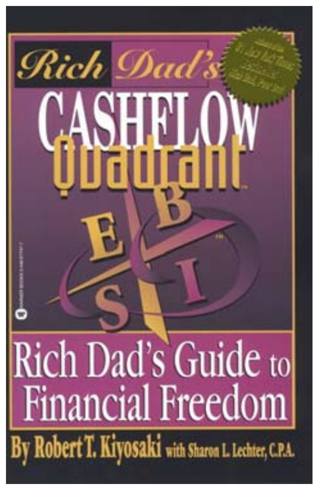
BusinessSummaries
WISDOM IN A NUTSHELL

CASHFLOW Quadrant

Rich Dad’s Guide To Financial Freedom



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The Big Idea

E B

S I

The letters in each quadrant represent the Employee, Self-Employed, Business Owner, and Investor. Discover how to move from the left side to the B and I Quadrants, where you work less, earn more, pay less taxes and have more free time to spend with your loved ones!

Introduction

"The benefit of living in a free society is that we all have the choice to be rich, poor, or middle class. The decision is up to you."

- Robert Kiyosaki

How did this author go from homeless to being financially free in a few short years? In a nutshell, you must be true to yourself and what you want to achieve. Sit down and map out your financial plan. Control your spending habits. Minimize your debt and liabilities. Live within your means and find ways to increase your means. Develop a long-term plan. Keep in mind your most valuable asset is Time. Keep things simple. You will later learn all about the different quadrants and be able to plot your own unique path to financial success by having more than one source of income, real assets, and investments.

Put something away. Pay yourself first. Mind your own business. Invest in assets that put money in your pocket. Build an efficient and profitable business system that earns and works hard for you while you are out playing golf.

It isn't about how much money you make, it's really about how much money you keep, how fast it grows and works for you, and for how many generations it will last….

What do you want to be when you grow up?

We have all been conditioned all our lives to go to school, get good grades, and then get a safe, secure job. This is Industrial Age thinking.

In today's Information Age, this advice is obsolete. We are not taught how to become business owners and investors. Gone are the days when the company or government can guarantee a pension for your old age. Today and in the future, more and more people will see that they can only rely on themselves and their financial knowledge if they want real security.

It would be wiser to condition ourselves, and our children into thinking: Go to school, get good grades, build businesses, and become a successful investor.

Risk? What risk?

In reality, there is a greater risk in sticking to a job than in minding your own business or putting money in investments. A job can easily be taken away from you anytime.

On the other side of the quadrant, you can sell your business off for a good sum, and relax while the investments you made years earlier provide you with the cash flow for the comfortable worry-free lifestyle you and your family have always dreamed of…

Chapter One
"Why don't you get a job?"

Yes, you can always get a job. But you can't always find financial freedom. The difference between Rich Dad and Poor Dad was that as Rich Dad became more successful, he had more free time to spend with the people he loved. As Poor Dad became more successful in the field of education as a state employee, he had less and less free time because of meetings and work. Financial freedom means having the cash flow and the free time. A job and a boss won't give you that kind of freedom.

It doesn't take a formal education to become rich. Bill Gates, Michael Dell, Ted Turner, Thomas Edison, Henry Ford, Steve Jobs, Ralph Lauren. These people dropped out of school and built successful businesses.

It doesn't take money to make money. The author of this book and his wife started out with absolutely no money. Today they have a real estate company, two educational companies, a mining company, and an oil company.

You can earn income in all four quadrants, regardless of what you "do" professionally. A doctor can be employed by a hospital (E), have his own private practice (S), own a laboratory or clinic (B), and invest in the stock market, bond market, and real estate (I).

Rich Dad's Wisdom in a Nutshell:

"You only have so many hours in a day and you can only work so hard. So why work hard for money? Learn to have money and people work hard for you, and you can be free to do the things that are important."

Time to raise children
Have money to donate to charities and projects
Bring jobs to the community
Time and money to care for your health
Time and money to travel the world

Money supports life. Don't spend your entire life working so hard for it.

Chapter Two
Different quadrants…Different people

"If you want to be a leader of people, you need to be a master of words."
-Rich Dad
You can tell the difference between an employee-type, a self-employed person, a business owner, and an investor, by the kind of words they use.

Employees use words like "benefits, security". What drives them is Fear.

Self-employed people use words like "Do it yourself" Be your own boss. For them money is not important but "independence, freedom" are. They are considered experts in their fields and like to do things their way. Quality of work is much more important than money.

Business owners like to hire E's and S's so they can keep their minds busy with the occupation of thinking. What do they like to think up? New business plans, of course.

A real business owner can leave his business for a year, and return to find it more profitable. She builds a system that is capable of running on its own, with capable managers.

It's not about the burger, stupid.

McDonald's is the perfect example of the business system. Everywhere in the world, all McDonald's stores operate the same way, millions of teen-agers greet you in a uniform manner, and food is prepared the same way. Anyone can make a better hamburger than McDonald's, but not everyone can build an efficient operating business system like McDonald's.

Investors make money with money. They don't have to work because their money is working for them. This is where great wealth is made. The rich may be Employees, but only in their own corporations. If wealth is the number of days you can survive without physically working and still maintain your standard of living, then investors can simply do nothing and their grandchildren will still be provided for.

To be an investor, you need to understand …

- Risk is something you can manage, control, minimize, or even eliminate.
- Portfolio concentration or focusing on a few investments, rather than diversifying, is a better strategy. (Warren Buffet)
- You have to first mind your own business. A successful investor gets his training from running his own business. This teaches him how to assess potential investments later on.
- Freedom comes at a price. You will learn by making mistakes, sometimes costing you millions. You need to be prepared for disappointments, closing down of your companies, or sudden changes in the financial climate.

Chapter Three
Why people choose security over freedom

Those who live on the E and S side of the Cashflow Quadrant are motivated by security. Those on the B and I side are motivated by Freedom.

When you stay on the E and S side, your taxes on income and interest on debt only increase over time.

The rich take full advantages of tax shelters and tax laws. Most people focus on income, the rich focus their sights on investments.

The average American millionaire is self-employed, lives frugally, and invests for the long-term. It is always better to have a foot in each quadrant than in just one. You could be a firefighter (E) and enjoy your work, working only two days a week, receive great benefits, and on the remaining three days of the week, be a professional (I) investor -buying, fixing up and renting out houses.

Financial freedom happens when you have people working for you (B) and your money is working for you (I).

"The only difference between a rich person and a poor person is what they do in their spare time."
-Rich Dad

How do you get to be an I? First, get your experience and education as a B or Business owner. Then if you have a business that is up and running, you should have the free time and the cash flow to join the I quadrant.

Chapter Four
The 3 kinds of business systems

There are 3 main types of business systems commonly in use today:

- Traditional C-type corporations –where you develop your own system
- Franchises –where you buy an existing system
- Network Marketing –where you buy into and become part of an existing system

Remember, you may lose two or three companies before you build a successful business.

How to become a B:

- Find a mentor, someone who is already at the peak you want to achieve.
- Buy a franchise.
- Join a network marketing company

To be a successful Business owner, you need to overcome your fear of rejection when trying to make a sales pitch. You need to learn to lead different types of people.

Join organizations with proven track records and distribution systems.
Have a business opportunity you can share confidently with others.
Have ongoing long-term educational programs to develop you as a human being.
Have a strong mentor program. Learn from leaders, not advisers.
Have people you respect and enjoy being with.

A system is your bridge to financial Freedom. If you are able to run a successful business system, you are on your way to the big I quadrant.

Chapter Five
The 7 Levels of Investors

Level 0: Those with nothing to invest. They spend more than they earn.

Level 1: Those who borrow and consume, shop, and go into deep debt

Level 2: Savers put away a small amount in low-risk, low-return vehicles. They waste Time waiting for their savings to grow.

Level 3: Smart investors 3-A's invest in retirement plans, and hand over their money to a financial planner. Level 3-B's are the cynics who are often late in the game and think they know about the stock market when in reality they know very little. 3-C's are gamblers. They do not study investments, and are lazy to really know their trading rules.

Level 4: Long-term investors have clearly laid-out long-term plans. Simply reducing your consumer debt and putting a little away in a mutual fund can give you a financial head start.
Level 5: Sophisticated investors seek aggressive strategies and know how to play the game of investing. They have sound financial base, good money habits, and investment savvy. Nothing is in their names for tax purposes, and they control corporations. They control the legal entities that own their assets. They are what we term "stewards of money".

Level 6: Capitalists category is where we find the Kennedys, Rockefellers, Fords, J. Paul Gettys and Ross Perots. They create investments, jobs, businesses, and goods that make a country prosper. Level 6 investors create investments other people buy.

Chapter Six
You cannot see money with your eyes

Money is an idea. It is something you see with your mind. When you understand how to see if an investment is good or bad through its numbers, when you understand financial statements, annual reports, and market trends, this is when you will be able to see money.

How do you train your brain to see money?
With a trillion dollars electronically orbiting the planet, money changes hands and everyone is free to get some of it. Those few who know how to make it work are the ones who move the millions and billions from continent to continent.

First, understand the words and numbers in the language of money.
Second, recognize what real risk is. Bad financial advice is a risk. It is up to you to train yourself about strategies and investments.

Your home is not an asset. It is to the bank you pay the monthly mortgage to, but not to you. An asset puts money in your pocket. A liability takes money out.

Your savings are an asset but they get taxed, and interest is low.

The more people you are indebted to, the poorer you are.
The more people indebted to you, the richer you are.

Do not make your financial decisions based on other's opinions. You need to review the facts.

Chapter Seven
Becoming who you are

BE-DO-HAVE

Have represents the goals we want to accomplish. In order to reach these, we need to start Being or Becoming the person we want to be. We have to think the way rich people think about money. We need to Be before we start doing.

PASSION BUILDS BUSINESSES; NOT FEAR.

Build a system around your passion. You can be anything you want.

The irony of the Cashflow Quadrant is, it is more secure on the B and I or right side of the quadrant because if your system produces more and more money, you will never need a job.

The faster you want to get rich, the faster you need to master numbers and learn to be more accurate.

Chapter Eight
How do I get rich?

Play Monopoly. The basic formula this author followed was "buy four green houses, then sell them and get one red hotel." By age 47, Robert Kiyosaki and his wife Kim were living off the passive income from their apartment houses, hotel, and mini-storages.

If you are buying cars and homes just to keep up with the Joneses, you'll easily see why the Joneses are always so exhausted and in debt. To become rich, Rich Dad lived a modest lifestyle for many years, drove a modest pick-up, and quietly bought up most of the real estate in Hawaii. He finally moved into a large beautiful home only after he paid for it in Cash.

Learn to control your emotions. You need to learn to control the fear of losing money, taking a risk and quitting your safe, secure job.

Moving from quadrants on the left (E and S) to quadrants on the right is more emotional than technical. If people cannot control their emotions and thoughts, they will not be able to shift quadrants.

In your struggle, you may experience being homeless, broke, and alone, while everyone else nags you to get a safe, secure job with benefits. Stick to your guns and focus on your dream of building businesses, investing, and by the end of a few years of hard work and determination, you will be able to silence your critics by offering Them safe, secure jobs in Your company.

Chapter Nine
Be the Bank…not the Banker

The 1986 Tax Reform Act sent a panic through the people. Much of the wealth was transferred from the E and S quadrants to the B and I quadrants. Many did not see the opportunities that this law provided for business owners and investors.

For people who want to operate on the B and I side, read The Worldly Philosophers by Robert Heilbroner. It traces the greatest economists of our time, from Adam Smith to the great capitalists. History repeats itself, so by studying the economic history of capitalism, you can learn a lot.

Why invest in real estate?

- Pricing. In the days the author acquired his, prices were so low it was like going to a fifty per cent off sale at a department store.
- Financing. Banks offer loans on real estate. With $10,000 in cash and a 90 percent loan, the author bought a $100,000 property.
- Tax benefits. In real estate the $1 million could be rolled tax-free into another real estate transaction.
- Cash flow. High rent prices paid for the mortgage, maintenance, and bought the author time to wait until real estate prices went up again.
- Real estate allows you to become a bank. You sell the house for a low downpayment, and collect the monthly payments at an interest.

Remember:
Everyone's financial situation is different.
Seek out the best professional and financial advice you can find.
Seek advice from people who are already in the place where you want to be.

There are different advisors for the rich, poor, and middle class.
Never do business or invest for tax reasons. A tax break is an extra bonus for doing things the way government wants. It should be a bonus, not the reason.
For non- U.S. citizens, the advice remains the same. Our laws may be different, but the principles of seeking competent advice remain the same. People on the right side of the quadrant operate similarly throughout the world.

Chapter Ten
Take baby steps…

A study once found that people who became wealthy regardless of which country they lived, possessed the same qualities:

- They maintained long-term visions and plans
- They believed in delayed gratification.
- They used the power of compounding in their favor.

How do you start thinking like a rich person? We recommend you play the game CASHFLOW. You cannot change poor and middle class thinking overnight, but with this specially designed board game, you will be able to gradually see the difference in thought processes.

Seven Steps to finding your financial fast track

1. Mind your own business.

This means fill out your own financial statement, set financial goals, and 5-year plan.

2. Take control of your cash flow.

Determine which quadrant you receive your income from today. Then determine which quadrant you want to receive the bulk of your income from in five years.

Pay yourself first. Put aside a percentage from each paycheck or payment. Deposit that money into an investment savings account. Do not take it out until you are ready to invest it.

Reduce your personal debt by cutting up credit cards, coming up with an extra hundred dollars a month, and putting that to your monthly payment of one of your credit cards. When you are completely debt-free, take the hundred dollars and put it in your investment savings account.

3. Know the difference between risk and risky.

Define risk in your own words. Ask yourself is relying on a paycheck risky to you? Is having debt every month risky to you? Is owning an asset that generates cash flow into your pocket each month risky to you? Is spending time learning about financial education risky to you? Is spending time learning about different types of investments risky to you?

Commit 5 hours each week to do one or more of the ff:

- Read the business page of your newspaper and the Wall Street Journal.
- Listen to the financial news on TV or radio.
- Listen to educational cassettes on investing and financial education.
- Read financial magazines and newsletters.
- Play the board game CASHFLOW.

4. Decide what kind of investor you want to be.

Type C investors do not know very much about investing. They can only get rich if they marry a rich person, or win the lottery.
Type B investors ask, "What do you recommend I invest in? Do you think I should buy real estate? What mutual funds are good for me?"
Type A investors look for problems and solve them expecting to make returns of 25 percent to infinity.

5. Seek mentors and role models

Who you spend your time with determines your future.

6. Make disappointment your strength

In other words, in business you must expect to be disappointed. Be kind to yourself. Make mistakes so you will learn from them.

7. Believe in yourself and start today!

