opposite reaction." The same law applies to your finances. For there to be an expense, there must also be income. For something to be up, something else has to be down. And for something to be old, something else has to be new. Based on this law, if a person doesn't pay twice the price they never get what they want. (You may want to ponder that for a few minutes.)

For example, people who pay the price for security, never really feel secure. Job security is a false security. Why?—Because the person is paying only for the action but not the internal reaction. The harder he works for security or pays the price for security, the more insecure he becomes. The person pays the price for one side of the equation, but fails to pay the full price because they are violating a universal law. (That's why it takes two people to have a fight.) To lower risk, you have to take risk. To know what a good investment is, you have to know what a bad one is. This is why many people put money in a savings account. They put it in for security and are willing to take less interest for that safety. But the fact is, the money is being eaten away by inflation and the interest on the money is taxed at a higher rate. So their "safe money" is actually losing money.

In the next chapter Robert tells a story of how he failed in English class and was going to have to repeat the grade. It was a severe disappointment for him, but was a blessing in disguise and helped him make a few corrections in his attitude and study habits. The main lesson he learned was to quit acting like he was a victim and loser. Just because you fail once doesn't make you a failure. One difference between a successful person or an average person is how much criticism they can take and learn from it. The average person cannot take much criticism and that is why they remain average all their lives. This is why they fail to be leaders. Average people live in fear of what someone might say, fear of criticism, fear of what someone might think of them.

Here is the bottom line: 33% of people will love you no matter what you do; 33% of people will dislike you regardless of what you do; and 33% of people don't care either way. Your job in life is to ignore the 33% who will never like you, and do your best to convince the 33% in the middle to join the 33% who love you. You see, most people feel safer being average, normal, just going along and doing what everybody else does. They find it easier.

The story starts to get funny at this point in the book because the rich dad asks Robert “Has my banker ever asked to see my report card?” The obvious answer is no. The banker does not ask if I was a straight A student or if I had good grades. If I gave my banker my report card he would not loan me $1 million for good grades. No, all the banker asks for is your financial statement, your profit and loss statements, and balance sheets. Recognize then that your financial statement is your report card once you leave school. A person that has straight A's on their report card can have an F on their financial statement in life.

In real life, many adults never receive a financial report card until it's too late. Therefore many adults fail to make financial corrections necessary to lead a life that is financially secure. They may have a high paying job, a big home, a nice car, and they may be doing well at work, yet they're failing financially. If people can learn from their mistakes, just as a child learns to ride a bicycle by falling off it, a whole new world will open to you. One of the greatest reasons so few people achieve great wealth is because they fail to make enough mistakes. Mistakes can be priceless if we are willing to learn from them. One of life's greatest gifts is the gift of making a mistake. Our society is filled with poor people because they believe they should "play it safe, don't make mistakes, people that make mistakes are failures," etc. Recognize that the price of becoming rich is the willingness to make mistakes, to admit you made a mistake without blaming or justifying, and learn from it.

The next chapter is titled, what is the price of education? I think we all recognize that the education system is behind the times. It is an old industrial-age system that is trying to adjust with the information age, and obviously not doing a very good job. In the industrial age, things like job security, having one profession, pay raises, and the assurance of a pension plan and Social Security defined this time. In the information age everything has changed. The industrial age taught you to get good grades so you could get a good safe secure job. That kind of thinking will ruin you financially today—depending on government for Social Security and Medicare will ruin you financially as well. It looks like the lag time for our world to understand this concept is going to be 50 years or more. By lag time I mean, the difference between the conception of new ideas, and their acceptance by people.

When I was a kid everything was so clearly defined—there were two superpowers. In the information age the World Wide Web has left nobody in charge. Information and technology are doubling every 18 months which means all of us need to double our information every 18 months or risk falling behind. That is why today the most important thing is how fast you can learn and keep up. It is risky to receive advice from anyone with old information. And today old information can be only 18 months ago.

Let's take a moment to define the three kinds of education. First there is scholastic education. This education teaches you how to read and write and do arithmetic. Second, there is professional education. This education teaches you the skill to work for money such as learning to be a doctor, plumber or an electrician. Third, there is financial education. This is the education that teaches you how to have money work hard for you. Obviously you need all three. However in the information age, it is not so much what you know that is costing you money, it is what you don't know that is most expensive. A simple example is taxes. Most of us realize that taxes are the single largest expense we have. We are taxed when we earn, spend, save, invest, and die. Then consider the difference you pay as an employee compared to what a business owner pays in tax. The dollar amount over 40 years is staggering. That's just one small example. I do seminars almost every weekend and urge people to open a home-based business because the average American would save $14,000 a year in taxes alone. That's one little piece of education. But my surveys show that 97% of the people don't do it after I leave! That's the biggest problem.

When you add to that simple things like a person who cannot read a financial statement or even know what it is, or a person that doesn't know the difference between an asset or liability, or good debt and bad debt, or the differences between passive income, earned income, or portfolio income. It is this lack of basic financial education that undermines a person's basic financial intelligence and that's why so many fail to get ahead financially. They may have job security, but many never find financial security.

Financial intelligence is not how much money you make, but how much money you keep, and how far that money works for you. Let's take a moment and discuss a financial statement. A financial statement is like reading the story of a person's life. It shows you how smart or dumb you are financially. The income column should show three kinds of income. First is earned income, second passive income, and third portfolio income. In most cases a poor or middle-class person shows only earned income such as their salary. A middle-class to moderately wealthy person has earned income plus passive income. The passive income may come from real estate, a multi-level marketing company, or any other such investments. A wealthy person will have all three including portfolio income where his money is working for him in stocks, mutual funds, bonds etc.

You see there are only two things you can invest—time and money. Most people are not willing to invest either time or money in financial education and that is why the majority of people do not become wealthy. By not knowing your financial statement, most people never really know how well they are doing financially. The more you are financially educated, the more you begin to live in a different universe. Wealthy people do not look for a big paycheck. Why? Because your paycheck is earned income, and earned income is the highest taxed income. Because most people earn money like this they live on what we call the financial red line. Basically every dollar coming in, is going out as an expense. This is why many people who get good grades in school do not do well financially. Real life is not made up of right answers. Real life is made up of multiple guesses, and some turn out to be right and others wind up being wrong. Most people live their life on the red line, and they can't afford even one little failure, they can't afford to lose. And they don't realize that losing is part of winning. They are so concerned with survival that they cannot imagine a life of wealth.

In the next chapter Robert discusses the price of cutting up your credit cards. This mentality is similar to going on a diet. You go on a diet for 30 days but you actually haven't changed your mind. You're still the same person. So the fateful day comes when you are tempted to eat something with fat and sugar and you fall into your old lifestyle again. When you cut your credit cards, you cut them up but the nature of yourself is not changed. That is why you will suddenly go on a shopping spree and rack up the credit cards all over again.

When you think about it, one of the main reasons people spend money is to make themselves happy. That's why cutting up your credit cards has a negative effect. So rather than cutting our credit cards, we have to change our education and understand the difference between good debt and bad debt. In the simplest terms, every time you go in debt using someone’s money, you become an employee of their money. That is bad debt. Good debt is debt that someone else pays for you. For example, the bank gives you a loan for an apartment, but your tenant pays for it. The rich actually have <u>more debt</u> than the poor. The difference is that they have good debts and the poor and middle-class are loaded up with bad debt. You treat good debt like a loaded gun—that means with a lot of respect. If you don't you can get wounded or even killed. People who respect and harness the power of good debt can become rich beyond their wildest dreams. So just like a gun it has the power to make you very powerful and also to kill you. Recognize that simply cutting up your credit cards and getting out of debt does not solve your problem nor does it make you happy. If a person wants to become rich, they need to know how to get into more good debt, learn how to respect the power of that debt, and learn to harness its power as well.

Robert shares a great story in the book on this point. He describes a Porsche that he really wanted to buy—it was the car of his dreams. Rather than going into bad debt, which would've been to take out a loan, make monthly payments, and have money going out as a liability, he instead purchased a good debt. He borrowed the bank's money for a piece of property and the cash flow from the property paid for his Porsche. He continued to put money in his pocket after the Porsche was paid for and he became wealthier while paying for his expensive Porsche. That is good debt. Another person who bought the same Porsche would become poorer. Why? The income from their jobs is their only source of income. They could drive the same Porsche and look like they have money, but they actually bought a liability by taking money out of their earned income every month. They didn't understand the difference between good debt and bad debt. Buying assets with good debt that provides you a cash flow for paying for the things you want in life is how the rich get ahead.

In the simplest terms, when wealthy people borrow money, they are not the people who pay for the loan. That is the key. Good debt is debt that someone else pays off for you. Bad debt is debt that you pay for with your own sweat and blood. This is why I like real estate.

Real estate is probably the best way to utilize good debt. A simple example would be the purchase of a small home for $100,000. With a down payment of $10,000 you get a mortgage for the balance. In most cases the bank will be happy to give you a mortgage. Why? The mortgage is secured by the collateral value of the house. Remember, banks are in the business of making loans, that's how they make money. Your monthly payments are about $700. But in this case you are not going to pay off the loan. Someone else can pay the loan off for you. You rent the house out for $1,000 a month and someone else is making your house payment for the next 30 years. During this time, your house doubles in value. Plus you have earned an extra $300 a month. That extra $300 a month is known as passive income. In other words, you're not doing anything to earn it.

When people make up their minds to do something about their financial lifestyle and have the self-determination to look at other ways of generating money, they get ahead. Once you master the different types of income, whether it's earned, portfolio, or passive, you get ahead. It is a matter of discovering there are better ways to make money than just having a job.

There is another point to this—the power of inspiration. Having a job does not inspire most people. I believe God is a God of inspiration. When you begin to feel the generosity, the beauty, and the abundance of God, it inspires you to go out and create more. Once you begin to create passive income, it inspires you to do more.

It's also important to note, that banks don't care whether you buy an asset or a liability. Banks will loan you money for a liability as long as they know you can make the payments. It is up to you to choose whether you're buying assets or liabilities. Both are assets to the bank because they'll make money either way. Here is how it works—people who borrow money first to buy assets, usually end up with more money to buy enjoyable liabilities. People who only buy liabilities often have no money left over to buy assets. There are three primary assets a person can invest in: First, business assets; second, real estate assets; third, paper assets. Ask yourself which one of these three assets does your banker love the most? The answer of course is real estate. If you want to become rich you must give your banker what he wants. First, he wants to see your financial statements. Second, he wants to loan money to buy real estate. Just figure out what your banker wants and you'll find it easier to become rich.

In the next chapter Robert deals with the honest question of how much debt you really have. Most people resist this chapter because it's like going to the dentist—you know what's good for you but it's not always fun. But if you're serious about building positive cash flow you have to start with this. There is a series of nine questions Robert asks to see where you are. Let's go through these nine questions together.

1. Do you routinely pay your bills late?
2. Have you ever hidden a bill from your spouse?
3. Have you neglected repairing the car because of insufficient funds?
4. Have you bought something recently that you didn't need and could not afford?
5. Do you regularly spend more than your paycheck?
6. Have you been turned down for credit?
7. Do you buy lottery tickets in the hope of getting out from under your debt?
8. Have you put off saving money?
9. Does your total debts, not including your mortgage, exceed your cash reserves?

If you said yes, one to five times, you need to get serious about reducing your debt. If you said yes, six to nine times, you're headed toward financial disaster.

Changing your habits depends totally on you and how eager you are to take control of your financial life. The first step, pay yourself first. Whenever you get a paycheck the first bill you pay is to yourself—not the car payment, not the mortgage, or the rent. Pay yourself a decent bit of money and put that money into a savings account and don't touch it until you're ready to invest in some good asset. The second step, cut back on anything that is not important. These are usually things that we crave but we really don't need. It might be a fancy car, or expensive restaurants, or clothes. Whatever it is, just stop the habit of purchasing compulsively. You need to adopt the old-fashioned virtue of delayed gratification. Once you do this you are now taking control of your cash flow. If there is not enough money at the end of the month, it will force you to creatively come up with a way to generate more money, such as an extra part-time job, or starting a small home-based business, etc.

Then we have a few tips for quickly eliminating your debt and getting out of the hole:

1. Cut up all your credit cards except one or two. Determine you will not add any debt to the cards unless you can pay it off every month. Determine you will not incur any further long-term debt.

2. You need to come up with a way to generate an extra $300 to $500 a month. Most people are too lazy to do this, but if you just take the same time you're wasting watching television, and work a productive job or business, it is easy to generate this just working a few hours a week.

3. Pay the minimum amount due on all your credit cards except one. On that one, apply as much of the $300-$500 you can to pay it off each month. Always start with the credit card you owe the least amount on. Once you pay it off, call the credit company and cancel the card.

4. Once the first card is paid off, then apply the total amount you were paying each month on that card to your next credit card. Continue this process with all your credit cards and consumer credit. As you pay off each debt, the monthly amount you are paying off on the next debt will increase and go faster. That is encouraging.

5. Once all your credit cards and other debts are paid off, continue the procedure with your car and house payments. Believe it or not, it will not take long to become debt free. You just have to have the discipline to buckle down for a few years and do it.

6. Once you are completely debt-free, take the monthly amount you are paying on your last debt and put that money toward investments. Build your asset column in your financial statement.

Some other helpful items are:

Start paying all your bills on time to avoid late fees.
Find a credit card with the lowest interest rate and no annual fees.
Don't use ATM machines that charge an extra fee.
Get in the habit of paying cash. Use a charge card only for emergencies.
Learn how to stop buying on impulse. Use your willpower to say no!
Shop at wholesale clubs and discount department stores.

Don't spend over your budget! No matter what, never break this rule.
Buy generic medicines, not name brand. They're both the same.
Winterize your home from top to bottom. Eliminate those areas where you lose energy.
See if you can save money on your cell phone bill or monthly plan.
Check on your insurance policies, to see if you can get the same insurance for less.

What we are saying is, get in the habit of watching how you spend every dollar. Most people as they begin to watch these things can save $50 a week. That's $200 a month. Your goal should be to get out of debt as quickly as possible so you can start buying assets that will generate the passive income to pay for your phone bills, electric bills, insurance policies, and more.

Recognize also there are two types of debt: secured debt and unsecured debt. Secured debt would be like your home mortgage or your car loan. You have something secure to back it up. Unsecured debt is debt without any collateral backing it up such as your credit card bills, medical bills, etc. Always try to get rid of the unsecured debt first. The sooner you can eliminate it the more you have control of your finances. If you are in a situation where your credit card debt seems impossible, you may want to contact the national foundation for credit counseling. Their website is www.nfcc.org or you can call them at 800-388-2227.

In the next chapter, Robert deals with the fundamental challenge of human nature and the fact that it resists change. Most people do not take action to change because they are filled with fears. These fears paralyze them and cause them to do nothing. Doubts constantly enter their mind and they become prisoners of their own doubts and fears—so they keep doing the same old things, hoping things will change. Isaac Newton's law of conservation of energy says, "A body at rest stays at rest—A body in motion, stays in motion.” The price of becoming wealthy often means doing something different. Starting from scratch, getting a new ball rolling, making a few mistakes along the way, and eventually becoming smart at something new.

Robert then discusses his famous cash flow quadrant. We teach this at length in our seminars, but for those that may be new there are four ways you can make money. First as an employee, second as self-employed, third as a business owner with a business system that generates residual income, and fourth as an investor where money works for you. He then brings out a very critical point. Most people are willing to change within the quadrant they find themselves already in. For example, if you are an employee, you will sometimes be comfortable enough to go work for somebody else or change jobs. But Robert brings out that if you're going to become wealthy you have to get out of the quadrant you're currently in and get into the business owner quadrant where you have a system that provides residual income whether you work or not.

To do this you have to get control of your emotions. When emotional thoughts overcome your mental thoughts you are paralyzed. You cannot be afraid of making mistakes. In my personal experience of observing highly educated people I have found the majority of them are poor. I believe the major contributing reason is they were taught that making mistakes is bad. But in the real world the person who makes the most mistakes and learns from them is the one that wins. You have to get beyond the emotional fear of making a mistake. The fear of failure causes most people to fail. What works in school, often does not work in real life. Most people who struggle financially do so because they can't break out of old ideas that were programmed into their minds through education. Ideas like, "don't make mistakes," "get a secure job," are good ideas for people who want security, but not for people who want financial freedom. You can gain a big financial advantage by being willing to make more mistakes than others.

When people ask me what to do, I always hesitate to answer. Each of you listening to this has certain strengths, weaknesses and abilities—so only you can answer the question. What I can advise you to do, however, is to be open to change. Life is about change. If you cling to your old ways, and resist change, you will not become successful financially. The uncertainty of change can be frightening. We all have self doubts. But the human spirit is such that if you believe in who God has made you, then you will press on in spite of uncertainty and doubt. You will conquer where others have given up.

Your financial life is like a golf game. You can read all you want about it, but ultimately you are the only one who can improve your score. Most people know they are in trouble financially, but they do not do what is necessary to get out of it. They do not want to face their financial statement. When you face your statement you face yourself. You begin to find out what you know and you don't know. You become accountable to yourself. If you have failing grades financially, you can improve the grade. The question is, are you willing to pay the price to become wealthy?

Blessings and best wishes,
Leo