

*From the
Author of
Rich Dad Poor Dad
the #1 Personal
Finance Book
of All Time!*

RICH DAD'S
RETIRE YOUNG
RETIRE RICH

HOW TO GET RICH
AND STAY RICH



ROBERT T. KIYOSAKI

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Plata Publishing, LLC
4330 N. Civic Center Plaza
Suite 100
Scottsdale, AZ 85251
(480) 998-6971

Visit our websites: PlataPublishing.com and RichDad.com

Printed in the United States of America

082014

First Edition: January 2002

First Plata Publishing Edition: May 2012

ISBN: 978-1-61268-040-8

*To all people who have gone before us...
people who have made all of our lives better and
more abundant today.*

Author's Note

This book was completed six months before the tragic events of September 11, 2001. Nonetheless, the information in this book is more important now than ever before.

During these uncertain times, your financial education becomes even more valuable.

If you're tired of the same old investment advice—such as “Be patient,” “Invest for the long term,” and “Diversify”—then this book is for you.

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Introduction

WHY DAVID MET GOLIATH

The story of David and Goliath was one of rich dad's favorite stories. I suspect he may have seen himself as David, a man who started with nothing, yet rose to compete against the giants of business. Rich dad said, "David could beat Goliath because David knew how to use the power of leverage. A young boy and a simple slingshot were far more powerful than the feared giant, Goliath. That is the power of leverage."

My previous books were on the power of cash flow. Rich dad said, "*Cash flow* is the most important term in the world of money. The second most important is *leverage*." He also said, "Leverage is the reason some people become rich, and others do not." Rich dad went on to explain that leverage is power and that power can work in your favor or against you. Because leverage is power, some use it, some abuse it, and others fear it. He said, "The reason less than 5 percent of all Americans are rich is because only 5 percent know how to use the power of leverage. Many who want to become rich, fail to become rich because they abuse the power. And most people do not become rich because they fear the power of leverage."

There Are Many Forms of Leverage

Leverage comes in many forms. One of the recognized forms of leverage is the leverage of borrowing money. Today we are aware of the severe problem of people abusing this powerful form of leverage. Millions of people struggle financially because the power of debt leverage is used

against them. Because of the consequences of the abuse of debt leverage, many people now fear this form of leverage, saying, “Cut up your credit cards, pay off your mortgage, and get out of debt.”

My rich dad would chuckle and say, “Cutting up your credit cards won’t make you rich. Cutting up my credit cards only makes me miserable.” Nonetheless, rich dad agreed that if you were abusive with the power of debt leverage, you definitely should cut up your credit cards, pay off your mortgage, and get out of debt. He said, “Giving a credit card to some people is like giving a loaded gun to a drunk. Anyone who is near the drunk is in danger, including the drunk.”

Instead of teaching us to fear the power of debt leverage, rich dad taught his son and me how to *use* the power of debt leverage in our favor. That is why he often said, “There is good debt and bad debt. Good debt makes you rich and bad debt makes you poor.” Most people are loaded down with bad debt and many others live in fear of debt and are proud to be debt free, even to the point of being free of any good debt.

In this book, you will find out how my wife, Kim, and I retired young and retired rich because we were deeply in debt, deeply in debt with good debt, debt that made us rich and financially free. In other words, we used the power of leverage, we did not abuse the power, nor do we live in fear of its power. Instead we respect the power of leverage and use it wisely and cautiously.

Can Everyone Be Rich?

During the hundreds of interviews I have given after the release of the first Rich Dad book, I am asked this question: “Do you think everyone can be rich?”

I reply, “Yes. I believe everyone has the potential to be rich.”

At that point, I am often asked, “If everyone has the potential to be rich, why do so few actually become rich?”

My usual reply is, “I don’t have the time today to answer that question.” they insist, I may say, “Many of the answers are found in my first four books in the Rich Dad series.”

If the interviewer is persistent they may ask something like, “When will you give us all the answers?”

I reply, “I don’t know if anyone has all the answers.”

Even though I do not have all the answers, I am very happy to be finally bringing this book, book number five in the Rich Dad series, to you. This book will explain why I believe all of us already have the power and the potential to be very rich... and I do mean all of us, not just some of us. It will also explain how my wife, Kim, and I could retire young and retire rich, even though we started without any money. And it will also explain why some people are rich and why others are poor even though we all have the power and the potential to be very rich and retire young. It’s all a matter of leverage.

The first four books in the Rich Dad series were primarily about the power of cash flow. This book is about leverage. Why one entire book? The reason is because leverage is a very big word, encompassing and touching virtually everything in our lives.

This book will focus on three important forms of leverage; leverage of your mind, plan and actions.

Section One: The Leverage of Your Mind

This is the most important section of the book. In this section, you will find out why money does not make you rich. In this section, you will find out that the most powerful form of leverage in the world, your mind, has the power to make you rich or make you poor. Just as someone can use, abuse, or fear the power of debt leverage, the same is true when it comes to your brain, a very powerful form of leverage.

Words Are Leverage

You will find out the power of words. Rich dad always said, “Words are leverage. Words are powerful tools, tools for the brain. But just as you can use debt to make you rich or poor, words can be used to make you rich or poor. In this section, you will find out about the power of words and how rich people use rich words and poor people use poor words. Rich dad often said, “Your brain can be your most powerful asset, or it can be your most powerful liability. If you use the right words in your brain, you will become very rich. If you use

the wrong words, your brain will make you poor.” In this section, you will find out about rich words and poor words.

You will find out why rich dad said, “It does not take money to make money.” He said, “Getting rich begins with your words, and words are free.”

Why Investing Is Not Risky

In this book, you will find out why people who say, “Investing is risky,” are some of the biggest losers in the investment markets. Again it goes back to words. You will find out that what you think is real becomes your reality. You will find out why people who think investing is risky invest in the riskiest of all investments. It’s caused by their reality. In this book, you will find out why investing does not have to be risky. In order to find safer, higher-yielding investments, people must first begin by changing their words.

As stated earlier, the power of leverage can be used, abused, or feared. In this section, you will find out how to use the leverage of your brain in your financial favor, rather than use it against you. Rich dad said, “Most people take the most powerful leverage in the world, their brain, and use that power to make them poor. That is not the use of that power. It’s abuse. Every time you say, ‘I can’t afford it’ or ‘I can’t do that’ or ‘Investing is risky’ or ‘I’ll never be rich,’ you are using the most powerful form of leverage you have to abuse yourself.”

If you want to retire young and retire rich, you will need to use your brain in your favor, not against you. If you cannot do that, the other two sections of this book will not be possible for you, even though they are easy to do. If you can gain control over your most powerful form of leverage, the next two sections will be easy.

Section Two: The Leverage of Your Plan

In book number three, *Rich Dad's Guide to Investing*, I wrote that “investing is a plan.” In order for Kim and me to retire young, we had to have a plan, a plan that started with nothing because we had nothing. The plan had an end or an exit, and it also had a time limit. Our time limit was ten years or less. It took us nine years, retiring in 1994. I was 47 and Kim was 37. Although we started with nothing, we exited with approximately \$85,000 to \$120,000 a year in income without working. Our income was now coming solely from our investments. Even though it may not have been a lot of money, we were financially free because our expenses were less than \$50,000 a year.

We Retired Young in Order to Get Rich

One of the advantages of retiring young is that we now had the free time to get rich. By the way, *Forbes* magazine defines rich as \$1 million or more a year in income. In other words, according to *Forbes*, we were not yet rich when we retired. Knowing that, one of the reasons for retiring young was so that we would have the time to get rich. After retiring, our plan was to spend time investing and building businesses. Today, not only do we have substantial real estate holdings, we have built a publishing company, a mining company, a technology company, and an oil company, as well as investments in the stock market. As rich dad often said, “The problem with having a job is that it gets in the way of getting rich.” In other words, we retired young so that we would have the time to become rich. Today, our income per year from our investments and businesses is in the millions and is climbing steadily, even after the stock market crashed. Everything is going according to plan. In book number three, *Rich Dad's Guide to Investing*, I wrote that most people have a plan to be poor. That is why so many people say, “When I retire, my income will go down.” In other words, they are saying, “I plan on working hard all my life and then I will become poorer after I retire.” That may have been an okay plan in the Industrial Age, but that is a very poor plan in the Information Age.

Millions of workers are now counting on their retirement plans, plans such as a 401(k), IRA, Superannuation plans of Australia, RRSP plans of Canada, and other plans to be there when they retire. These plans are what I call Information Age retirement plans.

I call them that because in the Information Age, employees are now responsible for their retirement. In the Industrial Age, it was the company or the government that would take care of your financial needs once your working days were over. There is one tragic flaw in these Information-Age retirement plans. The flaw is that most of these plans are indexed to the stock market, and as you may have noticed, stock markets go up and stock markets go down. It shocks me to realize that millions and millions of hardworking people are now betting their financial future and their financial security on a stock market. What will happen to these workers if, for example, they are 85 years old and their retirement plan is wiped out, either by depletion, theft, or a market crash? Are you going to say to them, “Get a job and begin saving for retirement”? That is why I am concerned and why I write and why I teach. I believe we need to better educate and better prepare people for the Information Age—the age where we all need to know a lot more about money, the age where we all need to be more financially responsible and depend less on a company or government to take care of us when our working days are over.

Just look at the numbers. In the year 2010, the first of 75 million baby boomers began to retire. Over the years, let's say that each of these 75 million retirees begins to collect just \$1,000 per month from the promised government retirement plan that they have contributed to, and another \$1,000 per month from the financial markets. If my math is correct, $75 \text{ million} \times \$1,000$ comes to \$75 billion per month from the government program and another \$75 billion from the financial markets. Seventy-five billion dollars per month coming out of the government and from the financial markets will have a dramatic impact on both institutions. What will the government do? Increase taxes? What will the financial markets do when \$75 billion comes out of the market instead of going in?

Advise you to “Buy and hold, invest for the long term, and diversify your portfolio?” Will the financial advisors continue to say, “The stock market on average always goes up”? I don’t have a crystal ball and I do not pretend to predict the future, but I can say this much. A combined \$150 billion coming out of these two large institutions instead of going in will cause a few ripples in the economy.

The old plans from the old economy will cause millions of people financial hardship once their working days are over. Millions in America do not have a company retirement plan or personal retirement plan. What will they do? Look for a job? Work all their lives? Move in with their kids or grandkids? Planning to work hard all your life is a poor plan. Even though it’s a poor plan, millions of people have this plan, even some people who are making a lot of money today. They are working hard today but have nothing set aside for tomorrow. For many baby boomers, time, our most important asset, is running out.

Then I hear people say, “I won’t need much money after I retire. My house will be debt free and my living expenses will go down.” While it is true that your living expenses may go down, what goes up are your medical expenses. Already medicine, health, and dental care are too expensive for many working people. What will happen when the medical industry is faced with millions of retirees who need health care to live, but have no money to pay? And if you believe in Medicare saving you, then you probably believe in the Easter Bunny also.

Maybe this is why Alan Greenspan, former chairman of the Federal Reserve Board, said, “We need to start teaching financial literacy in our schools.” We need to start teaching our kids to take care of themselves financially, rather than teaching them to expect the government or the company they work for to take care of them after they retire.

If you want to retire young and retire rich, you will need a better plan than most people have. Section Two is about the very important leverage of having a plan on how to retire young and retire rich.

Section Three: The Leverage of Your Actions

There is an overused story about three birds sitting on a fence. The question is, “If two birds decide to fly away, how many birds are left?” The answer is, “Three birds are left.” The lesson is, just because you decide to do something does not mean you will do what you decide to do. In the real world, less than 5 percent of the U.S. population is rich because 95 percent of the population may want to be rich, but only 5 percent take any action.

In book number four, *Rich Kid Smart Kid*, I write about how our school system punishes kids for making mistakes. Yet, if you look at how we learn, we learn from our mistakes. Most of us learn to ride a bicycle only by falling off a few times. We learn to walk by falling a few times. Then we get to school, and we are taught not to fall. We are taught that people who fall are stupid. We are taught that smart people are people who sit like the three birds on the fence and memorize the right answers. It’s a small wonder why only 5 percent of America’s people become rich. If you look at some of the richest people in the world—people such as Bill Gates, founder of Microsoft; Michael Dell, founder of Dell Computers; Ted Turner, founder of CNN; Henry Ford, founder of Ford Motor Company; and Thomas Edison, founder of General Electric—they all did not finish school.

I am not saying that school is bad. In the Information Age, school and education are more important than ever before. I am saying that sometimes to be successful, we need to learn to *not* do what we have been taught to do. If you want to be more successful, simply watch how kids learn and copy them. One of the things I had to learn was how to overcome the fear of making mistakes, the fear of failing, and the fear of being embarrassed. Most young kids know how to do that naturally, but then we teach them not to do it in school. If I had not been able to learn how to make mistakes, how to fail, and how to overcome my embarrassment, I would not have been able to retire young and retire rich.

Three Easy Things Everyone Can Do to Become Rich

I have always said that what you have to do to become rich is simple and easy. Almost anyone can do it. I am happy to share this book because Sections 1 and 2 prepare you to do the simple things you need to do if you want to retire young and retire rich. I will go into the three main assets that make people rich and allow them to retire young. The three asset classes are:

- Real estate
- Paper assets
- Business

In Section 3, you will find out what you can do to begin acquiring these three vitally important assets. The reason my wife Kim and I could retire young and retire rich is because we spent our time acquiring assets rather than working for money.

If you can read this book, you can do the simple action steps to begin acquiring these important assets, the assets that the rich 5 percent of the population acquires. I promise you that you can do the action steps, but you will need to read the first two sections of this book. If you do not read the first two sections, you may not be able to do the action steps, even if they are easy to do. As rich dad said to me years ago, “Getting rich begins with the right mindset, the right words, and the right plan. After you have that, the action steps are easy.”

So why did David meet Goliath? Rich dad’s answer to this was, “David met Goliath so he could meet the giant inside of himself.”

He also said, “Inside each of us is a David and a Goliath. Many people are unsuccessful in life because they run when they meet Goliath. Without Goliath, David would never have become a giant of a man.” Rich dad used this story to inspire his son and me to become financial giants. In other words, instead of killing the giant, rich dad inspired us to become giants.

This book is about becoming financially free. Kim and I achieved that freedom by acquiring and building assets that work hard so we do not have to work. Once we were free, we simply continued to build our

portfolio of the three asset classes, which are businesses, paper assets, and real estate, into giant portfolios. We retired young and became richer and richer by using all the leverage we could to build these assets. Today those assets produce more and more income while we work less and less. If you would like to do the same, this book is for you. This book is written to assist you in finding your own financial freedom, freedom from the drudgery of earning a living.

In closing, David became a giant by using all the leverage he could. You can do the same. This book is about bringing out the giant in you.



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Section One

THE LEVERAGE OF YOUR MIND

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The most powerful form of leverage we have is found in the power of our minds. The problem with leverage is that leverage can work in your favor or against you. If you want to retire young and retire rich, the first thing you must do is use the power of your brain to make you rich. When it comes to money, too many people use the power of their brain to make themselves poor.

As rich dad said, “One big difference between the rich and the poor is that poor people say, ‘I can’t afford it,’ more often than rich people.” He also said, “In Sunday School I learned ‘and the word became flesh.’” Continuing on, he said, “Poor people use poor words, and poor words create poor people. Your words do become flesh.”

In this section, you will learn the difference between rich words and poor words, fast words and slow words. You will find out how to change your financial future by changing the words you use and the way you think. If you can change your words and your thoughts to those of the rich, retiring young and retiring rich will be easy.

Chapter One

HOW TO BECOME RICH AND RETIRE YOUNG

The following is the story of how my wife Kim, my best friend Larry, and I began our journey from broke, to rich, to retired in less than 10 years. I tell this story to encourage any of you who may be doubtful or in need of some self-confidence to begin the journey to retiring young. When Kim and I started, we were nearly out of money, low on confidence, and filled with doubt. We all have doubts. The difference is what we do with those doubts.

The Journey Begins

In December of 1984, Kim, my best friend, Larry Clark, and I were skiing in Vancouver, British Columbia, on Whistler Mountain. The snow was very deep, the runs were long, and the skiing was excellent, although very cold. At night, the three of us sat in a little cabin that was snuggled in between tall pines, barely visible because the snow was up to the roof.

Sitting around the fire every night, we would discuss our plans for the future. We had very high hopes, but very little resources. Kim and I were on our last few dollars, and Larry was in the process of building another business. Our discussions ran late into the night, every night. We discussed books we had recently read as well as movies we had seen. We listened to educational tapes we had brought along and then discussed the lessons on those tapes in depth.

On New Year's Day, we did what we do every year. We set our goals for the coming year. But this year, our goal-setting session was

different. Larry wanted to do more than just set goals for the coming year. He wanted us to set goals that changed our lives by changing our realities. He said, “Why don’t we write a plan on how we can all become financially free?”

I listened to his words and heard what he said. But I could not fit what he said into my reality. I had talked about it, dreamed about it, and knew that someday I would do it. But the idea of being financially free was always an idea in the future, not today, so the idea did not fit. “Financially free?” I asked. The moment I heard my voice, I knew how much of a wimp I had become. My voice did not sound like the old me.

“We’ve talked about it many times,” Larry said, “but I think it is time to stop talking, stop dreaming, and start committing. Let’s write it down. Once we write it down, you know we have to do it. Once we write it down, we’ll support each other on this journey.”

Since we were almost out of money, Kim and I looked at each other. The glow from the fire illuminated the doubt and uncertainty on our faces. “It’s a good idea, but I think I would rather just focus on surviving for the next year.” I had just left the nylon-and-Velcro wallet business. After it crashed in 1979, I spent the next five years rebuilding the business and then walked away from it. I walked away early because the business had changed drastically. We were no longer manufacturing in the United States. In order to compete with increasing competition, we had moved our factories to China, Taiwan, and Korea. I left the business because I could no longer stand the idea of using sweatshop child labor to make me rich. The business was putting money in my pocket, but it was taking life out of my soul. I was also not getting along with my partners. We had grown apart and did not see eye to eye. I walked away with very little equity. I just could not continue to work in a business that violated my spirit and with partners I could not talk to. I am not proud of how I left, yet I knew it was time to leave. I had been there for eight years and I had learned a lot. I learned how to build a business, how to destroy a business, and then how to rebuild it. Although I walked away with very little money, I did walk away with priceless education and experience.

“Come on,” said Larry. “You’re being a wimp. Instead of setting simple one-year goals, let’s go for it. Let’s set a big multiyear goal. Let’s go for freedom.”

“But we don’t have much money,” I said, looking over at Kim, whose face reflected my concerns. “You know we’re starting over again. All we want to do is survive for the next six months and maybe a year. How can we think about financial freedom when all I can think about right now is financial survival?” Again I was shocked at how wimpy I sounded. My self-confidence was really low. My energy was really low.

“Even better. Think of this as a fresh start.” Larry was now on it. He would not stop.

“But how can we retire early when we don’t have any money?” I protested. I could hear more and more of the wimp in me coming out. I felt weak inside and did not want to commit to something just yet. I just wanted to survive for the financial short term and to not think about the future.

“I did not say we were going to retire in a year,” said Larry, now irritated with my wimpy responses. “All I am saying is, let’s plan on retiring now. Let’s write down the goal, create a plan, and then focus on the idea. Most people do not think about retiring until it’s too late, or they plan on retiring when they’re sixty-five. I don’t want to do that. I want a better plan. I don’t want to spend my life working just to pay bills. I want to live. I want to be rich. I want to travel the world while I am young enough to enjoy it.”

As I sat there listening to Larry sell me on the benefits of setting such a goal, I could hear the little voice inside me telling me why setting a goal to be financially free and retiring early was unrealistic. It even sounded impossible.

Larry continued. He did not seem to care if Kim or I were listening so I tuned him out as I began to think about what he had said. Silently, I said to myself, “Setting a goal to retire early is a good idea, so why am I fighting it? It is not like me to fight a good idea.”

Suddenly, in my silence, I began to hear my rich dad saying, “The biggest challenge you have is to challenge your own self-doubt and your laziness. It is your self-doubt and your laziness that define

and limit who you are. If you want to change who you are, you must take on your self-doubt and your laziness. It is your self-doubt and laziness that keep you small. It is your self-doubt and laziness that deny you the life you want.” I could hear rich dad driving home his point, saying, “There is no one in your way except you and your doubts. It is easy to stay the same. It is easy not to change. Most people choose to stay the same all their lives. If you will take on your self-doubt and your laziness, you will find the door to your freedom.”

Rich dad had had this talk with me just before I left Hawaii to come on this trip. He knew I was probably leaving Hawaii for good. He knew I was leaving my home and a place I felt very comfortable in. He knew I was venturing out into the world without any guarantees of security. Now just a month after my talk with rich dad, I found myself sitting on this tall snow-covered mountain, feeling weak, vulnerable, and insecure, listening to my best friend telling me the same things. I knew it was time to grow up, or give up and go home. I realized that it was this moment of weakness on the mountains that I had come for. It was decision time once again. It was time to choose. I could let my self-doubt and laziness win, or I could change my perceptions about myself. It was time to move forward or go backward.

As I tuned back into Larry talking about freedom, I realized that he was not really talking about freedom. At that moment, I realized that taking on my self-doubt and my laziness was the most important thing I could do. If I did not take it on, my life would go backward.

“Okay, let’s do it,” I said. “Let’s set the goal to be financially free.”

That was New Year’s Day 1985. In 1994, Kim and I were free. Larry went on to build his company, which became one of *Inc.* magazine’s fastest-growing companies of the year in 1996. In 1998 at the age of 46, Larry sold his company, retired, and took a year off.

How Did You Do It?

Whenever I tell this story, the question I am asked is, “How? How did you do it?”

I then say, “It’s not about *how*. It is about *why* Kim and I did it.” I go on to say, “Without the *why*, the *how* would have been impossible.”

I could tell you how Kim, Larry, and I did it, but I won't. How we did it is not that important. When it comes to how we did it, all I will say is that, from 1985 to 1994, Kim, Larry, and I focused on rich dad's three paths to great wealth, which are:

- Increasing business skills
- Increasing money-management skills
- Increasing investments

There are many books written on each of these paths, and if I did the same, this would be just another "how-to" book. But what I think is more important than *how*, is the *why* we did it, and the *why* is because I wanted to challenge my own self-doubts, my laziness, and my past. It was the *why* that gave us the power to do the *how*.

Rich dad often said, "Many people ask me how to do something. I used to tell them until I realized that, even after I told them how I did something, they often did not do it. I then realized that it was not the *how*, but *why* I do something that is more important. It is the *why* that gives you the power to do the *how*." He also said, "The reason most people do not do what they can do is because they do not have a strong enough *why*. Once you find the *why*, it is easy to find your own *how*. Instead of looking inside themselves to find their own *why* for wanting to become rich, most people look for the easy road to wealth. The problem with the easy road is that it usually ends in a dead end."

Arguing with Myself

That night, sitting in the cold mountain cabin listening to Larry, I found myself silently arguing with him. Every time he said, "Let's set it as a goal, write it down, and create a plan," I could hear myself arguing in response, saying such things as:

- "But we don't have any money."
- "I can't do that."
- "I'll think about it next year, or once Kim and I get settled."
- "You don't understand our situation."
- "I need more time."

Over the years, my rich dad had taught me many lessons. One of the lessons was, “If you find yourself arguing with a good idea, you may want to stop arguing.”

That night as Larry went on and on about getting rich and retiring early, I again heard rich dad warning me about arguing against a good idea. Explaining further, rich dad said, “Whenever someone says something like ‘I can’t afford it’ or ‘I can’t do it’ to something they want, they have a big problem. Why in the world would someone say, ‘I can’t afford it’ or ‘I can’t do it’ to something they want? Why would someone deny themselves the things they want? It makes no logical sense.”

As the fire crackled in the fireplace, I found myself arguing against something I wanted. “Why not retire rich and retire early?” I finally asked myself. “What would be wrong with that?” My mind began to open slowly, and I repeated silently to myself, “Why am I arguing against the idea? Why am I arguing against myself? It is a good idea. I have talked about it for years. I did want to retire by 35, and now I’m almost 37 years old and I’m not even close to retiring. In fact, I’m nearly broke. So why am I arguing?”

Once I said that to myself, I realized why I had been arguing against a good idea. At the age of 25, I had planned on becoming rich and retiring between the ages of thirty to thirty-five. It was my dream. But after losing my Velcro wallet business the first time, my spirit was crushed and I had lost much of my self-confidence. That night sitting by the fire, I realized it was my lack of self-confidence that was doing the arguing. I was arguing against a dream I wanted. I was arguing because I did not want to feel disappointed again. I was arguing because I was protecting myself from the pain that dreaming big dreams can bring if that big dream does not become reality. I had dreamed and failed. That night I realized that I was arguing against failing again, not against the dream.

“Okay, let’s set a big goal,” I said quietly to Larry. I had finally stopped arguing against a good idea. The argument was still there, but I was not going to let the argument stop me. After all, it was only an argument I was having with myself and no one else. The little person inside me was arguing against the person who wanted to grow up and be bigger.

“Good,” said Larry. “It’s about time you stopped being such a wimp. I was really getting worried about you.”

The reason I had decided to do it was because I had found my *why*. I knew *why* I was going to do it, even though at that moment I did not know *how* I was going to do it.

Why I Decided to Retire Early

How many of you have ever said to yourself, “I am sick and tired of myself”? Well that New Year’s Eve, sitting around the fire with Kim and Larry, I got sick and tired of my old self and decided to change. It was not just a mental change. It was a change that came from deep inside. It was time for a big change, and I knew I could change because I found out why I wanted to change. The following are some of my personal *whys*—why I decided to go for retiring young and retiring rich:

- I was fed up with being broke and always struggling for money. I had been rich for a brief moment with my wallet business, but after the business crashed, I was back to struggling again. Although my rich dad had taught me well, I still only had his lessons. I had still not become rich, and it was time for me to become rich.
- I was tired of being average. Through school, teachers said, “Robert is a bright boy, but he just does not apply himself.” They also said, “He’s bright, but he’ll never be as smart as the gifted kids. He is just above average.” That night sitting on the mountain, I got sick and tired of being average. It was time for me to stop being average.
- When I was eight years old, I came home and found my mom crying at the kitchen table. She was crying because we were buried under a mountain of bills. My dad was doing the best he could to earn more money, but as a schoolteacher, he wasn’t doing so well financially. All he would say was, “Don’t worry. I’ll handle it.” But he didn’t. The way my dad handled it was by going back to school, working harder, and waiting for his annual pay raise. Meanwhile, the bills kept piling up, and my

mom felt more and more alone with no one to turn to. My dad did not like to discuss the subject of money, and if he did, he only got angry.

- I remember deciding at the age of eight to find the answers that could help my mom. That night sitting on the mountain, I realized that I had found the answers I had searched for since the age of eight. It was now time to take those answers and turn them into reality.
- The most painful *why* of all was the reality that I now had a beautiful young woman in my life, Kim. I had met my soul mate, and she was in this financial mess because she loved me. That night on the mountain, I realized that I was doing to Kim what my dad had done to my mom. I was repeating a family pattern. At that moment, I found my real *why*.

So those are my whys. I wrote them down that night and kept them in a secret place. For those of you who read my second book, *Rich Dad's CASHFLOW Quadrant*, you may recall that things got worse for us once we left the mountain. I started that book by telling the story of Kim and me living in a car for about three weeks after our money ran out. So things did not get better just because we made the decision to retire rich, but it was the reasons *why* that kept us going.

Things did not go well for Larry either after leaving the mountain. He too had substantial financial setbacks in the late 1980s, yet his *whys* kept him going.

I found out, as my rich dad did, that I cannot tell anyone *how* to get rich. I now first ask people why they want to become rich. Without a strong enough *why*, even the easiest how to get rich will be too hard. There are many, many ways to get rich, but there are only a few personal reasons *why* you want to get rich. Find your *why*, and then you will find your *how*. As the old saying goes, "Where there is a will, there is a way." For me, finding my *will* made finding my *way* possible. Without the will, the way would have been way too hard.

A suggestion: I learned years ago that passion is a combination of love and hate. Unless someone has a passion for something, it is difficult to accomplish anything. Rich dad used to say, “If you want something, be passionate. Passion gives energy to your life. If you want something you do not have, find out why you love what you want and why you hate not having what you want. When you combine those two thoughts, you will find the energy to get off your seat and go get anything you want.”

So you may want to start with a list comparing loves and hates. For example, I would create the following list:

Love

Being rich

Being free

Buying anything I want

Expensive things

*Having other people do
what I don't want to do*

Hate

Being poor

Being required to work

Not having what I want

Cheap things

*Doing things I don't
want to do*

My suggestion is, you may want to start your list of loves and hates in the space listed below. If you need more space, which I hope you do, find a much larger sheet of paper. May you live your life with more and more passion.

Your Loves

Your Hates

So sit quietly to find and define your loves and hates. Then write down your whys. Write down your dreams, goals, and plans on becoming financially free, retiring early, and retiring as young as possible. Once it is in writing, you may want to show it to a friend who will support you in achieving your dreams. Take a look at this paper with your dreams, goals, and plans on a regular basis, talk about it often, ask for support, be willing to continually learn, and before you know it, things will begin to happen.

As a final comment, I have heard many people say, “Money does not make you happy.” That statement has some truth to it. But what money does do is buy me the time to do what I love, and pay other people to do what I hate doing.

Chapter Two

RETIRE AS YOUNG AS YOU CAN

After nearly ten years of hard work and struggle, I had become financially free at the age of forty-seven. That year, in 1994, a friend called and said, “Be sure you take at least a year off after the business is sold.”

“A year off?” I replied. “I’m going to retire and take the rest of my life off.”

“No you won’t,” said my friend Nyhl. Nyhl had been a member of the team that started and built several major businesses, two of them being MTV and CMT, Country Music Television, back in the early 1980s. After having built and sold some of those businesses, he retired at the age of forty-one. We had become friends, and he was now passing on his lessons from retirement to me. “In less than three months, you’ll be bored and you’ll start another company,” he said. “The hardest thing for you to do is to do nothing. That’s why I recommend you set a goal to wait at least a year before even thinking about starting another business.”

I laughed and tried to reassure him that I was retired for good. “I have no plans on starting another business,” I said. “I’m retired. I’m not going back to work. The next time you’ll see me you won’t recognize me. I won’t have a suit on nor will I have short hair. I’m going to look like a beach bum.”

Nyhl heard my words, yet he was insistent. He wanted me to hear and understand what he was trying to tell me. It was important to him that I understand his message. After a very long conversation, he was

beginning to get through to me. Finally I heard him when he said, “Very few people have the opportunity you have. Not many people are financially able to stop working and do nothing. Not many people can truly retire in midlife, during your prime earning years. Most people can’t afford to stop working, even if they want to. Even if they hate their job, they can’t stop working. So don’t take this gift lightly. It is a gift few people will ever be presented with, so take it. Take a year to do nothing.”

Nyhl went on to explain that most entrepreneurs sell their businesses and start another business right away. He said, “I used to build a business, sell it, and start immediately building another one. I had built and sold three businesses by the time I was thirty-five. I had a lot of money, but I could not stop working. I did not know what stopping meant. If I was not working, I felt useless and felt I was wasting time, so I would work harder. My hard work was robbing me of life and time with my family. Finally I realized what I was doing and decided to do something different. After I sold my last business and put the check for millions in the bank, I decided I would take a year off. Taking that year for my family and me was one of the best decisions I have ever made. That time alone with myself, having nothing to do, was priceless. Do you realize that we were in school studying since we were five years old? And once we left school, we’ve been working. Very few people have the luxury of at least one year to sit and just think and be with yourself.”

He told me that as soon as his affairs at home were tied up, he and his family moved to a remote island in Fiji and sat on the beach. He said, “For months, I just sat on the beach, gazed at the crystal blue ocean, and watched my kids enjoy a life we all dream about.” Once they had had enough of Fiji, he moved his family to Italy and sat there for months doing nothing. “It was a full year before I became a sane human being again,” he said. “I had no idea how hard it would be to stop waking up and thinking I had something to do, a meeting to attend or a plane to catch, in order to make enough money to pay the bills. It took a full year for me to slow down and let the adrenaline

leave my body. It took a full year of relaxing to slow down enough so I could think straight and become whole again. I was 41 years old. For 36 years, I had been running to get somewhere, and now I was there.”

The Hardest Thing I Had to Do

Nyhl was correct. The hardest thing about being retired was having nothing to do. After years of school, classrooms, tests, meetings, airplanes, and deadlines, I was truly conditioned to get up and rush off to do something. Just before retiring, I remember how I hated the pressure and the worry of work. I remember thinking, “Only six more months and I will be free. I can retire and do nothing. I can’t wait until the business is sold and I can stop this madness.”

In September of 1994, the sale and transfer of assets out of the business were complete. I put some money in the bank, invested in a few more apartment houses and warehouses, and formally retired. I was forty-seven and my wife, Kim, was thirty-seven. We were financially free with the rest of our lives yet to live and enjoy. And just as Nyhl warned, within weeks after selling the business, I was restless. I continued to wake up early, only to realize that I had no plans for the day. I had no one to call, and no one called me. I was alone in my house with nowhere to go. I was soon restless and irritable. I felt useless and unwanted. I felt like my life was being wasted and I was unproductive. I wanted desperately to work on something, but there was nothing for me to do. Nyhl was correct. For me, having nothing to do was the hardest thing to do.

Kim had her business of investing and managing her real estate portfolio. She enjoyed it and went about it at her own pace. She would find me in the kitchen, bumping around trying to do nothing. “Are you looking for something to do?” she would ask.

“No,” I replied. “I’m just looking for a way to do nothing.”

“Well, let me know when you find nothing to do and we can do it together,” Kim said with a grin. “Why don’t you call your friends and get together and do something?”

“I did,” I replied. “But they’re all busy at work. They don’t have any free time.”

After a few months of trying to do nothing, Kim and I decided to vacation in Fiji where Nyhl went for part of his year off. I was excited about just going somewhere, even if it was to just do nothing.

Within three weeks of deciding to go to Fiji, we arrived by seaplane and were greeted by smiling Fijians with flower leis and tropical drinks. As Kim and I walked down the long pier that jutted out over the crystal blue water, I thought I had arrived on Fantasy Island and was waiting to hear a short chubby guy say, “Boss, de plane, de plane.”

This island was more beautiful than Nyhl had described. I could not believe its beauty. Being raised in Hawaii, I could not help but say to myself, “This is the way Hawaii used to be and this is how Hawaii should be.” Yet as fabulous as this secluded island was, it was too slow for me. I could not believe that paradise was making me crazy. I would get up, have a healthy breakfast of fruit, jog for a while, and then spend the day at the beach. After an hour, I was stir-crazy. As beautiful as the beaches of this island were, I was ready to get back to the States and start a new business. I did not know why I had promised Nyhl that I would take at least a year off. Two weeks were all that I could take of paradise. Kim could have stayed forever, but I was ready to get home to Arizona. Why I needed to get home, I do not know, but we left paradise and headed home.

Sitting at home was not much better than sitting on the beach, but at least I had my car and familiar places to keep me distracted. A new neighbor came over to introduce himself one day. He too was retired but he was about 20 years older than I was. He was 68 years old and had been a high-profile manager of a Fortune 500 company. Every day he would come over and talk about the news, weather, and sports. He was a nice guy, but sitting around trying to do nothing with him was worse than the worst meetings I had ever been in. All he wanted to do was work in his backyard and play golf. To him, retirement was pure heaven. He did not miss the corporate world at all and just loved his

free time doing nothing. I realized that I would wind up like him if I hung around him much longer. When he wanted me to join his men's card group at the country club, I realized that I had to find something else to do in order to do nothing.

Finally, I could take no more. One day I said to Kim, "I'm moving to Bisbee. I need to go somewhere where I can be busy doing nothing." In a few days, I moved to the small ranch that Kim and I owned. It is a beautiful yet secluded piece of land, hidden in a valley, covered with tall oak trees, an intermittent stream, with lots of deer and an occasional mountain lion, nestled high in the mountains on the Mexico/New Mexico/Arizona border. I had finally found my place to take my year off, a place where I could be busy doing nothing. After a few days of just sitting in the mountains in my cabin without television or radio reception, I began to calm down and settle into my year off. My breathing slowed down and so did my pace. Peace and tranquility became a part of everyday life, rather than the pressure of meetings and deadlines. My year off had finally begun, and it was as Nyhl said, "A gift few people will ever be presented with, so take it." It had taken me nearly six months to slow down enough to begin my year off.

Starting Life Over Again

Sitting alone in my mountain cabin, I had the time to reflect on my life. I thought of all the stupid and impulsive things I had done in my youth. I thought about the choices I made and how each choice, even though not a brilliant choice, had been important in shaping who I eventually became in life. I had the time to sit and remember my high school days and the friends I grew up with, friends I rarely see today. I recalled my friends from college and wondered how they were doing. This time alone gave me the opportunity to reflect on how much the friends of my youth impacted the man I had become.

There were so many moments sitting in my cabin that I wished I could go back in time and be with my boyhood friends again. I wanted just to laugh and be young again, but now all I had were

the precious memories. I wished I had taken more pictures and written more letters and kept in touch more, but we had all become busy with life and had gone our separate ways. Sitting in the mountains in front of a roaring fire, playing back the memories of my youth was better than going to a movie theater. The time off gave me the time and the solitude to replay in vivid detail the memories of my past. It is interesting that even the bad times didn't seem that bad. I came to appreciate my life, the people in my life, the good and the bad. As messed up as my life was at times, I greatly appreciated my own unique life.

In those quiet moments, I realized that we all have the potential to be good and bad. We all have the potential to be great, but greatness was not to be a part of my youth. I was not a child genius, a musical prodigy, an athletic star, nor was I in the "in crowd" or invited to many parties. In looking back upon my life, I realized my life was average, but sitting in the mountains made my average life seem very special to me.

I had time to think about my family, old friends, guys I played sports with, old girlfriends, and old business partners. I thought about choices I had made and wondered what would have happened if I had made different choices—choices such as, what would have happened if I had married my girlfriend from college, settled down, and had kids, as she wanted to do? What would have happened to my life if I had not decided to become a pilot and fly in Vietnam? What would have happened if I had avoided the war as most of my friends did? What would have happened if I had gone for my master's degree instead of starting my nylon-and-Velcro wallet business? What would have happened if I had not lost two businesses before finally having one succeed? What would have happened if I had not met Kim and gotten married? What if Kim had not stuck it out with me when times were really bad? And most importantly, what did I learn and who did I become because of the successes and failures my life had presented me?

It is true that you cannot change your past, but you can change your opinion of your past. Up until this time in the mountains, my past was just a blur. It was just a series of people and events that whirled by as I rushed through each day of my life. The solitude in the mountains gave me the opportunity to stop my life and take a look at it. There are many things I have done in the past that I am not proud of and would not do again. There are many mistakes I wish I had not made and lies I wish I had not told. There are many dear friends and loved ones that I hurt along the way. There are many people I love dearly but I do not talk to anymore because we disagreed on something silly. During this year off, I found out how important those events were in my life. Sitting alone in the quiet of the mountains, I reconnected with my past friends, family, and myself and thanked them all for being a part of my life. Sitting alone in the mountains, I had the time to say “thank you” to my past and prepare for the future.

Today when I speak to groups about taking a year off, I say, “The best thing about retiring early and taking that year off in midlife was that it gave me a chance to start life over again.”

Eighteen months after selling my business and retiring, I finally drove out of the mountains of southern Arizona. As I left, I really did not know what I was going to do next. I just knew that I wanted to do things differently. In my Apple Macintosh computer was the rough draft of *Rich Dad Poor Dad* and in my briefcase was a rough sketch of my *CASHFLOW® 101* game.

The second half of my life had begun. This time it was my life. It was no longer a life driven by the wishes and dreams of my parents, teachers, friends, or the dreams of a child. I was now older, wiser, smarter, less reckless, and a bit more trustworthy. The second half of my life had begun, and this time it was to be my life on my terms.

And that is the main reason I recommend retiring as young as possible. It will give you a chance to start your life over.

A suggestion: Regardless if you can retire early or not, I suggest taking at least an hour each month to reflect on your life.

Taking the time to reflect on my life I discovered that:

- What I thought was important was not that important.
- What was important was where I was at, not where I was going.
- There is no one more important than the person in front of you at that moment. Take that moment to be with him or her.
- Time is precious. Don't waste it. Appreciate it.
- Sometimes stopping for a moment is harder than staying busy.

For me, the best thing about retiring early was learning to appreciate life, even if it was hectic, stressful, and filled with problems. I found out that I did not know what to do if I had nothing to do. Today, I truly appreciate the hustle and bustle of life because I know what it is like to sit around doing nothing. So whatever state your life is in at present, take a moment to appreciate it, because tomorrow it will only be a memory.

Chapter Three

HOW I RETIRED EARLY

In the spring of 1999, I was scheduled to give a talk to a group of approximately 250 bankers in Los Angeles. Since I was to be the first speaker in the morning, I flew in the night before from Phoenix, where I live. After having breakfast, I sat in my hotel room and scratched my head as to what I could say to this group of bankers. My standard talk about financial statements, financial literacy, and the differences between an asset and a liability seemed inadequate for this group. Since they were not just ordinary bankers, but *mortgage* bankers, I assumed they would know the financial basics I most often talk about. Or at least I hoped they did.

My talk was scheduled for 9:30 that morning. It was now 8:00, and I was still at a loss for an angle or a new idea appropriate for the group. Sitting at the desk in my hotel room, I glanced at the complimentary morning newspaper the hotel had provided. On the front page was a photograph of a happy couple sitting in their golf cart. The bold headline over the picture read, “We Decided to Retire Early.”

The article went on to explain that this couple’s 401(k) retirement plan had done so well over the past ten years in this booming stock market that they decided to retire six years earlier than planned. He was fifty-nine years old and she was fifty-six. The article quoted them as saying, “Our mutual funds have done so well that we realized one day we were millionaires. Instead of working for six more years, we scaled back, sold our home, bought a smaller home in this retirement village, put the extra money from the sale of our house in a high-yield certificate of deposit, reduced our expenses, and now we play golf every day.”

I had found the subject for my talk. Finishing the article, I showered, dressed, and headed down to the waiting mortgage bankers. At exactly 9:30, I was introduced and brought up onstage. Lifting the newspaper up in the air, I opened my talk by pointing to the picture of the newly retired couple and repeating the headline, “We decided to retire early.” I then stated the couple’s ages, 59 and 56, and read a few comments from the article. Putting the paper down, I said, “My wife, Kim, and I also retired early. We retired in 1994. I was forty-seven and she was thirty-seven.” I looked around the room and allowed the difference in ages and dates to sink in. After a silence of about ten seconds, I continued asking, “So let me ask you this: How is it that I could retire 12 years earlier than he could and my wife 19 years earlier? What made the difference?”

The silence was deafening. I was off to a bad start. I knew it was early and I knew that I was asking the audience to think instead of just listen. I knew that I probably sounded arrogant and cocky, comparing my early retirement to the couple in the newspaper. Yet I wanted to make a point to this group and it was too late to turn back. I felt like a stand-up comedian who had just told his best joke, and the audience was not laughing. Pushing on, I asked, “How many of you plan on retiring early?”

Again there was no response. No one raised a hand. The discomfort in the room was growing. I was dying onstage. I knew I had to do something quickly. Looking out on the group, I could see that most of the group were younger than I was. The few that were my age were not impressed with my talk about retiring young. Quickly I asked, “How many of you are under forty-five?”

Suddenly there was life. There was response. Slowly hands were raised from all around the room. I estimated that about 60 percent of the group raised their hands, indicating that they were younger than forty-five. It was a young crowd, relative to me at least. Changing my tactics, I then played to this group, asking, “How many of you would like to retire in your forties and be financially free for the rest of your life?”

Now the hands were shooting up with more enthusiasm. I was beginning to communicate a little better, and the audience seemed to be coming to life. The participants of my age and older began to squirm as they looked around at their younger peers, many of whom

had their hands in the air, indicating that they did not want to grow old in the industry. Sensing the discomfort of those my age and older, I realized that I needed to say something quickly to not alienate this group.

Smiling, I paused as the hands came down. Looking at the older bankers in the group, I said, “I want to thank the mortgage bankers of this world because you were the ones who made it possible for me to retire early—not my real estate broker or my stockbroker, not my financial planner, and not my accountants. It was you, the mortgage bankers of the world, who made it possible for me to retire approximately 20 years earlier than my father.”

Looking out at the audience, I could tell that some of the uneasiness was dissipating, and I could now continue on with my talk. My acknowledgment of their industry seemed to have helped. I estimated that I now had about 80 percent of the audience’s attention. Continuing, I repeated the question I had asked earlier, “So how is it that I could retire earlier than the couple in the newspaper, and how did you mortgage bankers help me retire early?”

Again there was silence. I began to realize that they did not know how they helped me. Even though there was that same dead silence, at least they seemed to be more awake than they were a few minutes earlier. Deciding to stop asking a question that they were hesitant to answer, I continued. Turning to my flip chart on stage, I wrote in big bold letters:

**DEBT
vs.
EQUITY**

Returning to the audience, I pointed to the word *debt* and said, “I was able to retire early because I used debt to fund my retirement. And this couple in the newspaper, the people with the 401(k), used equity to fund their retirement. That is why they took longer to retire.”

Pausing for a moment, I let what I had just said sink in. Finally a hand popped up and asked, “So you’re saying that the guy in the newspaper used *his* money to retire and you used *our* money to retire?”

“That is correct,” I said. “I was using your money to get deeper in debt, and he was trying to get out of debt.”

“So that is why it took him 12 years longer than you,” another person said. “It took him longer because he used his money, his own equity to retire.”

Eighteen Years of Life

I smiled, nodded my head, and said, “And for me, retiring at age 47 gave me 18 years of extra life when compared to someone who retires at age sixty-five. And how much is 18 years of life worth to you, 18 years of your youth? For my wife, it was 28 years of extra time to enjoy her youth. How many of you would rather retire early so you can enjoy your youth, your vitality, and the freedom to do whatever you want with all the money you need?”

Hands went up all over the room. There were now more smiles attached to those arms. People seemed to be coming to life. Yet, as expected, there were those sitting with their arms folded across their chests and legs crossed over their knees. My talk did not seem to be too well received by those individuals. The cynics and skeptics wanted to be cynics and skeptics. I did not seem to be reaching them. At least I was saving myself from a very bad start and some of the group was coming over to my side.

A young man in the front row raised his hand and asked, “Would you mind explaining a little more about how you retired early using debt, and how the other guy used equity?”

“Certainly,” I said, happy to have the opportunity to explain further. Picking up the newspaper and pointing to the picture, I said, “This person retired six years ahead of schedule, if age 65 is the benchmark for retirement, because the stock market did well. So he did well because he invested his own money into the market. How much better would he have done if he had borrowed your bank’s money and invested *your* money into the same market?”

A rush of uneasiness went through the audience. What I had just said had disturbed many in the audience. The young man, now with a puzzled look on his face, then said, "But we would not lend him our money to invest in the stock market."

"Why not?" I asked.

"Because it's too risky," he said.

Nodding, I said, "And because it's too risky, this retiree had to use his own money, his equity. His retirement plan, his 401(k), did well and so did his own stock picking. He did well because the market did well. The stock market did well because millions of people, just like him, were doing the same thing at the same time, so he retired early. But he took longer because he basically used his own money, his equity, to buy equity in other investments. Interestingly, he invested in investments your industry generally does not lend money to invest in because of the risk factor. You bankers don't lend people money to speculate in the stock market, do you?"

Most in the room shook their heads.

"So are you saying he got lucky?" another person asked.

"Well, he was in the right place at the right age and in the right cycle of the market," I said. "If and when the trend reverses, he might wish he had not retired so early."

"And you used our money to invest in what?" asked another participant.

"Real estate," I said. "What else do you lend money on? You are mortgage bankers, aren't you? You're not investment bankers, are you?"

The young man nodded his head and said quietly, "We are mortgage bankers and we lend money for real estate, not stocks, bonds, and mutual funds."

"But didn't the stock market go up in value more than real estate in the last ten years?" asked a young woman sitting a few rows back from the front row. "My 401(k) did far better than most of the real estate investments I have seen."

"That may be true," I replied. "But your 401(k) increased in value because of market momentum and capital appreciation. Do you make it a policy to invest in market momentum or possible capital appreciation?"

"Not as a policy," said the young woman.

“Neither do I,” I said. “I do not invest for capital appreciation only. The values of my properties do not need to appreciate in value for me to make money, although some have appreciated greatly in the same period of time and none has gone down in value like many stocks and mutual funds have.”

“So if you do not invest for capital appreciation, what do you invest for?” asked the young woman.

“I invest for cash flow,” I said quietly. “How much cash flow per month does your 401(k) put into your pocket to spend each month?”

“Well, nothing,” said the young woman. “The purpose of my retirement plan is to have all the capital appreciation grow tax free so all my money stays in my retirement account. It is not designed to give me monthly cash flow.”

“And do you own any investment real estate that gives you monthly cash flow plus tax breaks?” I asked.

“No,” said the young woman. “All I have is an investment plan that invests in mutual funds.”

“And you’re a mortgage banker?” I asked with a teasing smile.

“Let me get this straight,” said the young woman. “You borrowed our money to buy your real estate. Each month that real estate returns cash flow to you. You and your wife were able to retire early because you have cash flow while the rest of us are hoping for the capital appreciation of our mutual funds and hoping to retire later in life, hoping that the market does not crash when it is our turn to retire. In other words, we helped you retire early, but we do not help ourselves?”

“That may be one way of looking at it,” I replied. “And that is why I am here to thank you and your industry for contributing to my retirement fund. You have contributed millions so I could retire early. I would like to have you think about doing the same for yourself.”

My time was soon up and I received a courteous applause as I left the stage. The room was now awake, and there seemed to be some excitement about what I had to say, especially from the young people. As I walked through the crowd shaking hands, I got a chance to listen to some of the comments about my talk. Even though they were

mortgage bankers, I could still hear the usual comments I always hear from any crowd, such as:

- “What he says is far too risky.”
- “I would never lend him any money.”
- “He doesn’t know what he is talking about.”
- “You can’t do that today. The market is different.”
- “He got lucky. Just wait till the market crashes and he comes begging to us on his knees.”
- “I don’t fix toilets. That is why I don’t own any real estate.”
- “The real estate market is overbuilt. It will soon crash.”
- “You know how many guys like him have been wiped out in real estate?”
- “If his debt is so high, I would not lend him any money.”
- “If he is retired, why is he talking to us?”

Poor Dad’s Lessons

My poor dad often advised, “Go to school, get good grades, find a safe secure job, work hard, and save money.” He would also quote other famous lines such as, “Neither a borrower nor a lender be,” and “A penny saved is a penny earned,” or “If you can’t afford something, don’t buy it. Always pay cash.”

My poor dad’s life would have been pretty good if he had followed his own advice. But, like many people, he said what he thought were the right words, but he did not do the right things. He borrowed money to buy his house and his cars. He never invested because he always said, “Investing is risky.” Instead he tried to save money, but each time there was an emergency, he would take the money out of his savings. He borrowed money for things that made him poor, and he refused to borrow money for things that might have made him rich. These subtle differences made a lot of difference in his life. Because of

his lifelong ways of thinking and handling money, he could not afford to retire at age sixty-five. It also explains why he had to work up until the day he was too ill with cancer to work anymore. He worked hard all his life and for the last six months of his life, he fought for his life in a cancer ward. He was a good, hardworking man, who spent his life working hard, trying to avoid debt, and trying to save money. And those were the lessons about life and money he tried to pass on to me.

Rich Dad's Lessons

My rich dad, the man who was my best friend's father, offered different advice and different ways of thinking about money. He would say and ask such things as:

- “How long would it take you to *save* \$1 million?” He would then ask, “How long would it take you to borrow \$1 million?”
- “Who is going to get richer in the long run? Someone who works all his life trying to save a million dollars? Or someone who knows how to borrow a million dollars at 10 percent interest and also knows how to invest it and receive a 25 percent per year return on that borrowed million dollars?”
- “To whom would a banker rather lend money? Someone who works hard for money, or someone who knows how to borrow money and have that money safely and intelligently work hard for them?”
- “Who would you have to be and what would you have to know in order to call your banker and say, ‘I want to borrow a million dollars,’ and then have the banker say, ‘I will have the papers ready for you to sign in 20 minutes’?”
- “Why does the government tax your savings but give you a tax break for being in debt?”
- “Who has to be financially smarter and more financially educated? A person with a million dollars in savings or a person with a million dollars in debt?”

- “Who has to be financially smarter with money? Someone who works hard for money or someone who has money work hard for him?”
- “If you had a choice of education, would you choose to go to school to learn how to work hard for money, or would you rather go to school to learn how to have money work hard for you?”
- “Why is it that a banker will gladly lend you money to speculate in real estate, but will not lend you money to speculate in the stock market?”
- “Why do the people who work the hardest and save the most pay more in taxes than people who work less and borrow more?”

When it came to work, money, savings, and debt, it is obvious that my two dads had completely different points of view. But the biggest difference in points of view was this statement by my rich dad: “The poor and middle class have a hard time getting rich because they try to use their own money to get rich. If you want to get rich, you need to know how to use other people’s money to get rich, not your own.”

A word of caution and warning: This book is not about borrowing money and getting into deep debt, although I will discuss the use of debt as a tool for retiring early and retiring rich. Leverage is power, and power can be used, abused, or feared. We should treat debt as we would a loaded gun, very carefully. Debt, like a loaded gun, can help you or it can kill you, regardless of who’s handling it. Treat all debt as dangerous, just as you should consider all guns dangerous.

I emphasize this because a young man wrote on my website that he had just quit his job, taken out several credit cards, and gotten deeply in debt buying real estate. He said, “I am following Robert’s advice and getting deeply in debt with good debt.”

First of all, I would never advise anyone to use credit cards to buy real estate. If you know how to invest, you do not need to use such a risky scheme of financing your investing.

Although I know people who have invested in real estate using credit cards, I do not recommend this process, as it can be very dangerous. I do not recommend the process because I know many more people who have used credit cards to buy real estate who have gone broke. What I do advise is to get educated and learn how to use debt wisely.

While I started this chapter talking about the difference between debt versus equity, this book is not just about debt. This book is about a more important subject for anyone who wants to retire young and retire rich.

The Second Most Important Word

Rich dad always said, “The most important words in the world of money are *cash flow*. The second most important word is *leverage*.” When I spoke to the mortgage bankers about using their money to retire early, I was really speaking about using their money as leverage. As a child learning from my rich dad, he spent much of his time teaching his son and me about the importance of leverage.

As I mentioned earlier, rich dad’s favorite story of leverage was the story of David and Goliath. Rich dad would tell this story to us as often as we would listen. He would say, “Always remember, boys, that David beat Goliath because David understood the principle of leverage.”

“I thought he used a slingshot,” I said.

“That is correct,” said rich dad. “In the right hands, a slingshot is one form of leverage. Once you begin to understand the power of leverage, you will see it everywhere. If you want to be rich, you must learn to harness the power of leverage.” Rich dad also drummed into our heads, “Even if you are just little guys in the world, you can beat the big guys if you understand the power of leverage.”

As we got older, rich dad had to find other examples of leverage. In order to make his lessons about money interesting to his son,

Mike, and me he would often use subjects that we were interested in to teach us his lessons. For example, when the Beatles first came to America in the 1960s and the kids of my age were going wild, my rich dad was impressed at how much money they were making. During this lesson he said, “The reason the Beatles make more money is because they have more leverage.” Rich dad went on to explain that the Beatles made more money than the president of the United States, medical doctors, lawyers, accountants, and even himself because of the financial principle of leverage. Rich dad said, “The Beatles use television, radio, and records as leverage. That is why they are rich.”

It was his son, Mike, who asked, “Are television, radio, and records the only form of leverage?”

“Do we have to become rock stars to become rich?” I asked. I was 16 at the time and knew that singing was not my strong suit. The only instrument I could play was the radio.

Rich dad laughed and said, “No you don’t have to become rock stars to be rich, and no, television, radio, and records are not the only forms of leverage. But if you want to become rich, you have to use some form of leverage. The difference between the rich, the poor, and the middle class is the different forms of leverage each class uses. The rich are richer simply because they use different forms of leverage, and they use more of it.”

This Book Is About Leverage

Rich dad would repeatedly say to his son and me, “Financial leverage is the advantage the rich have over the poor and the middle class.” He would also say, “Financial leverage is how the rich get richer faster.”

The first books in the Rich Dad series focused on cash flow. This book will focus more closely on the word *leverage* because in order for you to retire young and retire rich, you will need to use some form of leverage. It was leverage, not hard work, that allowed Kim and me to retire early. The next chapter will go into a few more examples of leverage.

I started this chapter with the story of my talk to the mortgage bankers and how I used their money rather than my own money to retire early. That was an example of using debt as a form of leverage.

The problem with leverage is that it is like a two-edged sword which can cut in either direction. In other words, a person can use leverage to get ahead financially, but that same leverage, if misused, can cause them to fall behind financially.

One of the main reasons the middle class and the poor work harder, work years longer, struggle to pay off debt, and pay more in taxes is because they lack a very important form of leverage—the leverage of financial education. So before you run out and borrow money to invest in assets, please know that debt is only one form of leverage and that all forms of leverage have a sharp edge on two sides. To repeat something my rich dad said:

“Who has to be financially smarter and more financially educated? A person who has a million dollars in savings or a person who has a million dollars in debt?”

The most important point I want to make is that this book is primarily about financial education. Regardless of what form of leverage you use, I first recommend the education on how to use whatever form of leverage interests you.

A suggestion: Rich dad said, “If you want to be rich, you need to know the differences between good debt and bad debt, good expenses and bad expenses, good income and bad income, and good liabilities and bad liabilities.”

Since this chapter is specifically about debt as a form of leverage, you may want to make a list of your good debt and bad debt. If you are not familiar with the distinctions between these concepts, good debt is debt that puts money in your pocket every month, and bad

debt is debt that takes money out of your pocket every month. For example, the debt on my apartment houses puts money in my pocket every month, and the debt on my residence (my mortgage) takes money from my pocket every month.

Good Debt

Bad Debt

After you inspect your list, you may want to think about what you want to do with your debt. You may want to reduce bad debt and increase good debt. If you work on increasing good debt, your chances of retiring young and retiring rich are greatly improved. But always remember to treat all debt as you would treat a loaded gun—very carefully.

Chapter Four

HOW YOU CAN RETIRE EARLY

Having two dads allowed me to see two different worlds of leverage. My real dad was a highly educated, hardworking man. My rich dad was a highly leveraged man. That is why he worked less and earned far more than my poor dad. If you want to retire early and retire rich, it is very important to understand the principle of leverage.

In the broad definition of the word, the word *leverage* simply means *the ability to do more with less*. When it came to the subject of work, money, and leverage, rich dad would say, “If you want to become rich, you need to work less, and earn more. In order to do that, you employ some form of leverage.” He contrasted that statement by saying, “People who only work hard have limited leverage. If you’re working hard physically and not getting ahead financially, then *you* are probably someone else’s leverage.” He also said, “If you have money sitting in the bank in your savings account or retirement account, then your money is someone else’s leverage.”

Leverage Is Everywhere

As a young boy, my rich dad drew the following pictures to illustrate the principle of leverage.

Person Without Leverage



Person Using Leverage



Rich dad said, “Leverage is everywhere. Humans have gained more of an advantage over animals simply because humans naturally seek more and more leverage.” In the beginning, animals could run faster than humans, but today humans can travel faster and further than animals because they created tools of leverage, such as bicycles, cars, trucks, trains, and planes. In the beginning, birds could fly and humans could not. Today, humans fly higher, further, and faster than any bird.

Leverage Is Power

Animals tend to use only their God-given leverage and are generally not capable of gaining any more leverage. That is why animals eventually lost their natural advantages over humans and humans took over the planet. The same thing happens when some humans use more leverage than other humans. My rich dad said, “People with leverage have dominance over people with less leverage.” In other words, just as humans gained advantages over animals by creating leveraged tools, similarly, humans who use these tools of leverage have more power over humans that do not. Saying it more simply, “Leverage is power.”

Explaining how humans gained more and more leverage, rich dad said, “A bird utilizes its God-given wings as its unique leverage. Humans observed birds in flight and then used their minds to discover how humans could also fly. A person who can fly from America to Europe has greater leverage over a human who only has a rowboat to get across the Atlantic.” He also said, “Poor people use fewer leveraged tools than rich people. If you want to be rich and keep up with the rich, you need to understand the power of leverage.”

The good news is that more and more leveraged tools are being created today, such as computers, the Internet, and whatever else is created in the future. The humans who can adapt to use these tools of leverage are the humans who are getting ahead. The people who are not learning to use more and more tools of leverage are falling behind financially or working harder and harder just to keep up. If you are getting up and going to work only to earn money, rather than working to gain some leveraged advantage in life, chances are that you are falling

behind today. Never in the history of the world have so many tools of leverage been invented in such a short period of time. The people who use these tools get ahead. The people who do not use these tools fall behind just as the animals did.

God-Given Leverage

While studying the history of international commerce in New York, I learned that 5,000 years ago, humans began utilizing sails and the power of the winds to propel their ships across vast expanses of water. In this case, the wind and the sails of the ship were the leverage, allowing humans to travel further and carry greater payloads, with less effort. The people who employed the power of large ships with large sails became far richer than people who did not. It dawned on me that the people who become rich are the people who create tools to use the God-given leverage in front of them. Today, we can move more cargo and more wealth with just the click of a mouse than any ship of the sea could ever move.

People without Leverage Work for Those with Leverage

Throughout history, the people who have fallen behind are the people who fail to utilize the new tools of leverage created during their lifetimes. And the people who fail to use these leveraged tools are the people who work for the people who do, and they physically work harder than the people who use the tools of leverage. My rich dad often said, “The people without leverage work for those who have leverage.”

Obsolete Leverage

Because of the technology that came from human minds, we have different choices in leveraged transportation than our ancestors. Today, instead of just walking, we have the choice of riding a bicycle, driving a car, or flying a plane. Or we might choose to use the television, telephone, or email to span the distances.

Just as we have more choices when it comes to types of transportation and communication leverage, we have more choices when it comes to the types of financial leverage we can use. The people who utilize the more

leveraged financial tools get ahead financially. People who use obsolete, out-of-date, or inadequate tools of financial leverage put their financial security and their financial future at risk. Today millions of people are utilizing the financial tool known as the mutual fund to prepare for their retirement. While mutual funds are by no means obsolete, they are not the leveraged financial tools of choice of the more educated investor. And that is what this book is about. If people want to retire young and retire rich, they may need to replace their mutual funds with faster, safer, and more information-rich tools of financial leverage.

Why People Do Not Use the Tools of Financial Leverage

It is ironic that the poor and the middle class think of the financial tools of leverage as too risky. Because they think that financial leverage is too risky, most people do not utilize the faster tools of financial leverage. Rather than utilize the financial leverage the rich use, the poor and middle class tend to use physical leverage to try and get ahead. Physical leverage is also known as hard work. The rich get richer primarily because they use the financial tools of leverage and the poor and middle class do not.

Debt Can Be a Winner's Leverage or a Loser's Leverage

I talked earlier about using debt to acquire income-producing real estate. In that example, debt was my leverage. I can acquire much larger investments and get ahead faster than someone who simply works hard and tries to invest with their savings, otherwise known as equity. A person who knows how to use debt to acquire assets has superior financial leverage over someone who does not understand how to harness the power of debt. My rich dad said, "The rich use debt to win financially. The poor and middle class use debt to lose financially." But in order to use debt as a tool of leverage, a person needs to have more financial education. The following chapters of this book will explain how you can gain this financial education.

My poor dad often said, "Neither a borrower nor a lender be." He also said, "Pay off your bills as soon as possible. Pay off your mortgage as soon as possible. Being in debt is risky." Those ideas and beliefs are

some of the reasons why my poor dad worked very hard all his life and never got ahead financially. My rich dad worked less than my poor dad, and yet he made more and more money the older he got. My rich dad's life was different because he knew how to harness the power of financial leverage. My poor dad didn't because he thought it was risky.

It is ironic that the poor and middle class think using debt for buying assets is risky, yet they eagerly go out and use debt to buy liabilities. One reason the middle class and poor fall behind in life is because they use the financial power of bad debt. The rich use the financial power of good debt to propel them ahead. The person who works hard, saves money, and stays out of debt falls financially behind someone who has been trained to use debt as financial leverage. The average person thinks of debt as bad or they use debt badly. That is why most are trying to get out of debt and save money in order to retire. To them, staying out of debt and saving money is a smart and safe way of living life. Given the average person's financial education (or lack of it), it probably is a smarter choice for them.

Other Forms of Leverage

There are other forms of leverage besides debt that Kim and I used to retire early. In order to build a business with eleven offices, we had to use OPT (Other People's Time) to build another type of asset, an asset known as a business. In this example, the leverage was the employment of people in order to create an asset faster and make the asset bigger and more valuable.

The reason most people do not get richer faster is simply because it is their money (their savings held in a bank) and their time and labor (a safe secure job) that the rich are using as leverage to acquire and create the assets that make them rich. I could not have acquired so many assets in such a short period of time if I had not used those two different forms of financial leverage, which are OPM (Other People's Money) and OPT (Other People's Time).

The good news is that there are many forms of leverage, other than OPM and OPT, that you can use to acquire or create assets for yourself. Just as humans harnessed the wind to power the sails of their ships 5,000 years ago, you can find many different forms of leverage to help you. There are infinite forms of leverage once you understand the principles of leverage and begin to look for it. As my rich dad said to me years ago, “Humans have always sought new and higher forms of leverage.” Consider the person who takes time to make a fishnet. A person with a net has far more leverage than the people who try to catch fish with their bare hands. Of course, that is only true if the person with the net knows how to use the net. A farmer with 1,000 acres of land to plant has more leverage than a farmer who has just 100 acres. Again, a lot still depends on the farmer’s abilities to manage a larger farm. A computer is a tremendous tool of leverage, but then again, it depends on what the computer is used for.

The following are a few examples of other forms of leverage. Your health, your time, your education, and your relationships can all assist you or hinder you in your goal to retire young and retire rich.

Health

Obviously, health is a very important form of leverage. All too often, people do not appreciate the value of their health until they begin to lose it. What benefit will early retirement serve you if you are too ill to enjoy it?

Time

Time is also an important leverage. Once people begin to fall behind financially, it is often difficult to find the time to get ahead in life. If a person is playing financial catch-up, it is difficult to be prepared to take advantage of opportunities that pop up in front of them. I often hear people say, “He got lucky because he was in the right place at the right time.” I think a more accurate statement is, “He got lucky because he was educated, experienced, ready, and prepared to take advantage of the opportunity when the opportunity presented itself.”

The extra time I enjoy from early retirement has helped me increase my wealth even more. I now have the time to look for and recognize opportunities.

Education

Education is an important form of leverage. The difference in earnings between someone who drops out of high school and a person who graduates from college can be measured in the millions of dollars, when measured over a lifetime. Yet a person who graduates from college with only a little financial education will often fall far behind a person who is financially educated, with or without a college education.

I have met so many college graduates who leave school deeply in debt from school loans. But worse than the school loans, many of these graduates are anxious to get a job so they can become deeper in consumer debt. That is the price of having a good education with no basic financial education. A high-paying job without financial education often means the person gets deeper in debt faster than someone with a low-paying job. That is not too intelligent.

Not only will financial education help you retire young, it will help you keep your wealth for generations.

Relationships

Leverage can be found in your relationships, business and personal. The following are examples of the leverage found in relationships:

- I have seen many people suffer because they work for a business that is run by incompetent owners or management. I have also seen people do very well financially because they associate with financially knowledgeable people.
- A labor union, such as the teachers union or pilots union, is a form of relationship leverage. A professional organization such as the American Medical Association can be a form of relationship leverage. Unions and professional associations are

people with professional leverage that often bind together to protect themselves from people with strong financial leverage.

- Many people do well financially because they have excellent financial advisors. There are also many people who suffer financially because they have incompetent financial advisors. As my rich dad said, “The reason so many financial advisors are called brokers is because they are often broker than you. So be careful from whom you take advice.” Rich dad also said, “The most expensive advice is often free advice. It is the advice about money, investments, and business that you get from your poor friends and relatives.”
- Most of us have heard about power marriages. A power marriage is the marriage of two strong people who come together to become even more powerful. We have also seen married couples suffer financially because their marriage is not a loving, harmonious, and prosperous one. I would not be rich today without my wife, Kim, as a best friend and business partner.
- Speaking of marriage, I once heard a speaker say, “It is almost impossible to become rich if your spouse does not want to become rich too.” I do not know if that is 100 percent true, but I am sure there is some truth to it.

So the people around you can be a great source of leverage, positive and negative. You may want to ask yourself how many people around you are holding you back financially and how many are pushing you ahead financially. When it comes to money, your relationships can be important sources of leverage. Rich dad used to say, “Being rich is not so much *what* you know, but *who* you know.”

Tools

A plumber finds leverage in using the right tools. A doctor uses medical tools in order to do his or her work. A car is a form of leverage for many of us. A computer now allows us to do business with the world through the Web, so it is a very important tool of leverage.

Spare Time

Leverage can be found in your spare time. I know many people who spend their time watching TV or shopping. Many of the people I have met or read about became rich in their spare time, rather than at their job. Hewlett-Packard and Ford Motor Company were started in garages, and Dell Computer was started in a dormitory room. A friend of mine was a lawyer on weekdays and a real estate investor on the weekends. Today he donates his legal services for free to charitable organizations and plays with his kids or plays golf full-time. He just turned thirty-nine.

Find the Leverage That Works Best for You

So I want to emphasize that there are many forms of leverage that you can use today to acquire and create assets to allow you to get ahead faster financially. You do not have to use OPM and OPT to get rich if you do not want to use those forms of leverage. Yet, if you want to retire young and retire rich, you need to find the leverage that works best for you.

Repeating once again, because it summarizes the theme of this book, rich dad said: “People who only work hard have limited leverage. If you’re working hard physically and not getting ahead financially, then you’re probably someone else’s leverage.” He also said, “If you have money sitting in the bank in your savings account or retirement account, then others are using your money as their leverage.”

The Importance of the Word “And”

One definition of leverage is the ability to do more with less. Rich dad added to that definition by saying, “Leverage is the ability to do more and more with less and less.” This idea of more and more with less and less is very important at this point. Rich dad said, “The difference between the rich, the poor, and the middle class is found in between the word more and the next word more. And the word in between these words is the word and.”

Rich dad explained further by saying, “The rich keep adding more and more leverage, which is why they get richer and richer. The poor and middle class stop adding more leverage. The point at which you stop adding more leverage defines your financial station in life.” In other words, a person becomes poor when they stop increasing their leverage. The same is true for the middle class. The truly rich never stop increasing their leverage.

An example of this idea is my poor dad saying, “Get a good education so you can get a good job.” For many people in the middle class, their academic and professional education is where their education stopped. The rich do not stop there. They add more leverage by adding financial education to their list of more and more leverage.

The poor are different from the middle class because they generally have less education in their list of educational leverage. The poor often do not have even a basic education or they fail to add professional education to their list as the middle class does. The poor reach a certain level of education and the middle class add a little more education, but not enough education to make them rich.

There are three different kinds of education. They are:

- Academic education
- Professional education
- Financial education

My poor dad stopped at professional education and was not interested in his financial education. That determined his financial station in life. My rich dad never stopped his financial education and that determined his financial station in life—rich. The poor are often poor because they often lack the basics of all three types of education.

The people falling behind today include those who have gained some form of leverage, but are failing to gain more leverage. Just because you graduated from college ten years ago does not mean you can stop working to gain more and more leverage. As rich dad used to say, “A college degree does not entitle you to stop learning or to stop increasing your leverage.” He went on to say, “Neither does a million

dollars in the bank entitle you to stop learning. In fact, if you stop learning, your money will soon go to someone who has continued to keep learning. Your money will go to the person who realizes that true leverage is the ability to constantly do more and more with less and less.”

The Future of Leverage

Today we have high school kids who sell their businesses for millions of dollars and retire without ever having a job simply because they used a different form of leverage than their parents use. At the same time, we have baby boomers needing to go back to school in order to keep their jobs. The difference is found in the word *leverage* and the word *and*. Today your competition does not need to live in your city or even in your country. The people who will win financially are those willing to do more *and* more with less *and* less, not those who want to be paid more and more for doing less and less.

In the coming chapters, some of the dollar amounts I will talk about may not sound real to you. After all, it is often difficult to think about earning a million dollars a year without working when, at present, you may be working very hard just to make \$50,000 a year. I emphasize the idea of more and more leverage because, regardless of what you earn today, a million dollars a year without working is entirely possible, if you are willing to keep thinking about doing more and more with less and less. If you are not willing to think in those terms, then going from \$50,000 to \$1 million a year may be difficult.

The irony is, the people who are unwilling to think in terms of doing more and more with less and less are the people who often wind up working more and more for less and less. The good news is that, as long as you are willing to think in terms of doing more and more with less and less, the more and more you will earn with less and less work. All you have to do is keep this idea in your head and it will be easier for you to retire young and retire rich.

A suggestion: Get a clean sheet of paper and begin to write your answers to this question. The question is:

*How can I do what I do for more people
with less work and for a better price?*

If you cannot think of anything, keep thinking. This is a very important question. This question, if answered and acted upon, makes people millionaires, even billionaires. That is why rich dad called it “the million-dollar question.”

In the next chapter, I will be going into the power of your mind as a tool of leverage. Being able to answer questions such as this one is vital to being able to retire young and retire rich.

Chapter Five

THE LEVERAGE OF YOUR MIND

Why Some People Can and Some People Can't

In *Rich Dad's Guide to Investing*, I wrote of a lesson with rich dad that is worth repeating.

The lesson begins with rich dad, his son, and me walking along a piece of beautiful beachfront property. Rich dad stopped, pointed, and said, "I just bought this piece of land."

I was surprised that he could afford to buy such an expensive piece of property. Although I was relatively young, I did know that oceanfront property in Hawaii was expensive. Since my rich dad was not yet rich, I wondered how he could afford such an investment. Rich dad was about to share with me a very big secret on how he could afford investments he could not afford. It was one of the secrets that made him rich.

A Different Reality

Simply said, my rich dad could afford an expensive piece of land, even though he did not have much money at the time, because he made "affording it" a part of his reality. My poor dad, although he earned more money at that time, would have said, "I can't afford it," because the idea of buying such an expensive piece of real estate was outside his reality.

A Most Important Lesson

Over the years, rich dad taught me many important lessons that radically affected the direction and outcome of my life. This lesson on the power of a person's reality is one of the most important. For those of you who read *Rich Dad Poor Dad*, you may recall that he forbade his son and me from saying the words, "I can't afford it." Rich dad understood the power of a person's reality. His lesson behind his lesson was:

What you think is real is your reality.

Being a religious man, rich dad often quoted the passage from the Gospel of John in the New Testament: "and the word became flesh." He would put that passage into more everyday terms so we as young boys could understand it. He constantly said to Mike and me, "What 'and the word became flesh' means is that whatever you think and say is real becomes your reality." When he came across that beautiful piece of oceanfront property, he refused to say, "I can't afford it," even though he did not have the money at that time. Instead he spent months coming up with a plan on how he could afford it. He worked hard at taking what was outside his reality and making it a part of his reality. It was not money that made my rich dad richer. It was his ability to expand his reality that ultimately made him richer and richer.

Is Investing Risky?

People often say, "Investing is risky." To them, that idea is real, and because they think it is real, it becomes their reality, even though investing does not have to be risky. While there is always risk, just as there is risk in crossing a street or riding a bicycle, the acts themselves do not have to be risky. So many people think investing is risky because they think their ideas are real.

A noted investment advisor from a famous bank and I were being interviewed on a radio program. The noted advisor was brought in to challenge the ideas I wrote about in *Rich Dad Poor Dad*. He started out by saying, "Robert Kiyosaki states that people should start their own businesses if they want to be rich. What Mr. Kiyosaki fails to realize is

that most people cannot start their own businesses. Starting a business is far too risky. Statistics show that nine out of ten businesses fail in their first five years. That is why Mr. Kiyosaki's ideas are risky. Ask him what he has to say about those facts."

The radio commentator, happy to have some controversy on his show, asked me in a gleeful tone, "Well, what do you have to say about those facts, Mr. Kiyosaki?"

Having heard this many times before, I was ready to take on the verbal challenge calmly. Pausing a moment, I cleared my throat and said, "I have seen and heard those same statistics quoted before, and from my experience, I would say those statistics are accurate. I have seen many businesses fail before their fifth anniversary."

"So how can you recommend people start their own businesses?" asked the noted advisor with a hint of anger in his voice.

"First of all," I replied, "I do not recommend people start their own businesses. I state that everyone should mind their own business. When I say 'mind their own business,' I mean they should mind their investment portfolio. That does not necessarily mean start their own business, although a well-run business is often the asset that makes the rich very rich."

"So what about the risk?" asked the noted financial advisor. "What do you think about the nine out of ten businesses that fail?"

"Yes. What about that?" asked the commentator, a little less gleefully after realizing the discussion was not escalating into an on-air argument.

"First of all, while nine out of ten do not make it, notice that one out of the ten *does* make it. Once I realized that nine out of ten do not make it, I knew that I needed to be prepared to lose at least nine times."

"You were prepared to lose nine out of ten times?" asked the financial advisor with a sarcastic tone.

"Yes," I replied. "I have been part of the nine that did not survive. In fact, I have been that nine out of ten that did not survive twice, but then I made it on my third try."

“So how did you feel when you failed?” asked the investment advisor, who was an employee of the bank and not an owner of a business. “Was it worth it?”

“I felt terrible the first time I failed. It felt even worse the second time. But yes, to me, it was worth it. If I had not failed twice, I would not have retired 18 years early nor would I be financially free today,” I replied. “It took me a while to recover each time. Yet even though I felt bad, I was mentally prepared to keep going 10 times, even 20 times if I had to. I did not want to fail that many times, but I was willing.”

“It sounds too risky for me, and it is too risky for most people,” said the advisor.

“I agree,” I replied. “It is especially risky if you are not willing to fail or fail only once before you quit. It’s even worse if you think that failing is bad. I was taught by my rich dad to understand that failing is part of winning. Even though I was successful in the past, I still realize that the odds remain the same. Every time I start a business, I continue to be aware that nine out of ten do fail.”

“Why do you say that?” asked the commentator.

“Because I always need to remain humble and respect the odds. I have seen too many people build a business, make a lot of money, get cocky, and start another business thinking the odds are now in their favor. While their odds may have improved a little because of their past experience and success, we all need to be humble enough to know that the odds remain nine out of ten for all start-up businesses.”

“That makes sense,” said the commentator. “So today when you start a new business, you still remain cautious. You still respect the one-out-of-ten possibility for success.”

“That is correct,” I replied. “I have had several friends get cocky and put all the money from their last business into a new business and then lose it all. If you want to be successful in life, you need to always be respectful of the odds, regardless of how successful you were in the past. Every professional blackjack player knows that just because they drew an ace and a king their last hand, it does not change the odds for their next hand.”

“I’ll keep that in mind,” said the commentator.

“I still think it is too risky,” said the advisor. “You and your book are dangerous. Most people cannot do what you do. Most people are not prepared to run their own business.”

“Do you agree?” asked the commentator.

“There is some truth in that statement also,” I replied. “Our school system trains people to be employees rather than to be business owners, and that is why most are not prepared to run their own businesses. So I would agree with our noted advisor.”

Pausing, I let my comment of agreement settle in. I was doing my best to not get into an argument, even though I felt provoked by the investment advisor. Continuing on, I said, “Yet I will remind you that less than 100 years ago, most people were small independent businesspeople. Many of us had relatives who were farmers or owners of small businesses. They were all entrepreneurs. People 100 years ago were strong enough to run their own businesses in spite of the risks. It was only until people like Henry Ford began building mega-businesses that more and more people became employees. Yet even with the advent of mega-businesses like Ford or General Electric, small independent businesses continue to thrive.

“In fact, small businesses are responsible for almost all of the job growth and are responsible for a large portion of all taxes collected. So in spite of the risks, more and more people continue to start their own businesses. Without them, there would be much higher unemployment. Without these individuals willing to take risks, we would be a financially backward nation. Free enterprise gives us all the opportunity to take risks and grow. If these individuals did not take risks, our nation would not be as prosperous as it is today. People who take risks increase prosperity.”

The interview went on for another ten minutes. There was no resolution and no agreement. It was obvious we came from different realities. As the conversation without agreement continued, I could hear rich dad saying, “Many arguments in real life are caused by differences in reality.”

The Risk-Reward Ratios Are in Your Favor

One of the things I wanted to say to the advisor was that the risk-reward ratio was in my favor. But that would have certainly led to an argument, a test to see who was right and who was wrong. I did not make my point on the radio, but I want to explain my point to you—the point that there is risk in what I do but it does not have to be risky.

Years ago, rich dad explained to his son and me the importance of knowing the risks, the rewards, and having a winning strategy that included losing. Rich dad was aware of the nine-out-of-ten failure rate of most start-up businesses. He was also aware that the reward for making it only one out of ten times far outweighed the risk of losing nine out of ten times. Rich dad further explained his position by saying, “Most people think only in the realm of what is smart and what is risky. Financially intelligent people think in terms of risk and reward. In other words, instead of immediately saying something is too risky, or right or wrong, good or bad, financially intelligent people weigh the risks and they weigh the rewards. If the rewards are great enough, they will come up with a strategy or a plan that will increase their chances of success, regardless of how many times they will lose before they will win.

A Winner's Strategy

For example, I have a friend who uses his own simple risk-reward strategy for day-trading the stock market. He knows that chances are he will find a market move on one out of twenty trades. That is why he sets up what he calls a money-management strategy. If he has \$20,000 to play the market with, which is one tenth of the \$200,000 in total cash he has, he will only risk \$1,000 per trade. In other words, his strategy is to always have enough money to lose 19 out of 20 times. I have seen him lose \$14,000 on fourteen straight trades, and then suddenly make \$50,000 on the next market move. His winning strategy takes in the probability of losing 19 out of 20 times, although he has never lost that many times in a row... yet. Each time he wins, he immediately goes back to the same odds, which are one out of twenty.

He knows the odds do not change, regardless of how much money he has. He still plans on losing 19 out of 20 times.

A Loser's Strategy

The average person who avoids losing and expects to win 100 percent of the time is the person who often has the loser's strategy. Expecting to win 100 percent of the time and never failing is a loser's reality. As rich dad said, "A winning strategy must include losing." Most people today have a retirement plan that does not include the possibility of losing. Most people today simply expect the stock market to always go up, and that when they retire, their nest egg will last them as long as they live. That is a plan that has no room for losing, and that is why it is a loser's plan. Winners know that losing should be a part of any plan. When I was in the Marine Corps, we always had contingency plans, which are plans for times when things do not go the way we expect them to go. Many people today do not have retirement contingency plans. Most people do not have retirement plans that include the possibility of a severe market crash after they retire, or outliving their retirement nest egg. In other words, when it comes to retirement planning, most people have a loser's strategy because it is a strategy that does not allow any room for error.

Losing 98 Percent of the Time

In direct-response marketing, most marketers know that the chances are that 98 percent of the mailers they send out will not generate a sale. So professional marketers compute their marketing campaigns on a 2-percent return, some even lower. They know that the 2-percent return must cover the cost of mailing to the 98 percent that do not reply. Once direct marketers find the mailing that can return 2 percent or better, they simply increase the number of mailings, knowing that they will still lose 98 percent of the time. They know how to become very rich winning just 2 percent of the time and losing 98 percent of the time.

Losers Think Losing Is Bad

Rich dad said, “Losers are people who think that losing is bad. Losers cannot afford to lose and often avoid losing at all costs. Many losers bet only on sure things such as job security, a steady paycheck, a guaranteed pension, and interest from a bank account. Losers keep losing and winners keep winning simply because winners know that losing is part of winning.”

As little boys, rich dad often asked us, “Are you willing to lose 99 out of 100 times?”

The answer he was looking for from us was, “If the reward for winning outweighs the risks and costs of losing 99 times.” Asking us to explain further we would say, “If we knew we could win a million dollars, and the risk-reward ratio was 1:100 and the minimum bet was one dollar, we would get \$100 in single bills and work our strategy to bet our one dollar 100 times. After we won once, we would go back to playing the same odds because the odds rarely change. We might increase our bets, but only if we could survive losing 99 out of 100 times.”

That was his simple way of training us to think in terms of risk and reward instead of right and wrong, risky or safe. Rich dad did not like gambling nor did he encourage us to gamble. He simply was training his son and me to think in terms of risk and rewards.

Why the Wright Brothers Were Right

Rich dad told his son and me about his trip to Kitty Hawk, North Carolina. He went there while on leave from the military in World War II. He said, “Boys, someday you need to go to Kitty Hawk and see just how smart Orville and Wilbur Wright were. The brothers knew there were risks in being the first to fly, but they were not risky.” Rich dad explained that the Wright brothers chose a large flat expanse of grassy sand to practice failing. He said, “Those young men knew they were going to fail so they found a very safe piece of ground to fail on. They did not jump off bridges or cliffs. They found a large flat

piece of ground with a good strong wind and practiced failing until the day they could fly.

“Because of their willingness to take risks wisely, those two young men changed the world forever. Someday, you two boys should go and see this piece of land where those two brave men chose to practice failing so one day we could fly. Most people will never fly financially simply because they choose to avoid failing.” In August of 2000, I stood on that same wide piece of grassy sand and saw what my rich dad had seen some 50 years earlier. I saw a piece of land that was the perfect place to fail before flying.

I was transported back to rich dad’s lesson about the Wright brothers. Rich dad would draw this diagram for his son and me:



Explaining this diagram, rich dad said, “When a person says things such as:

- ‘I can’t afford it,’
- ‘You can’t do that,’
- ‘I can’t do that,’
- ‘That’s impossible,’

they are usually speaking from within their reality, making comments on ideas outside their reality.”

He would continue, “When the Wright brothers announced that they were going to be the first humans to fly, many people said, ‘Humans can never fly.’ In fact, one of the people who said that was their own father, a respected man of the church.”

The reason so many people said, “Humans will never fly,” was because that idea was outside the border of the known reality of most people at that time. But that idea was not outside the realm of possibility for the Wright brothers, and they spent years working on making the possibility a reality.

When it came to money, that is the same thing rich dad did and my poor dad did not do. Today, the common phrase is, “Be willing to think outside the box.” Rich dad would say, “Everyone can think outside the box for a day. The question is, can you think outside the box for years? If you can, you will become richer and richer.”



When I later said to that financial advisor that I was willing to fail nine out of ten times in business just because the rewards far outweighed the risks, I doubt he heard me. He really did not hear me when I said, "I started the businesses knowing that I was probably going to fail. I did not think I would be successful, yet I knew I had to start failing." That kind of thinking did not seem to be a part of his thinking.

The point here is not who is right or who is wrong. The point to be made here is that our realities are different. And because our realities are different, we think differently and see the world differently.

The Leverage of Your Mind

I am not encouraging anyone to go out and randomly start losing or start playing blackjack in a casino. That would be almost as foolish as betting on the lottery to take care of your retirement. This lesson is about the difference in personal realities.

The lesson is that our mind is our most powerful tool of leverage. Whatever we think is real becomes reality, in most cases. A person who thinks investing is risky will often find all the reality they want to substantiate that reality. This person will open the newspaper and read about all the people who have lost money investing. In other words, the mind has the power to see whatever it thinks is real and blind itself to any other reality. Just as people said to the Wright brothers, “Humans will never fly,” and to Christopher Columbus, “Can’t you see the world is flat?” people will always have their own realities.

In order to retire young and to retire rich, one of the most important things you can learn to do is to take control of your own reality. If you can learn to do that, making more and more money with less and less effort will become easier and easier. If you cannot control and change your reality, then getting richer and richer may take longer than you like. It was my rich dad’s ability to continually change his reality that ultimately made him rich. It was not the beachfront property that made him rich. It was his ability to change his reality. After he bought that piece of property, he was soon looking for even bigger pieces of property to test his reality on.

At the same time, it was my poor dad’s inability to change his reality that caused him to work harder and not get ahead financially. It was his constant saying, “I can’t afford it,” that shaped his reality. My poor dad was a very smart man. He could have afforded the same piece of land if he was willing to change his reality, but he did not know it was his reality that was in the way. He truly thought he could not afford a multimillion-dollar piece of real estate. His thoughts were his reality.

In the end, the primary difference between my rich dad and my poor dad was simply the difference in their realities. One chose to expand his reality by saying, “How can I afford that piece of beachfront property?” even though he could not afford it at the time. The other chose to say, “I can’t afford it.” It was not the beachfront property that made one rich and one poor. It was their choice of realities.

The #1 Leverage

The number-one leverage is the leverage found in your mind because it is where your realities are formed. For Kim and me to retire young and retire rich required us to constantly control, change, and expand our realities. Today I tell people, “The first step in going from \$50,000 a year and a lot of hard work to \$1 million a year with very little work begins with a change of reality.” Reality change does not necessarily mean bigger or better. A change of reality may simply be a shift in point of view. For example, instead of saying something is “too risky,” as many unsophisticated investors say, ask instead, “What is the risk-reward ratio?” or “How many times will I lose before I win?” Instead of saying, “That piece of land is too expensive,” read a book about a person who could afford that piece of land, or ask someone who could afford that piece of land and find out how they could afford it. The important thing is not the land, but the change in your reality.

Why One Dad Got Richer and One Dad Got Poorer

Rich dad had the ability to continually change, control, and expand his reality. And because he could continually expand his reality, he became richer and richer while working less and less.

My poor dad, on the other hand, chose to live within his reality. My poor dad lived in a world of what he thought was real and it was the only reality possible for him. That is why he worked harder and harder and retired poor. He had one fixed reality, and he did not know how to control, change, or expand it. Instead of changing his reality, he kept making statements such as, “I can’t afford it,” “I’ll never be rich,” “I’m not interested in money,” “When I retire, my income will go down.” His words became his life’s reality.

If you want to retire young and retire rich, you may need to change and expand your reality and make expanding and changing your reality a habit. As my rich dad constantly reminded his son and me, “Your thoughts and words do become flesh.”

Outside Our Reality for Years

Sitting on the cold Canadian mountain that New Year's Eve, I realized I needed to be willing to think thoughts outside my reality, and continue to think those thoughts until those ideas from the realm of possibility became my reality. Just as the Wright brothers spent years being willing to live outside the reality of most people, Kim, Larry, and I also had to live outside the reality of most people for years. In fact, we had to live outside our own reality for years. We often got into arguments with other people, and were occasionally criticized for being dreamers, foolish, reckless, or risky. Kim, Larry, and I had to live with the faith of our convictions for at least four years before we began to see any tangible results inside our reality. In other words, it took four to eight years to push our reality out to our goals that were found in the realm of possibility.

Today when people ask me what it takes to be rich, I say, "It takes the ability to expand your reality. If you are not willing to expand your reality, getting rich may take a very long time."

A suggestion: One way rich dad had his son and me expand our realities was through reading biographies of people who lived the lives we wanted to live. For example, rich dad had us read the biographies of John D. Rockefeller and Henry Ford. More recently, I have read books by or about Bill Gates, Richard Branson, Steve Jobs, and others.

When I run into people who say, "I'm too old," I ask them if they would be willing to read the story of Colonel Sanders, a man who did not start becoming rich until he was in his sixties. When I hear a woman say, "I can't get ahead because it's a man's world," I ask her if she has read the story of Anita Roddick, founder of the Body Shop. When people say they are too young, I ask them to read about Bill Gates, a person who became the richest man in the world in his early thirties. If those stories do not expand their realities, I doubt if anything will.

Another great book is *Body for Life* by Bill Phillips. A friend recommended I read it because he saw my waistline growing. Bill Phillips says many of the same things my rich dad taught me, but his subject is physical health, and rich dad's subject was fiscal wealth.

Regardless of the subject, I found the process to be the same. For example, Bill Phillips writes about finding the reasons for losing weight before beginning to lose weight. Rich dad called it the why. Bill Phillips has an excellent section on dreams vs. goals and why both are important to the process. Yet the subjects in which I found the closest correlation between being healthy and being wealthy had to do with eating and going beyond your reality.

Bill Phillips encourages people to eat more, not less. He recommends eating six meals a day if you want to lose weight, gain strength, and get your health back. He says that many people who try to lose weight by starving themselves only starve for a short time. During that time, they lose muscle, not fat, and then they come roaring back on a binge, which makes them fatter. They get fatter since they now have more calories and less muscle to burn off the added calories. I know that pattern well.

Rich dad said the same thing about people who try to become rich by being cheap, being frugal, not spending money, living below their means, and scrimping. Most people do not become financially strong with that type of behavior. A person needs to spend more if they want to become rich, but they must know how to spend and what to spend on in order to become rich. As my rich dad said, "There are good expenses and bad expenses." And most of us know that there is good food and bad food. Just as a person tries to lose weight by starving, a person who tries to get rich by being cheap only gets financially weaker, and then suddenly they too go on a binge. But it is not an eating binge. It is a spending binge. And just as a binge eater will load up on junk food, the binge spender loads up on cheap junk.

Bill Phillips also suggests that "maximum intensity occurs after you have perceived failure." I believe what Bill Phillips is saying is that it is only after you cannot go any further, at the moment you fail, that you begin to heal and grow again. In other words, you become healthier only after you push yourself beyond your limits and fail physically.

I say the same is true with becoming wealthier. I have noticed that most people are not successful because they avoid failure at all costs. Just as the investment advisor advised against starting a business because nine out of ten businesses fail, most people look upon failure as bad. Rich dad taught me that failure was essential to learning and success. I personally have learned more after I fail than before I fail. Although it sometimes hurts, the healing process after the failure is ultimately what gives me more emotional and financial strength.

I have met many people who are not successful simply because they have successfully failed to fail. They have failed to go beyond their own perceived reality on what they think is possible. When they fail to do that, they also fail to find out what is possible in their lives. As I said, I think it was my rich dad's ability to continually change and expand his reality that ultimately made him wealthy. Bill Phillips is saying the same thing about becoming healthy. You do not become healthier by staying within your reality of how strong you are. If you want to become healthier and wealthier, you need to go beyond your reality. You need to live your life in the realm of new possibilities. The good news is that if you do consistently go beyond your limits, you gain the best leverage of all. You gain the leverage of becoming healthier, wealthier, staying younger longer, maybe even becoming better looking. To me, that is leverage worth living for.

If you are willing to expand your reality, you may want to begin by reading books or listening to recordings about people who have already achieved what you want to achieve. My poor dad encouraged me to read books on great leaders such as Presidents Lincoln and Kennedy, Gandhi, the Reverend Martin Luther King, and others. Even though both dads recommended reading to expand your reality, they just did not recommend the same realities because they came from different realities. I am glad I had exposure to both realities.

If you truly want to retire young and retire rich, the place to start is with your own realities.

Chapter Six

WHAT DO YOU THINK IS RISKY?

Having two strong men as father figures gave me the opportunity to be aware of different realities. Although it was sometimes confusing or even contradictory, having to listen to two different realities was beneficial to me in the long term. I realized that both men thought they were right and occasionally thought the other was wrong.

My real dad was moving rapidly up the ladder in state government. He quickly rose from schoolteacher to the superintendent of education for the state of Hawaii. Noticing his rapid rise, people began to whisper that my dad would someday run for political office.

At the same time my dad was climbing the ladder of government, rich dad had been working hard lifting himself out of poverty on his way to becoming very wealthy. By the time his son and I were in high school, he was rich and getting richer. The plan he had been following for over 20 years was working. Suddenly people began to take notice of him and his activities. He was no longer this obscure figure that no one knew about. People now began to wonder who this person was who was suddenly buying trophy properties in Hawaii. Rich dad was a man who started with nothing, had a long-term plan, worked his plan, and was now coming on the radar screen of the rich and powerful of Hawaii.

In his forties, rich dad made his move from the small town where we lived and made a play for several large blocks of land on Waikiki Beach. The newspapers were filled with articles about this new player in the resort market. It was not long before he controlled a block of

land on the beach at Waikiki as well as other beachfront properties on the outer islands. Rich dad was no longer a poor boy from a little town on a remote island. Rich dad had made his move into the heart of the action, and people noticed.

While my two dads were making their big career moves, I was in college at the military academy in New York. Mike, now the son of a rich man, lived in a penthouse apartment right on Waikiki Beach while he attended the University of Hawaii and was being groomed to run his father’s growing empire. It sounded impressive that he lived in a penthouse apartment, but in reality, Mike was running the hotel the penthouse was in while attending school.

While at home for Christmas break, Mike and I were in rich dad’s office discussing what we had learned at school and the new people we had met. Having met young men from all over the country, I made this comment to Mike and rich dad: “I have noticed how differently people think about money. I have met kids from very wealthy families and kids from very poor families. Even though most of the kids at school are academically bright, the poor and middle class do seem to think differently from the kids that come from rich families.”

Rich dad’s response to my last statement was swift. “They don’t think differently,” he said. “They think exactly the opposite.” Sitting at his desk, he grasped his yellow legal tablet and wrote down the following comparison:

Opposite Thinking

<i>Middle Class</i>	<i>Rich</i>
Job security	Building businesses
A big house	Apartment houses
Saving money	Investing money
The rich are greedy.	The rich are generous.

After he had finished writing, rich dad looked back up at me and said, “Your reality is defined by what you think is smart and what you think is risky.”

Looking at his comparison, I asked, “You mean the middle class thinks job security is smart and building a business is risky?” I knew this reality well because it was the reality of my poor dad.

“That is correct,” said rich dad. “And what else about job security?”

I thought for a while and drew a blank. “I don’t know what you’re looking for,” I replied. “It is true that my dad and many people think that having a safe secure job is smart. What am I missing?”

“You’re missing my reality,” said rich dad. “I said to you that the middle class and poor don’t just think differently. I said they think exactly the opposite. So what is my opposite reality?”

Suddenly more of rich dad’s reality crept into my reality. “You mean to say that you think building a business is smart and job security is risky. Is that what you mean by opposite?” I asked.

Rich dad nodded his head.

“You mean you don’t think building a business is risky?” I asked.

Rich dad shook his head and said, “No. Learning to build a business is like learning anything else. I think clinging to job security all your life is a lot riskier than taking the risk to learn to build a business. One risk is short-term and one risk lasts a lifetime.”

This was the late 1960s. We did not yet know of the word *downsizing*. All most of us knew at that time was that you went to school, got a job, worked all your life, and when you retired, the company and the government took care of your retirement. All we were taught at home and in school was to “Get a good education so you can become a good employee.” It was implied, but not stated, that going to school to become more employable was the smart thing to do. Today most of us know that job security is a thing of the past, but back then, no one questioned the idea of seeking job security as being the smart thing to do.

I looked at rich dad’s comparison of “the rich are greedy” versus “the rich are generous” and I knew at that moment what my reality was. In my family, the rich were considered coldhearted, greedy people who were only interested in money and did not care about poor people.

Pointing at his list, rich dad said, “Do you understand the difference in thinking?”

“The thinking is opposite,” I said softly. “It is beyond just different. That is why it is often so hard for people to become rich. Becoming rich requires more than just thinking differently.”

Rich dad nodded and let that idea settle in. “If you want to become rich, you may need to learn to think exactly opposite of the way you think now.”

“Just the way you think?” I asked. “Doesn’t it require doing things differently also?”

“Not really,” said rich dad. “If you work for job security, you will work hard for most of your life. If you work to build a business, you may work harder at the start, but you will work less and less in the end and you’ll probably make 10 to 100 to 1,000 times more money. So which one is smarter?”

“And what about investing?” I asked. “My mom and dad have always said that investing is risky. They think that saving money is smart. Don’t you do things differently when you invest?”

Rich dad grinned and chuckled with that comment. “Saving money and investing money require exactly the same activities,” said rich dad. “You will do the same things, even though your thinking is exactly the opposite.”

“The same?” I asked. “But isn’t one riskier?”

“No,” said rich dad as he again chuckled. “Let me give you a very important lesson in life.” I was now older and he could add more detail to his earlier lessons. “But before I give you the lesson, may I ask you a question?”

“Sure, ask all you want.”

“What do your parents do to save money?” he asked.

“They try to do a lot of things,” I replied after thinking about his question for a while.

“Well, name one,” said rich dad. “Name one thing they do that they spend a lot of time doing.”

“Well, every Wednesday when the supermarkets advertise their weekly food specials, my mom and dad will go through the paper and

plan the weekly food budget. They look for sales and clip coupons on food items,” I said. “That is one activity they spend a lot of time on. In fact, our diet at home is based upon what is on sale at the supermarket.”

“Then what do they do?” asked rich dad.

“Then they drive around town to the different supermarkets and buy the items they found advertised on sale,” I replied. “They say they save a lot of money shopping for food on sale.”

“I don’t doubt they do,” said rich dad. “And do they shop for clothes on sale?”

I nodded. “Yes, and they do the same thing when they are in the market for a car, new or used. They spend a lot of time shopping to save money.”

“So they think that saving is smart?” asked rich dad.

“Definitely,” I replied. “In fact, when they find something on sale, they buy a lot of it and put it in their large freezer. Just the other day they found a sale on pork butt and so they bought enough pork butt to last six months. They were thrilled to find such a savings.”

Rich dad burst out laughing. “Pork butt?” he said, chuckling out loud. “How many pounds of pork butt did they buy?”

“I don’t know, but they bought a lot. Our freezer is full again. But it wasn’t just pork butt they bought. They also bought hamburger from another store that was on sale and put that in the freezer also.”

“You mean they have a freezer just for such extra-special sales?” asked rich dad, still chuckling.

“Yes,” I replied. “They work hard at saving every penny possible. They spend a lot of time clipping coupons and shopping at sales. Is something wrong with that?”

“No,” said rich dad. “There is nothing wrong with that. It’s just a different reality.”

“Don’t you do the same thing?” I asked.

Rich dad chuckled and said, “I’ve been waiting for you to ask. Now I can teach you one of the most important lessons you will ever learn.”

“The lesson that you don’t do the same things my parents do?” I asked again, waiting for an answer to my previous question.

“No,” said rich dad. “The lesson that I do exactly the same things your parents do. In fact, you have seen me do it.”

“What?” I said. “You shop sales to fill your freezer? I don’t believe I’ve ever seen you do that.”

“No, you haven’t,” said rich dad. “But you have seen me shop for investments that are on sale to fill my portfolio.”

With that statement, I sat quietly for a while. “You shop to fill your portfolio and my parents shop to fill their freezer? You mean to say that you do the same activities, but you shop for different things to fill different things?”

Rich dad nodded. He wanted his lesson to sink into my twenty-year-old head.

“You do the same thing, but my parents get poorer and you get richer. Is that the lesson?” I asked.

Rich dad nodded his head and said, “It is part of the lesson.”

“What is the other part of the lesson?” I asked.

“Think,” said rich dad. “What have we been talking about?”

I thought for a moment, and finally the second half of the lesson came to me. “Oh,” I said. “You and my parents do the same things, but your realities are different.”

“You’re getting it,” said rich dad. “What about smart and risky?”

“Oh,” I said out loud. “They think that saving money is smart and that investing is risky.”

“A little more,” said rich dad.

“Because they think investing is risky, they work hard saving money, but in reality they are doing the same things you are. If they changed their reality on investing and did the same things with investments that they do trying to save money on pork butt, they would be getting richer and richer. You do the same things they do, but you shop for businesses, investment real estate, stocks, bonds, and other business opportunities. You shop for your portfolio, and they shop for their freezer.”

“So they do the same things, but from a different reality,” said rich dad. “It is their reality that causes them to be poor or middle class, not their activities.”

“It’s their mental reality that makes them poor,” I said softly. “It is what we think is smart and what we think is risky that determine our socioeconomic standings in life.” I was using a new word I had learned from my college economics class.

Rich dad continued, saying, “We do the same things but we operate from a different mindset. I operate from a rich person’s mindset and your parents operate from a middle-class mindset.”

“That is why you have always said, ‘What you think is real is your reality,’” I added softly.

Rich dad nodded and continued, saying, “And because they think investing is risky, they find examples of people who have lost money or nearly lost their money. Their reality blinds them to other realities. They see what they think is real, even though it is not completely real.”

“So a person who thinks job security is smart will find examples of why job security is smart and find examples of why building a business is risky. A person will seek verification of the reality they want to believe in,” Mike added.

“That is correct,” said rich dad. “Is this making sense? Have you got the lesson?”

I nodded, yet I was still letting the lesson settle in. Pointing to the line on the yellow tablet that read, “a big house” and “apartment houses,” I said, “So my mom and dad are always shopping for a bigger dream house, and you are always shopping for bigger apartment houses. You are both doing the same thing, but you are getting richer while my mom and dad only get larger mortgage payments. That is another example of the power of mindset and reality, isn’t it?”

“It is,” said rich dad. “And why are your parents always shopping for a bigger house?”

“Because my dad’s pay keeps going up so his taxes keep going up. His accountant tells him to buy a bigger house because he gets a bigger tax write off for larger mortgage payments,” I replied.

“And he thinks that is smart, doesn’t he?” asked rich dad.

“He thinks it’s smart because he believes his house is an asset and he gets a great tax break from the government.”

I nodded and added, “And they think that buying apartment houses is risky.”

“We both get the same tax breaks except that my tax breaks make me richer, and your mom and dad’s tax breaks make them struggle more and work harder. I have tax breaks for good debt, which is debt that makes me richer, and your mom and dad acquire tax breaks for bad debt. Now do you understand how *smart* and *risky* determine a person’s reality?” asked rich dad.

Both Mike and I nodded. “I understand it better now,” said Mike.

“But what about the last line?” I asked, pointing to “The rich are greedy,” and “The rich are generous.”

“First of all, you do not have to be rich or poor to be greedy or generous. The world is filled with poor people who are greedy just as there are poor people who are generous, and vice versa,” said rich dad. “And as I have always said to you, there are many ways to become rich. You can increase your wealth by being cheap, but the problem is you are still cheap at the end of the day. You can become rich by marrying someone for money, which is a very popular sport, but we also know what that makes you. You can become rich by being a crook, but why risk going to jail when it is so much easier to get rich out of jail? And you can get rich by being lucky, but the problem is you have to count on luck rather than your intelligence when you want to become richer.”

I had heard this many times before. At this time, I really wanted further clarification on how to become rich by being generous so I pressed by asking, “So what about the differences between ‘the rich are greedy’ and ‘the rich are generous’?”

“Do you remember me telling you boys about doing more and more with less and less?” rich dad asked in response to my question.

We both nodded to his question.

“Well, doing more and more with less and less is one form of being generous. In fact, the easiest way to become rich is by being generous,” said rich dad.

“You mean to become rich by serving more people,” said Mike.

“That is correct,” rich dad said. “Anytime I want to earn more money, all I have to do is ask myself how I can serve more people.”

Mike then turned to me and said, “My dad has never said this in front of you, but I think you are ready to hear his next lesson. We are old enough to understand a little better.”

“Understand what?” I asked.

“Should I tell him?” asked Mike.

“You’ve already started, so you may as well finish what you started.”

Mike turned to me and began to speak quietly. “Your dad has always told you that the rich are greedy. Isn’t that true?”

I nodded, saying, “In so many words.”

“The reason he says that is because he thinks the rich should pay people more and more the longer they work at a job. He calls it seniority or tenure. Is that correct?”

I nodded.

“But can you understand that, for the most part, the person is often only doing the same amount of work or doing the same job?” asked Mike softly.

“I understand that,” I replied. “But my dad does not see it that way. He truly believes in pay raises based on loyalty and longevity.”

“So your dad thinks the rich are greedy because they will not pay for loyalty and longevity. Isn’t that true?”

“He does,” I replied.

“Can you see how wanting more money for doing the same amount of work can be greedy?” asked Mike. “Or wanting to be paid overtime or wanting to be paid extra if the job the person does is outside the job description?”

“But that is how people in my dad’s world earn their money,” I said. “It is their reality.”

“That is the word,” said rich dad. “The word is *reality*. We come from different realities. In my world, to ask for more money to do the same job is greedy. In my world, if I want more money, I first need to

do more and more for less and less money, for more and more people. Then I become rich.”

“That is why dad had us read the biography of Henry Ford,” said Mike. “Henry Ford became one of the richest men in the world because he provided automobiles for more and more people for less and less cost. From my dad’s point of view, Henry Ford was a very generous man. Yet many other people think he was greedy because, from their reality, he exploited the workers. The conflict comes because of a different reality.”

“I understand,” I said. “As I have grown up, I have noticed the differences between people who are willing to do more and more for less and less money and the people who want to do less and less for more and more money. In my dad’s world, it is the university professors who get paid the most and teach the least. They call it ‘tenure’ and that is the model of reality my dad subscribes to.”

“And they are entitled to think that is smart thinking,” said rich dad. “But that is not the way I think.”

“That is why your dad has a bigger house than my dad,” said Mike. “My dad has spent years buying and building apartment houses so he could serve more families with more and more affordable housing. The more apartments he builds, the more the price of rent goes down. If not for people like my dad, many lower income families would be paying more and more rent because there would be so few apartments available. More apartments means lower rents. It is the basic economic principle of supply and demand. Your dad worked hard to buy bigger and bigger houses for himself and his family. He provides houses for no one else, and yet he continues to think that the rich are greedy. It is your dad’s reality, but it is not my dad’s reality.”

I sat there silently grateful that Mike and his dad had been as gentle as possible with me on this subject. They were doing their best to point out to me the differences in the words *greedy* and *generous*. At the age of 20, I was beginning to make a shift in my reality. I knew that I could choose the reality I wanted. And the reality I was choosing was the reality of my rich dad. And that reality was that

many of the rich were generous. I knew that from here on in, if I wanted to become richer, I first needed to find out how to be more generous. I knew that I could choose to try and become richer by asking for more money for doing less work, but I also knew that I could become richer by doing more for more people. I had that choice of reality. As rich dad said, “The thinking is not just different. It is totally opposite thinking.” At the age of 20, I was starting to think in an opposite direction from my own family’s thinking. In order for me to retire young and retire rich, all I needed to do was find out how to be more and more generous, not more and more greedy. I began to see that my own family’s way of thinking was the greedy way of thinking.

In book number two, *Rich Dad’s CASHFLOW Quadrant*, I wrote about the different people found in the different quadrants, illustrated below:



The different quadrants represent different realities. For a person to change quadrants or to be in two or more quadrants requires a change in reality. For example, the E quadrant, which stands for Employee, is the quadrant that sees the world from the job-security reality.

The S quadrant, which stands for Small business or the Self-employed, is the quadrant that sees the world from personal independence, the do-it-yourself or rugged-individual mentality. Even in this comparison, the comparison between the S quadrant and the B quadrant, the Business quadrant, you find the power of leverage coming into play. One of the main differences between a small businessperson and a big businessperson

comes down to how many more people that business owner serves. A big business owner will do his or her best to build a system to serve as many people as possible. A small business owner often depends upon his or her personal touch to serve as many people as possible. The problem with the S quadrant is that the small business owner often runs out of time and is not able to serve as many people as the big business owner. So one of the differences between a small business owner and a big business owner is that an S business owner serves people personally and a B business owner uses a system to serve as many people as possible.

The I quadrant, which stands for Investor, is the playground of the rich. Investors make money with money. They do not have to work because their money is working for them.

A suggestion: You may want to take a quick quiz. The quiz goes like this:

In your family, what was their reality on the following subjects?

	Smart	Risky
1. Job security	_____	_____
2. Building businesses	_____	_____
3. A big house	_____	_____
4. Apartment houses	_____	_____
5. Saving money	_____	_____
6. Investing money	_____	_____
7. The rich are	greedy _____	generous _____

Now you may want to take the same quiz based upon your reality. I ask that you take your family's position first because that reality can be a very strong emotional reality. After comparing your reality with your family's reality, you may understand some of the differences in reality between different members of the same family.

In order to retire young and retire rich, I had to reject some of my own family's reality before I could adopt and find my own realities. For Kim and me to retire young and retire rich, we had to find ways to serve more and more people, rather than be paid more and serve fewer.

Chapter Seven

HOW TO WORK LESS AND EARN MORE

“If you want to get rich,” said rich dad, “don’t ask for a raise. Instead of asking for a raise, begin to ask how you can serve more people. In fact, if you are serious about becoming rich, you don’t really want a raise. If you get a raise, you are working for the wrong kind of money.”

In an earlier chapter, I shared how I retired early by increasing my debt rather than trying to get out of debt, which is what most people try to do. The logic behind that thinking is that there is good debt and bad debt, and most people are loaded down with bad debt.

The same is true with income. Most people are not aware that there is good income and bad income, and most people do not become rich because they work hard for bad income. When you ask for a raise, you ask for an increase in bad income. If you want to retire young and retire rich, you need to work hard for the right kind of income.

In earlier books I discussed the three different types of income, which are:

1. Ordinary income

Ordinary earned income is you working for money. This income comes in the form of a paycheck. When you ask for a raise, bonus, overtime, commissions, or tips, you’re asking for more of this type of income.

2. Portfolio income

Portfolio income is generally income from paper assets such as stocks, bonds, and mutual funds. A vast majority of all retirement accounts are based on future portfolio income.

3. Passive income

Passive income is generally income from real estate. It can also be royalty income from patents or for use of your intellectual property such as songs, books, or other objects of intellectual value.

Why Rich Dad Did Not Like Ordinary Income

In rich dad's mind, the worst kind of income to work hard for was ordinary income. To him, it was the worst income for four main reasons:

1. It is the highest taxed income and it is the income with the fewest controls over how much you pay in taxes and when you pay your taxes.
2. You personally have to work for it and it takes up your valuable time.
3. There is very little leverage in ordinary income.
The primary way most people increase their earned income is by working harder.
4. There is often no residual value for your work. In other words, you work, get paid, and then have to work again to be paid again. To rich dad, there was very little leverage in working for ordinary income.

Growing up, I always found it interesting that rich dad did not like ordinary income. He often said, "The worst advice you can give your child is to go to school in order to get a high-paying job." The reason he said that was not because he was against school. He was against teaching your children to spend their lives working for

ordinary income. Most people I knew dreamed of high-paying jobs with lots of ordinary income. As I said, the difference in realities was more than just different. It was exactly the opposite. Rich dad said, “Teaching people to spend their lives working for ordinary income is like teaching someone to be a highly paid slave for life.”

Why Rich Dad Liked Passive Income

Although he did receive all three types of income, if given the choice among the three, he would take passive income all the time. Why? Because it was the income he had to work the least for, it is often the least taxed, and it consistently earned him some of the highest returns over a long period of time. In other words, he worked hard for passive income because, in the long run, he worked less and less, served more and more people, and earned more and more the older he got.

In my quest to retire young and retire rich, I had to know which type of money to work hard for. Kim and I were able to retire early because our plan had us working hard for passive income and not for ordinary income, which is what most people do. Another difference is that we planned on retiring with more passive income and not portfolio income, which is what most people plan to retire on. While most people do retire on portfolio income, it is not always the best income because it is the second highest taxed of the three incomes, and taxes are your largest single lifetime expense. This chapter shall explain why.

My rich dad had all three types of income. The reason he had all three was because each type of income had different advantages and disadvantages. My poor dad worked hard for only one type of income. That difference between the two men made a big difference when measured over their working lifetimes.

My Dads Worked Hard for Different Kinds of Money

My two dads did not work hard for the same kind of money. My poor dad said repeatedly, “Go to school so you can get a high-paying job.” My rich dad said, “It is not how much you *make* that counts, but how much money you *keep*.” He went on to say, “Ordinary income is the income that you work the hardest for and you are allowed to keep the least of.”

50-Percent Money

Rich dad often called ordinary income, the income you receive from a paycheck, “50-percent money.” The reason he called it “50-percent money” was because, no matter how much money you earn, the government always takes at least 50 percent of it or more in one way or another. If you make \$50,000 a year, then at least \$25,000 may go to the government, most of it before you even get your hands on it (through withholding). Even after you receive that remaining \$25,000, the taxing continues on. As most people know, you are taxed when you earn, spend, save, invest, and when you die. In fact your taxes at death can be very high if you are not properly prepared for the event. As rich dad often said, “If you do not have a plan for your money after you die, then the government does.”

From rich dad’s point of view, it was not very smart to work hard and have the government take at least 50 percent of what you work hard for. (A few years back, the tax rate was even higher than 50 percent. While the rate has come down over the last few years, many of the tax loopholes have been taken away in order to compensate for the lowering of tax rates. The fact is, when rich dad was in his prime earning years, he often called ordinary income “80-percent money” because that is how much the government took from highly paid people.)

My poor dad did not know that there was a difference in the different types of income. And since he did not know there was a difference, he worked very hard for “50-percent money” and then bought a bigger house for the tax breaks that he never really got. Rather than finding out more about the different types of income, my dad would go back to school so

he could receive a promotion and a pay raise. In other words, he worked hard, studied hard, earned more, and paid more and more in taxes because he worked for “50-percent money.”

Rich dad had a difficult time understanding people who spent their lives in search of a higher paying job or a pay raise. He often said, “When you get a raise, so does the government.” To him, spending your life working hard for “50-percent money” was not the financially intelligent thing to do.

20-Percent Money

Most people today are attempting to retire utilizing what my rich dad called “20-percent money,” which is money from capital gains or appreciation of stocks and sometimes real estate. When you hear politicians say, “My opponent is giving a tax break to the rich,” they are often referring to some sort of tax break on investment income.

Many people are financially smarter and not working so hard for ordinary income. Many people are asking for stock options that can be “20-percent money” if the company succeeds. (A certain portion is treated as ordinary income, but the increase in value afterward may be “20-percent money.”) A stock option can also be worth nothing if the business does not improve its perceived value to the market. The point is that people are catching on to the tax advantages and the different levels of leverage of the different types of income. The growing gap between the haves and have-nots is because most people are not aware that there are different types of income, and they work hard for the wrong kind of income.

0-Percent Money

One of the reasons Kim and I retired early was because we utilized tax-deferred money and many times what my rich dad called “0-percent money.” Tax-deferred money is money from capital gains that is not immediately taxed and is deferred for as long as we choose to defer paying those taxes.

For example: We put down \$5,000 and purchased a house for \$50,000. Two years later, we sold it for \$100,000. We had a capital-gains consequence of \$50,000, but we chose not to pay the 20 percent in capital gains, which would have been approximately \$10,000. Instead of paying the capital-gains tax, as you would if you had made the same amount from a stock or mutual fund, we deferred our gains and rolled \$55,000, which was \$50,000 in gains plus our original \$5,000 down payment, into our next investment.

In other words, we had a 1,000 percent return in two years and paid no immediate taxes. We legally deferred our taxes and used what was technically the government's money as a down payment on a larger apartment house for \$330,000. We then used the bank's money and some of the seller's equity to help us finance the remaining \$275,000 we did not have. Not only did we use OPM (Other People's Money), we used government money to help us retire young and retire rich. Between 1988 and 1994, we utilized this investment and tax strategy many times.

In America, one of the advantages of investing in real estate over paper assets is this legal loophole in the tax code. The reason the government allows this loophole is because it wants investors to keep their money invested in real estate to provide a supply of housing for people who choose not to buy or cannot afford their own home. The tax break keeps investors such as Kim and me to provide an abundant supply of rental homes and thus keeps down the cost of housing. These tax incentives also keep the real estate industry vibrant and help the nation's economy stay strong, since real estate makes up a large sector of the U.S. economy. If the real estate industry hurts, so does the country.

Tax-Free Money

There are many ways to earn tax-free money. One way is to invest in tax-free municipal bonds. An example would be a person who puts \$1,000 in a tax-free bond at a 5-percent interest rate. That means that each year this person will receive \$50 tax free.

While it may not sound exciting, there are many times when such a return is desirable.

Tax-Free Money from 0-Percent Money

Another way of deferring taxes is by taking the depreciation from the improvements on your property. For example, let's say I buy a \$100,000 rental property. The land is valued at \$20,000 and the building is valued at \$80,000. The government allows me to depreciate the building and not pay taxes on the amount of that depreciation. Let's say the government allows me to take a twenty-year depreciation schedule on the \$80,000 improvement. In many ways, that offsets \$4,000 of extra income I do not have to pay taxes on in that year. While \$4,000 may not seem like a lot of money, when your portfolio is in the millions of dollars, that amount in depreciation, when combined with other losses that are not really losses, can be significant.

One method the rich use to legally receive tax-free money is to simply keep deferring their real estate capital gains and then, at the end of their lives, roll that real estate into something like a charitable remainder trust. The moment they do that, they may never have to pay tax on all those capital gains or depreciation they deferred and used for much of their lives. It is due to these legal loopholes that so many rich people donate their mansions or other parts of their estate at the end of their lives. Their families have often become very wealthy through the deferral of the taxes on these assets they donate, and do not need the asset that made them rich anymore. They have made enough money to acquire other assets. Again, it does pay to be generous.

Competent Advice

The best advice is to seek competent advice. I am not a tax attorney, a tax accountant, or an estate attorney. These are highly specialized and complex areas of law that require the best advice you can find, especially if you are rich or plan on becoming rich. As rich dad often said, "The most expensive advice you can receive is free advice. It is advice from your friends and relatives who are not rich and have no plans on becoming rich."

Bad Advice

Not only can you receive bad advice from friends and family, you can also receive bad advice from so-called professional financial advisors.

Many people are advised that their home is their best tax deduction. In my opinion, that advice falls under the category of “bad advice.” In America, for every dollar you pay in interest, the government allows you approximately a 30-percent tax deduction. That means, if you give the government a dollar, it will allow you to save 30 cents. If that makes sense to you, send me a dollar and I will send you back 50 cents. Another minor point most advisors do not tell you is that after you exceed a higher level of ordinary income, you begin to lose that interest tax deduction on your house. That is another reason not to work hard for ordinary income and buy a big house for its tax advantages.

The Best Loophole of All

In the previous chapter, I wrote about the differences between what some people thought was smart and other people thought was risky. In my first example, I stated that my poor dad thought that job security was smart and that building a business was risky. My rich dad saw it exactly the opposite. Rich dad said, “If you work for job security, you will earn less and less the more you work. To me, that is too high a price to pay for a little bit of security.”

Today, as it was when I was a kid, the best way to earn more and work less is via owning your own business. It continues to be the best loophole in the world. One reason to start your own business is that you can spend first and then be taxed on the balance left over.

Employee	Business owner
Earns	Earns
Pays taxes	Spends
Spends what is left	Pays taxes on what is left

An employee today pays for many of life's finer things with after-tax dollars. For example, most employees have to pay for their car with after-tax dollars. A business owner is allowed to pay for his or her car with before-tax dollars if it is used for business and meets certain requirements. When you are working for "50-percent money," your car can be far more expensive than your boss's car, even though your car costs less. Even such things as football tickets, trips, dinners, day care for your kids, and other benefits can often be purchased by a business owner with before-tax dollars. A business owner can pay for those things with before-tax dollars while an employee pays for them with after-tax dollars. (They must qualify as legitimate business expenses and may be subject to limitations.)

So not only are most people working for "50-percent money" in America, most people are paying more for the good things of life with the money that has been reduced by about half. When I studied this difference with rich dad, I quickly realized that the price of job security was very expensive.

A Word of Warning

This book is not a legal textbook. This book is only written to make you aware of some of the differences in income. I caution you because it is legal to reduce taxes as long as you use these tax strategies in the pursuit of making more money. If you utilize these same strategies only to minimize taxes, then you are technically breaking the law. This is a very important point and is why I recommend you seek the best tax advice possible. I have met too many people who do things only for the purpose of saving on taxes, and they have been severely punished by the government. Again, the best professional assistance in this area of law is often priceless.

Very Few Tax Breaks

When you study and understand the CASHFLOW Quadrant, you soon begin to realize that the tax laws are the worst for employees. In fact, it is the lower-paid employees who pay the highest percentage in taxes. So much for the government trying to protect the working class! Even the S quadrant has more loopholes than the E quadrant.

The best quadrant is the B quadrant simply because the B quadrant allows you to take advantage of the different tax laws in the different quadrants. For example, as a B-quadrant person, I can utilize the tax advantages of the E quadrant, the S quadrant, and the I quadrant. This is not necessarily the case for people in the E or S quadrant. In other words, if you are an employee or a self-employed professional such as a lawyer or doctor, you are not allowed to utilize the same loopholes the B-quadrant person enjoys. Yet the B quadrant person can utilize the laws of the E, S, and I quadrants when convenient. Again, competent financial and tax advice and planning are important if you want to use these laws to your advantage.

What Kind of Money Are You Working Hard For?

The question is: What kind of money are you working hard for? If you are working for “50-percent money,” you will have to work harder than the person working for less expensive money. The most expensive money is found in the E quadrant. If you ask any CPA, he or she will tell you that there is very little they can do for you in the E quadrant. The government has locked up most of the loopholes for this quadrant.

The Problem with a 401(k)

There are some major flaws in the 401(k) retirement program. One flaw is that, although you save your money in it and it hopefully grows free of the 20 -percent capital-gains tax when you withdraw it at retirement time, you are taxed at the 50-percent tax rate of ordinary income. Even though you believe you are investing in portfolio or 20-percent money, when you cash it in, you are still taxed at the ordinary income rate of 50 percent.

In other words, even though you invest in tax-deferred 20-percent money, you are taxed at 50-percent tax rates when you need the money. That means you work all your life for 50-percent money, and when you retire, you are still taxed at the 50-percent rate.

The second problem with a 401(k) is that it only works for people who are planning on being poor. If your income remains high after you retire, you continue to pay higher taxes on your retirement money because your income went up, not down.

When I discuss the three different levels of financial plans, one to be safe and secure, one to be comfortable, and one to be rich, remember that there are different investment vehicles for each type of plan. 401(k) plans and savings are parts of a plan to be safe, secure, and comfortable. They are not part of my plan to be rich.

The Problem with Social Security

The problem with Social Security is that it only works for people who want to be poor. If you find that Social Security is not enough for you to live on after you retire and you go to work for ordinary income, the government will begin reducing your Social Security payments. In other words, the only way to receive a full payment is to choose to be poor.

The Problem with Savings

For people who believe in keeping all of their money in the bank, thinking that saving is smart, their money is working for 50-percent money. I too have money in the bank, but I do not think that saving is as smart as many people do. I have money in savings as part of my financial plan to be safe and secure, not as part of my plan to be rich. This is true even though I do not think it is smart to have my money working for 50-percent money as well as losing ground to inflation.

The Worst Reality

In the following chapters, you will learn why the advice “Go to school, get a job, work hard, save money, and put money in your 401(k)” could be the worst advice from a tax point of view. At each

step of the way, the advice recommends working hard for 50-percent money. My poor dad was poor because this was his advice to himself and to his kids. It was his only reality when it came to money.

How You Can Earn More Tax-Advantaged Income

If you want to retire young and retire rich you will need to follow my rich dad's advice. And his advice began with the idea of minding your own business.

By simply starting a small home-based business, buying a franchise, or joining a network-marketing company, you are moving into more tax-advantaged income. If you can reduce the cost of some of your expenses, just by utilizing tax-advantaged dollars, you are getting ahead financially. But always remember that your intent must be to make more money and not just avoid paying taxes. One is looked upon as tax planning and the other as tax evasion.

Tax strategy is not a do-it-yourself activity for those people serious about becoming rich and staying rich. You will need to find competent advisors who will work with you to devise a strategic tax plan.

Working for Free

In *Rich Dad Poor Dad*, I told a story of my rich dad taking away my 10-cents-per-hour salary and asking me to work for free. Many people think it is an interesting story, but working for free is not a part of their reality. I would like to leave you with this thought: If you want to work for tax-deferred or tax-free money, it does mean working for free in most instances.

Money that comes from compensated labor is the highest taxed of all incomes. That is why I often cringe when I meet bright young people in school who are excited about soon getting a high-paying job. A young person with that mindset or that reality is a person who winds up working harder and harder for "50-percent money." One day they wake up at age 40 with their high-paying job and begin to wonder why some of their friends have passed them by financially. The reason hardworking employees get passed by financially later in

life is because they worked hard for ordinary income. They worked hard for pay raises and bonuses.

Even though my poor dad started out earning more ordinary income than my rich dad, my rich dad eventually passed and surpassed my poor dad's earning potential. My rich dad said, "You will invest time regardless if you work for ordinary, portfolio, or passive income. The trouble with working for ordinary income is that you have to keep working hard for it. Eventually a person working for portfolio and passive income will pass the earning potential of ordinary income because you can work less, earn more, and pay less and less in taxes when you work for portfolio and passive income." The reason for this is explained here:

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

My poor dad was passed by my rich dad simply because ordinary income is often income from labor. The other two incomes are income from assets. As time went on, my rich dad slowly but surely kept increasing the number and size of the assets he had working for him. My poor dad only knew how to personally work harder and harder for more and more "50-percent money."

People in the E quadrant have the least control over their taxes and pay the most in taxes, even after they retire. If your income today comes from the E quadrant, you may want to consider doing something to earn income from other quadrants. The S quadrant has a few more advantages over the E quadrant, the main one being the ability to deduct some expenses from your gross income prior to being taxed. The problem with both the E and the S quadrants is that the leverage factor of personal labor is minimal and the taxes are higher. The quadrants with the most control over taxes, the highest leverage potential for labor-free income, and the most legal tax advantages are the B and I quadrants.

If you are serious about retiring young and retiring rich, you may want to consider working for free. The moment you ask yourself the question, “How can I become rich by working for free?” you begin to push your mind into another reality. If nothing comes to your mind on how you can get rich by working for free, keep pushing your reality or begin investing some time and education into studying the lives of people who became rich in the B and the I quadrants.

My rich dad said, “It is hard to become rich working for money. If you want to become really rich, learn how to build, buy, or create assets.” He also said, “Working hard for pay raises is very risky.” It is risky because people often get deeper into the Rat Race of life working for pay raises. Also, other people get ahead financially faster than you.

Many of the very rich became rich in their spare time. So, if you have a job because you have financial responsibilities, keep your job but make better use of your spare time. When your friends play golf or go fishing or watch sports on TV, you can be starting your part-time business. Hewlett-Packard was started in a garage, as was Ford Motor Company. Keep in mind that today you can go from poor to rich faster than ever before. Michael Dell went from college kid to billionaire in three years. While his classmates were doing their homework or drinking beer at parties, he was building a billion-dollar business in his dormitory room. Most of his classmates, now in their thirties, are working hard for 50-percent money. Many are now going back to school in hopes of getting a promotion and a raise, and are still drinking beer and watching sports on TV. They may have a big house, an SUV, kids in private school, and are hoping their 401(k) will have enough money in it when they retire. Some are silently wondering how Michael Dell, a college dropout, got so lucky. His luck began with a difference in reality, a willingness to study, but not study for grades, and a willingness to work for free.

The reason Kim and I retired early was because we worked hard to build businesses and buy real estate. That plan allowed us to work less and less and earn more and more. We did not work for money. We worked hard to build, buy, or create assets, as my rich dad had advised.

We were not interested in high-paying jobs or pay raises. We were not interested in working at a job without much leverage and working for money that had its leverage reduced by 50 percent. To us that was not smart and, in the long run, it was much more risky. In later chapters, I will go into how you can work to acquire more assets with less risk and higher financial yields. Yet I warn you that you may need to study and work for free in order to learn how to acquire such assets. I warn you now because studying and working for free are things that very few people do. That is why there are so very few people who retire young and retire rich.

I am not against paying taxes. Tax is an expense of living in a civilized society. Without taxes, we would not have police, firemen, teachers, sanitation workers, courts, roads, traffic lights, and of course politicians. The point of this chapter is to learn the legal and intelligent control over how much you pay in taxes and when you pay them.

A suggestion: List how much you currently earn a month in the following types of income:

1. Ordinary income \$ _____
2. Passive income \$ _____
3. Portfolio income \$ _____

If you want to retire, you will need passive and portfolio income, in most cases. The sooner you learn to acquire passive and portfolio income, the sooner you are on your way to retiring young and retiring rich. Not only will you be able to retire earlier, but you may also feel more financially secure. You may also feel smarter, since you will be earning 20 percent or even tax-deferred income, rather than 50-percent income, which is the type of income most people are working so hard for.

The final sections of this book will go into ways to acquire more portfolio and passive income with greater safety and higher returns.

But again, it may require more study and working for free before you receive those types of income. It often takes dedicated study and working for free to go into another reality. If you should decide to embark upon this journey to acquire the better-leveraged incomes, always remember the Wright brothers. They are prime examples of people who studied because they wanted to learn and not for grades. They worked hard for free without guarantees, took risks intelligently, and pushed themselves and the world into another reality.

Chapter Eight

THE FASTEST WAY TO GET RICH

Soon after publishing *Rich Kid Smart Kid*, the fourth book in the Rich Dad series, a review of the book appeared in a prominent newspaper. Almost all of the media reporting on the Rich Dad series has been extremely favorable. They have been more than fair, as well as objective, in their reviews of my books. This particular newspaper article on *Rich Kid Smart Kid* did not start out the same way. This journalist began the review with an attack on my inability to write. He more or less said that I needed to go back to school and take writing lessons. The irony is that I openly disclose in the book that I failed high school English twice because of my inability to write. Being labeled stupid and a failure at the age of 15 because I was a poor writer was a very painful event in my life.

Since then I never have claimed to be a writer. Writing could be my weakest skill and the reason I had such a tough time in school. The fourth book in the Rich Dad series is about how I overcame my inability to read and write and still graduate from college. *Rich Kid Smart Kid* is about finding and developing your child's unique genius, as well as the need to develop their financial survival skills. So the journalist's critique was not on content, but on my writing skills, the same problem I had all through school.

The journalist ended the review by throwing out one comment he thought was favorable and would make the article balanced and objective. He wrote, "This book will help your child be more employable." Now, I found the criticism of my writing skills justified. But to put in his article that my book's only socially redeeming

factor was that it made your child more employable was so far off the mark that I became offended. I doubted if the reporter had even read the book. *Rich Kid Smart Kid* is *not* about making your child more employable. It is about making your child more unemployable. If you want to retire young and retire rich, you need to think about how to become *less* employable, not *more* employable. Again, the difference is found in mental realities.

How to Become Unemployable

In summarizing the importance of mental leverage, I restate that your reality is simply what you think is real. Or as commonly stated, your perception is your reality. When asked, “Is it hard to change one’s reality?” I reply with, “It depends.” For me, it was a personal struggle to shed my poor dad’s reality of what he thought was the smart thing to do and adopt my rich dad’s ideas on what he thought was smart. In many ways, changing one’s reality from a middle-class or poor reality to a rich reality may be like learning to eat with your left hand after you have spent years eating with your right. While it is not hard to do and anyone can do it if they persevere, it may not be the easiest thing to do either.

The fastest way to become rich is to change your realities faster. That may be easier said than done for most people, because I have observed that most would rather remain within the comfort of their realities, even if it is a reality of financial struggle and constriction. Rich dad said, “Most people would rather live within their means than expand their means.” He believed most people would rather be comfortable working hard all their lives than be uncomfortable for a few years, working hard at changing their realities, and taking the rest of their lives off. Using the metaphor of switching from right hand to left hand, most people would rather be poor eating with their right hand than become rich by learning to eat with their left hand. In many ways, that is what a change in mental reality requires.

Content versus Context

In an article entitled “Learning 101” in *Fast Company* magazine, we read:

*Learning is the single most important tool for people, teams,
and companies that want to get fast and stay fast
in the new economy...*

*In the old economy, content was king.
In the new economy, context is king.*

In other words, learning to shift from right-hand to left-hand dominance is more important than what kind of fork is being used.

The current school system still struggles with giving kids better content rather than looking at how the Information Age has changed the context of the world we now live in. Just as the book reviewer described earlier felt the only socially redeemable point of my book was to make your child more employable, most schoolteachers are trying to create course content that will hopefully make your child more employable. That is why the school system continues to focus on content rather than context.

The context of the world has changed. When my mom and dad were growing up in the Great Depression, the context was that jobs were scarce and job security was king. That is why my mom and dad stressed the importance of good grades and a secure job. In my parents’ day, if you found a secure job with a good company, and you were loyal and hardworking, you were set for life. The company was responsible for your financial security after you retired. Today, most people realize that the context or the rules of employment have been changed forever.

Content, Context, and Capacity

Although my rich dad did not use the words *content* and *context* very often, choosing instead to use the word *reality*, he did use the word *capacity* regularly. He would say, “Not only does a poor person have a poor reality, having a poor reality means that person has very little capacity to allow money to stay with them.”

He meant that when people say such things as, “I’ll never be rich,” “I can’t afford it,” or “Investing is risky,” it diminishes their capacity to be rich. He said, “When a person with a poor or middle-class reality suddenly comes into money, they often do not have the mental and emotional capacity to handle the sudden abundance of money, so the money overflows and runs away.” That’s why you so often hear people say, “Money just slips through my fingers.” Or “No matter how much I make, I’m short of money at the end of the month.” Or “I’ll invest when I have some extra money.”

Occasionally I will use the example rich dad used to drive his message on context home to his son and me. Rich dad would take an empty water glass and then pour water from a full and large pitcher into the water glass. It would not be long before the water would overflow the smaller water glass and would continue to overflow as long as he poured. Rich dad would say, “There is plenty of money in the world. If you want to be rich, you need to first expand your reality [context] in order to hold on to your share of that abundance.”

I use this same graphic example to explain the relationship among content, context, and capacity. I first start pouring water in a one-ounce jigger, then a small water glass, and then a larger water glass. It is a simple demonstration to illustrate the differences in capacity to hold on to money between the poor, middle class, and rich.

How to Expand Your Capacity

When asked, “How do I begin to expand my reality or context?” I reply with, “By watching your ideas.” I also remind people of one of rich dad’s favorite sayings, “Money is just an idea.” I answer by imparting the same advice my rich dad passed on to me.

He pointed out statements such as:

- “I can’t afford it.”
- “I can’t do that.”
- “That’s wrong.”
- “I already know that.”

- “I tried that once and it did not work.”
- “That’s impossible. It will never work.”
- “You can’t do that.”
- “That’s illegal.”
- “That’s too hard to do.”
- “I’m right and you’re wrong.”

Rich dad said, “Cynics and fools are twins on opposite sides of reality and possibility.” He went on to say, “Fools will believe any far-fetched scheme, and a cynic will criticize anything outside their reality.” He finished his explanation by saying, “A cynic’s reality does not let anything new in, and a fool’s reality does not have the ability to keep foolish ideas out. If you want to be abundant and rich, you need to have an open mind, a flexible reality, and the skills to turn new ideas into real and profitable ventures.”

Requoting the statement from *Fast Company* magazine:

*In the old economy, content was king.
In the new economy, context is king.*

My rich dad would have said it this way: “If you want a faster way to get rich, you need to have a mind open to new ideas and have the skills to take on possibilities greater than your current abilities. In order to do that, you must have a reality that can change, expand, and grow quickly. To try and get rich with a poor person’s reality or a reality that comes from lack and limitation is a mission impossible.”

Why Not Get Rich

Sitting on the mountain in British Columbia in 1985, Kim, my friend Larry, and I decided that we were willing to be very uncomfortable and push ourselves into new realities in order to retire young and retire rich. Believe me, at times it was very uncomfortable. When I am asked how we got rich and retired young, I simply say, “We kept changing our realities.”

When asked how to change one's reality, I simply quote Robert Kennedy's famous saying:

*Some men see things as they are and say, "Why?"
I dream things that never were and say, "Why not?"*

It is a matter of going beyond the comfort of your current realities and into the realm of new possibilities for your life. As Robert Kennedy said, "Why not?"

Having a mind that can expand its reality or context quickly is an important form of leverage. In fact, it may be your most important form of leverage, especially in this rapidly changing world. To rich dad, having a mind that could expand its reality quickly was very important. In fact, I believe it was his great personal skill and the reason for his ever-increasing financial success. Now that I am older and hopefully wiser, I more fully appreciate why rich dad forbade his son and me from saying "I can't afford it." In the coming years, your ability to change and expand your reality will be your single most important form of leverage. In the coming years, those who can change and expand their context will prosper and move ahead of those who cannot. As the *Fast Company* magazine says, "In the new economy, context is king."

If you want to keep up and retire young and retire rich, you will need to be able to continually change your context quickly, because context determines content. And context plus content equals capacity.

This more or less completes the ideas on the importance of mental leverage. Although this is the end of the mental-reality section, much of this book will refer back to this very important concept of the power of one's reality.

The next section of the book is the importance of the leverage of your personal financial plan. The reason having a plan is so important is because most people have dreams, but they fail to have a plan. It is important to have a dream of retiring young and retiring rich, but in order for the dream to come true, a person needs to have a plan to bridge the dream into reality.

Your mental leverage will be tested in the next section because we go into dollar amounts that are beyond most people's realities. If the dollar amounts are beyond your reality, or your context, then those dollar amounts will remain only dreams. As stated earlier, it is often difficult for a person who is earning less than \$50,000 a year to imagine retiring in a few years with over a million dollars in income. While most people will dream of someday retiring with that much money, less than 1 percent of the U.S. population will. That reality will forever remain a dream for the other 99 percent.

The good news is that, if you understand the importance of having the right reality or context and understand the importance of having a plan, your chances of retiring young and retiring rich are greatly increased.

If you can change your reality and have a strong plan, you may find that making \$1 million or more without working can be a lot easier than working all your life for \$50,000. All it takes is a flexible reality or context and a plan that is followed. The next section is on creating your plan, a highly leveraged plan to retire young and retire rich.

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Section Two

THE LEVERAGE OF YOUR PLAN

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The following are excerpts from an interview with Robert Reich, Secretary of Labor in the Clinton administration:

“The widening gap between the rich and the poor is setting us up for serious trouble.

“As Secretary of Labor, my goal was to try and get more jobs and better wages for Americans, and after working hard at that role for a number of years, you can’t help but feel jobs and wages are everything. But they’re not.

“It’s not simply a matter of having a job or even having decent pay anymore.

“In the new economy, with unpredictable earnings... two tracks are emerging, the fast track and the slow track and the absence of gradations between.”

The question is: Are you and your plan on the fast track or the slow track?

Chapter Nine

HOW FAST IS YOUR PLAN?

“I have the need for speed.”

—*Tom Cruise in the movie Top Gun*

The idea of working all your life, saving, and putting money into a retirement account is a very slow plan. It is a good and sensible plan for 90 percent of the people. But it is not a plan for someone who wants to retire young and retire rich. If you want to retire young and retire rich, you need to have a plan that is far faster than the plans of most people.

If you have a chance, see the movie *Top Gun* and watch the speed at which those young pilots had to fly and make life-and-death decisions. The capacity to handle speed was important to those young pilots because their lives depended upon the speed at which they handled speed.

The same is true in life and business today. The speed at which you can change and expand your context in order to adapt to the changes in the business world today is critical to every one of us who wants to succeed and do well financially. The gap is no longer between the haves and have-nots. Today the gap that is changing the most rapidly is the financial gap between the middle class and the rich. Saying it bluntly, if you have a slow Industrial-Age plan, or context, you are being left behind financially—not by your peers, but by younger people with faster minds and more accelerated ideas. This accelerating rate of change of contexts is why we have twenty-five-year-olds who are billionaires and we have fifty-year-olds still hoping to find a \$50,000 a year job. The sad thing is that many of these same fifty-year-old peers of mine are still advising their kids to follow in their footsteps, riding the same slow train their parents rode on.

In book number three, *Rich Dad's Guide to Investing*, I began with the statement that *investing is a plan*. I also said that most people plan on being poor, which is why so many people say as my poor dad did, “When I retire, my income will go down.” In other words, they planned on working hard all their lives only to become poorer. Rich dad said, “If you want to be rich and retire young, you must have a very fast plan that makes you richer and richer with less and less work.”

How Do You Create a Fast Plan?

One of rich dad's basic tenets on money is, “Money is an idea.” Adding onto this, rich dad also said, “There are fast ideas and slow ideas, just as there are fast trains and slow trains. When it comes to money, most people are on the slow train, looking out the window watching the fast train pass them by. If you want a faster way to become rich, your plan must include fast ideas.”

If we were to build a house, most people would first hire an architect, and the architect would work with you to create a set of plans. Yet when these same people begin to build their fortune or plan for the future, most people do not know where to begin, and they never design a financial plan for their lives. There are no blueprints to wealth. When it comes to money, most people follow their parents' financial plan, and that plan is often to work hard and save money. Following that plan, millions of people then sit on the train to and from work and watch the limos, corporate jets, and luxury homes from the window of their train.

If you don't plan on spending your life gazing out the window of your train, plane, or car, stuck in rush-hour traffic, you may want to begin creating a faster financial plan. The following are some ideas on how to begin to build and develop a faster plan.

1. Choose your exit strategy first.

I am often asked, “How do I begin investing?” or “What should I invest in?” My response to their question is another question, “What is your exit strategy?” And sometimes, my second question is, “How old do you want to be when you exit?”

My rich dad repeatedly said, “A professional investor always has an exit strategy before they invest.” Having an exit strategy is an investment fundamental. That is why rich dad also said, “Always start at the end before you begin.” In other words, before you get into investing, you need to first know how, when, where, and with how much you want to exit. For example, if someone came to you and said, “What is the first thing you should do before planning a vacation?” one answer should be, “Well, where do you want to go?” Or if someone asked you, “What should I study?” the answer would be, “Well, what do you want to become after you graduate?” The same is true with investing. Before deciding what you should invest in, you should first know where you want to wind up. That is why rich dad repeatedly said, “Knowing your exit strategy is an important investment fundamental.”

Many people invest because they recognize that the company they work for or the government is not going to take care of them after their working days are over. Many people are investing today for their long-term financial security. While it is good that many more people are investing today, I am afraid many investors did not give much thought to their exit strategy before they began investing.

How Much Will You Have When You Stop Working?

A number of years ago, someone gave me the following statistics from the federal government. Although the statistics are a few years old, I do not think the ratios or the dollar amounts have changed much.

Using the benchmark of age 65 as when most people plan on retiring, or exiting, the question is: How much income do you want when your working days are over? The government tracked people from ages 20 to 65 and found that, by the age of 65, for every 100 people:

- 36 were dead
- 54 were living on government or family support
- 5 were still working because they had to
- 4 were well off
- 1 was wealthy

These statistics appear to verify my earlier statement that most people seem to have a plan on working hard all their lives and retiring poor. Either they planned on retiring poor or they did not pay attention to their financial plan or their exit strategy.

Looking at these statistics, the question is: When you are age 65, which group do you want or plan to be in when you exit? My poor dad, although highly educated and hardworking, continually went back to institutions of higher learning for more education, and yet still wound up in the group that was at the bottom of the heap at the end of his life. My rich dad, on the other hand, wound up far, far off the chart in the rich category. Although both men more or less started with nothing, they each had a different plan and exit strategy. One planned on retiring poor, and the other planned on retiring rich. Although both men kept working after age 65, the difference was that one had to keep working and the other worked because he enjoyed working.

What Is the Goal of Your Exit Strategy?

After looking at the government statistics, I realized that further distinctions needed to be made in order to obtain a more useful chart to determine one’s financial exit strategy. Taking these U.S. government statistics, I added further dollar distinctions to those statistics, based upon the year 2000 dollar valuations. Upon retirement at age 65, the income without working falls into these categories:

Poor	\$25,000 or less per year
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>

The unfortunate reality is that only one out of 100 Americans will reach the affluent level or higher when they exit the workforce. Chances are that 36 out of 100 will be dead, as the government statistics state. These 36 will exit this earth prior to exiting the workforce. That means that 59 out of the 64 people remaining will exit below the affluent level.

Only five go beyond that level. One reason for this is a slow financial plan without a clearly defined exit strategy.

In my investment seminars, I often ask investors, “Which group do you want to be in once your working days are over.” In other words, “What is your targeted exit level?” I find it interesting that most people are happy to simply wind up in the middle-class exit category. I then say, “If you are happy there, then keep riding the slow train. The slow train will get you there.” I explain further by saying, “The slow train follows the schedule of finding a safe job, working hard, living below your means, saving money, and investing for the long term.”

When I am asked, “Can I get to the affluent level on the slow train?” my answer is, “Yes, you can get there with a safe, secure, high-paying job, but you must begin investing young, live frugally, invest a large portion of your income, hope that the market does not crash, and be willing to retire after age fifty-five.” Explaining further I say, “There is a price for using this plan of job security and frugality to reach the affluent level. The price is that it is often difficult to move on to the rich and ultra-rich level using such a conservative plan.” If all you want is to retire at the middle-class or affluent levels, then you do not need this book. There are many books written for those levels or for people with that context and reality. The middle-class level and affluent level are great levels to exit at. But I feel a deep concern for the approximately 50 percent of the population that will not reach those levels.

Take the Fast Train

If you are starting life with very little as I did, and want to retire young and retire rich at the rich or ultra-rich levels, you will most likely need to forsake job security and take the fast train. In order to take the fast train, a person will need an open mind, high-speed ideas, better business and investment education, and a faster plan. In other words, these people will need to operate from a different mental context and content than that of the masses. People who use the job security and long-term investment plan to reach the affluent level often arrive without the content, context, and capacity to handle the rigors of the rich and ultra-rich levels. In other words, they may arrive with

money, but without the reality required for the rich and ultra-rich levels. As my rich dad said, “There is more to being rich than having a lot of money.”

My wife, Kim, and I decided to exit the Rat Race of life at the affluent level. That was our goal. Once we decided on our goal in 1985, we worked backward and developed our exit strategy, our investment plan, and then and only then did we determine our entry strategy. Once we had our exit strategy, we knew what to do and where to begin. For us, it was to ride on the fast train to build a business and invest in real estate. It meant giving up a few weekends and watching a little less TV. It meant having friends and relatives asking, “Why don’t you get a job?” and “Why do you work so hard?”

The hard work, lack of job security, and following the rigid schedule riding the fast train paid off. We achieved our goal from our investments when she was thirty-seven and I was forty-seven. It took nine years from the time the plan was created until we achieved our goal. We created our plan in 1985 and exited in 1994. In 1985, we chose a plan that would get us to the affluent level quickly, as well as give us the required education and experience that qualified us to move on to the rich and ultra-rich levels. The key word here is *qualified*, which will be explained further in this chapter and in following chapters.

Because our investments brought us more than \$100,000 in passive income per year, we were able to move on to the rich level simply because we had time, money, and the basic qualifications. We went from the affluent level to the rich level in five years. Next stop is the ultra-rich level of residual income.

In theory, our basic plan through all levels was simple. It was to build businesses and invest in real estate. Today, we continue to build businesses and invest in real estate. While the plan has remained simple, what has increased is our education and experience. It is the education and experience that allow us to increase the speed at which we build businesses and buy real estate. In other words, we made mistakes, corrected, and learned. By making those mistakes and learning, what has changed is the size of our context, our content or knowledge, our capacity to handle larger projects and dollar amounts, and the speed

at which we process these larger and more complex facts and figures. Taking the fast train gave us different business and investor qualifications than those who reach the affluent level using the slow train.

We started out slowly, but we gained education, experience, and friends of the same mindset. As we progressed along our simple plan, our context, content, capacity, and the speed at which we can build a business or acquire income-producing real estate has accelerated. At a time when many of my peers are reaching their peak income-earning years, our income potential is just starting to take off. At a time when many of my peers are happy to be earning \$80,000 to \$350,000 a year, our income is boarding the very fast train. The good thing is that we are working less and less, while earning more and more. Things are going according to plan.

When I was in high school in the 1960s, my poor dad earned far more money than my rich dad. By the time I was in college, my rich dad was earning more than 20 times what my poor dad earned, even though my poor dad was at the height of his income-producing years. By the time both men were in their mid-sixties, my poor dad was barely surviving financially. If not for Social Security and Medicare, he would have been living on the streets or moving in with his kids. At the same time, my rich dad's net worth was estimated to have been over \$150 million and climbing. By the time they were 65 years of age, my rich dad was earning more in a year than my poor dad earned in his entire lifetime. Both men's lives had gone according to plan. As former Secretary of Labor Robert Reich said, "Two tracks are emerging, the Fast Track and the slow track, and the absence of gradations between."

2. Create a plan that works for you.

I estimate that 90 percent of the population follows the same plan. That is why more than 99 percent of the population winds up below the affluent level. There are people who try and reach the affluent or rich level, but they fail to have their plan come true.

I emphasize the importance of creating your own plan because each of us needs to take into account our own strengths and weaknesses, hopes and desires. I knew I had to create my own plan because I was not academically smart like my poor dad. I was smart in other areas, but not in the areas that our educational system recognizes as smart. One of the first steps in creating your plan is to find out what your innate genius is and the process by which you learn best.

In my book *Rich Kid Smart Kid*, I write about the seven different geniuses and four different ways of learning. The current system of education recognizes only one genius, the genius of verbal-linguistic, the ability to read and write, and only one way of learning. My poor dad assisted me in finding my genius and my way of learning, even though it was not recognized by the organization he headed, the government's education department. Today I earn my money, not by what I learned in school, but by what I learned following my own plan.

Even if you are no longer in school or do not have children, it might be a good exercise for you to find out your own genius and your own personal learning style. If you want to retire young and retire rich, knowing your genius and the unique way you learn is an important part of the plan.

Leaving the Path of Job Security

I clearly remember the day Larry and I left the Xerox Corporation in the late 1970s. That was my last traditional job. Twenty years later, many of my peers at Xerox are now worried about being downsized due to Xerox's technical and financial challenges. The gap in 20 years has widened by more than just money. It is a gap of realities, old and new.

A Change of Context

Twenty years ago, the smart thing to do was to find a job and climb the corporate ladder. I remember people not understanding why Larry and I were leaving such a great career opportunity with such a great company. After all, we were both number one in sales for different divisions, the company was still growing, and our futures seemed bright. Not only did it not make sense for us to leave during that economic era, the idea of leaving a high-paying job was not the accepted thing to do. The accepted thing to do was to work your way up the corporate ladder, and someday become a manager or even vice president of a region. When I talk to young people born after 1975, about the same time we were leaving Xerox, many of them do not want to climb the corporate ladder. For many of them, the thing to do is start your own company and take that company public through an IPO (initial public offering) and then retire young or start another company and take that public. The change in context in 25 years is very big. I have peers who do not even know what an IPO is, but their kids do. Their kids talk about becoming an entrepreneur or working with an entrepreneur who will take a company public because they want the Fast Track to wealth. They want the Fast Track rather than getting stuck in their parents' financial Rat Race that will ultimately lead to the poorhouse for millions and millions of hardworking people of my generation.

How Are You Handling Change?

I have friends who hate changes in fashion, music, and technology. These friends hate rap music, do not have an online business, and are glad that so many dotcoms failed. These are some of the same people who continue to believe in job security, Social Security, and Medicare—all Industrial-Age ideas or promises.

While there are people who fight change, there are others who run away from change. I have other friends who are actively searching for jobs that cannot be affected or threatened by the Internet. One of them took a job as a teacher, not because he likes teaching kids,

but because he wanted a sanctuary from the changes going on in the world. He wanted a job where he could have job security and not be fired. The school system was his shelter from the world of change.

Another friend bought a business that could never be affected by the Internet. She said, "I'm too old to learn how to do business online so I want a business that is Internet-proof. I don't have any money for retirement so my plan is to work until I am unable to work anymore."

These examples show realities or contexts that are not changing with the times. These people will most likely fall behind in the ever-widening gap between the middle class and the rich. The ship is leaving the dock for the land of greater opportunities, riches, and wealth, and many people are choosing to be left behind, simply because they are not able to change their mental context. They are stuck in a time that has passed.

How to See the Future

On a flight from London to New York, I sat next to a high-level executive from IBM. After we got to know each other, I asked him, "How do you prepare for the future?" His reply was, "The mistake adults make when looking at the future is that they see the future from their own eyes. That is why so many adults cannot see the changes that are coming. If you want to see how the world will be in ten years, just watch a fifteen-year-old boy or girl. Observe the world from their eyes and you will see the future."

"If you can let go of your vision of the world and actually see the world from a younger person's point of view, you will see a much bigger world, a world filled with tremendous change and an abundance of opportunities yet to come. There are business and investment opportunities coming that will create bigger fortunes than the automobile did for Henry Ford, oil did for John D. Rockefeller, computers did for Bill Gates, and the Internet did for the young founders of Yahoo, Google, and Facebook."

I then asked, "Will we soon see a high-school teenager become a self-made billionaire?"

His reply was, "I'd bet money on it."

If you are not rich today because you missed the last boat leaving the dock, do not worry. Another boat to the land of riches and opportunity is getting ready to sail. The question is: Will you be on it?

History Repeats Itself

One of my favorite subjects in school was economics and economic history. Economic history is often associated with the leading economist of any given time. Some of these economists are Adam Smith, David Ricardo, Thomas Malthus, and John Maynard Keynes. The stories of their lives and how they saw the world are very interesting studies in how technology, humans, and economics have evolved.

One period of economic history was named after a group of people called Luddites. Luddites were people who banded together to attack and destroy factories and the machinery in the factories because they were afraid of losing their jobs. Today, when someone says a person is a Luddite, they're often referring to a person who is attacking technological change, or threatened by technological change, or simply hoping the technology will just go away and leave the world alone. While the original Luddites are long gone, modern-day Luddites have replaced them. History does have a way of repeating itself.

Are You Frozen in Time?

Many of us have seen programs on TV where the host takes a person who dresses horribly and transforms him or her, from geek to sheik, with a makeover. A team of hairstylists, image consultants, and color specialists swoop in on this person who is a fashion disaster and turn him or her into a fashion miracle. Some of the transformations are truly amazing and some are even life-changing.

A friend of mine is one of the top professional image consultants in the world, which means he gets paid to dress and improve the image of rich people. He is one of the people I pay to dress me. The reason I pay to have someone choose my clothes and cut my hair differently is because I do not want to become frozen in time. Instead, I want to be moving with time, in sync with the changes in context and content. The reason I change my image is because it helps me to be in sync with time as compared to being frozen in time, a time that has passed.

This professional image consultant once said to me, “A person often gets frozen in a time when they were most excited about life. It could be that period when they felt the most successful, had the most fun, felt the most alive, the most sexually active, or all of the above. That is why you see men and women of my age who still look like hippies. Many of them felt very alive during the years of protest against the Vietnam War. And on the flip side, that is why you see so many veterans of the same era who still wear their military fatigues. The war was a period when they too felt most alive or that their lives meant something.”

When you see people wearing their college sweatshirts even though they graduated years ago, it is also a longing for the past through their clothes. Another example of being frozen in time is when people grow older and begin to act, look, and dress more and more like their parents. The opposite of that is a person who begins to dress in kids’ clothes, trying to look younger or go back to a time when they were most attractive. Those are cases of being stuck in the past rather than changing with the times. It shows up in the way they dress. It is not really about changing clothes, but about being frozen in a context. These people often become more rigid and less flexible the older they get.

Why You Don’t Want to Be Stuck in the Past

We have all seen people who overdo fashion or people who try to look too trendy or too hip. That is not what I am talking about. One of the reasons I recommend dressing fashionably smart is because you want to be in sync with the times. If you are not on the front line of what is happening, then you are in the past.

If you are in the past, then you tend to do or invest in investments that are also in the past. Investments that are of a time that has passed go down rather than making you rich. One of the reasons people buy investments whose time has passed is because the one doing the investing may also be stuck in the past.

What Is Going to Happen

If you want to retire young and retire rich, you need to invest in what is going to happen, rather than what has already happened. In the world of investing, there is a lot of truth to that old saying, “The early bird gets the worm.”

Seeing the Future Makes You Rich

Rich dad often said to his son and me, “If you want to be rich, you need to develop your vision. You need to be standing on the edge of time, gazing into the future.” Rich dad would tell us stories of how John D. Rockefeller became rich because he saw the growing importance of oil due to the growing demand for automobiles. He also reminded us of how Henry Ford could see the middle class wanting cars of their own, at a time when only the rich had cars. Today in more modern times, Bill Gates became a billionaire because he saw the growth in PCs while IBM’s older and wiser men saw the future in mainframes. The older men of IBM did not think like Henry Ford and so they lost the future for IBM and gave it to Microsoft. If I were an investor in IBM, I would have those men of blindness fired and have them pay their wages back. Instead, they received bonuses, and the investors lost their future. The young people who brought you Yahoo, Google, Facebook, and other famous Internet companies became billionaires before they graduated from college because they saw the future.

If you missed the boat heading for the oil fields, the computer age, or the Internet age, do not worry. There is another boat sailing. But if you are stuck in the past, your chances of missing the next boat or, worse yet, climbing on the *Titanic* because it is big and safe, are pretty good—especially today with the context and content of the world changing so quickly.

In the movie *Top Gun*, there is a classic line that all fighter pilots say, “Take the shot! Take the shot!” If you saw the movie, you may recall that the time available to take the shot at the enemy aircraft is measured in split seconds. If you wait too long or are unprepared, you will miss the opportunity. The same is true in the world of money. The

window of opportunity to take the shot is also narrow. If you are frozen in time, stuck in the past, dressing like your mom or dad, unprepared, or lacking the business and investment skills required, you might not even see the opportunity. You will not only miss the window of opportunity, you may take shots at opportunities that are also frozen in time and not going anywhere.

A friend came up to me and said, “I took your advice, and I invested in a rental property. I bought a \$150,000 duplex in a good neighborhood. It’s a good start, isn’t it?”

I did congratulate the person, for it is just that. It is a good start. The problem is, he is taking a shot at a target whose time has passed. He is late to the party. He did not take the shot when he should have. Yet it is a good start, and a good start is often better than not starting at all. It’s a good start because, even if he loses money, at minimum he will gain priceless knowledge and experience.

Nonetheless he did not take the shot when he should have. I say that because he was with Kim and me when we were taking our shots between 1989 and 1994. Kim and I were buying into a falling market. When we told him he should be buying also, he said, “No, it’s too risky. I might lose my job. You know they’re downsizing a lot of people. Besides, real estate prices are too low and falling. What if they keep falling? What if we go into a depression?”

The window of opportunity had opened, and it had closed. Ten years later, when real estate prices were at their peak and the stock market began to wobble, my friend realized that he should begin shooting. He now shoots at targets that are old and going nowhere, just like him. He is frozen in time and is now shooting at targets that are frozen in time. At least he is starting to do something, but I am afraid he is paying a big price. That price is more than the high price of his overpriced duplex, an asset that gives him very little cash flow and will appreciate very slowly in value, if it ever does. At least he finally took his shot, even though it was at a target whose time has passed.

I am very proud of him for taking that first step, a step away from his parents’ footsteps, the footsteps of the Industrial Age.

Kim and I are still investing in our business and in real estate. The difference is that we are now watching for targets of opportunity that are developing in the future, not in the past. That is why you want to be in sync with the future and preparing to take the shot when the window of opportunity opens, as it did between 1989 and 1993. The windows of opportunity opened in both real estate and stocks between 1989 and 1993. In 2001, the stock market crashed. The Nasdaq lost over 50 percent. The stock market only went down 42 percent in 1929. When downsizing occurs again, my friend will panic. He realizes that he probably paid too much for his duplex. To me, the windows are preparing to open again.

In my investment seminars, I occasionally have Kim speak of her experience of investing. She often says we began investing in 1989 and stopped buying in 1994. She then adds that between 1985 and 1989, we were *preparing* to invest, according to our plan. During that period, we were building our business and studying about investing in real estate. For those of you who remember that era, between 1985 and 1989 was an era of very high real estate prices. Kim and I were preparing to “take our shot” when the window of opportunity opened. When it opened, our friend panicked and we began buying. His plan did not include the preparation for the window of opportunity that had opened. Today, he is late to the party, investing in investments that are too expensive, and worst of all, he is not prepared for what is coming next. He dresses like an old man, although he is younger than I am, and he invests like an old man.

In American football, the winning quarterback is the person who can throw the football to a place where the receiver isn't. In other words, the quarterback must in his mind see where the receiver will be and throw the ball there, even though the receiver isn't there... yet. If the quarterback can do that on a regular basis, he will make the big bucks. A soccer player must also kick the ball to the spot where the opposing goalie isn't. A person who plans on retiring young and retiring rich must also do the same thing. He or she must design their plan to be ready for an opportunity that is not here yet. That is why it is important to be in the present, in sync with the times, and gazing into the future.

A Plan for the Future

If you are sincere about wanting to retire young and retire rich, your plan needs to have a plan for the future, a future that does not yet exist. Just as John D. Rockefeller was prepared for the future of the automobile, and Bill Gates and Michael Dell were ready for the computer age, you too must be prepared for the opportunities of the future. If you are not, you will invest in the investments of the past, and investments of the past often have no future.

How Do You See the Future?

In order to retire young and retire rich, you will probably need to train for the future, a future that does not yet exist. As the IBM executive said to me, “The mistake adults make when looking at the future is that they see the future from their own eyes. That is why so many adults cannot see the changes that are coming.” Maybe IBM has learned the lessons that young Bill Gates taught them. The lesson is: If you want to see the future, you need to see it through younger eyes. How you respond to changes in fashion, music, and technology reflects how you think and how flexible your mental context is. If you are stuck in the past or out of sync with the present, you may miss the future entirely.

The other way to see the future is to study the past. In my reality, history does have a tendency to repeat itself, even though it may not repeat itself in exactly the same way. Many adults miss the future, or are run over by the future because their plans for the future have no vision of the past.

I was talking to a young reporter in San Francisco who was just out of college. When I told her that mutual funds were risky and that I could see a crash coming, she became very angry. She then began quoting to me words and ideas her stockbroker had said to her: “The fund I am invested in has been the top-rated mutual fund for three years running. It has gone up by an average of 25 percent each year. The stock market is the best investment because, even though there are dips in the market, the market has gone up consistently for 40 years. It is the best place to invest your money.” She never aired the interview with me because my views did not fit her view of the future. Her sacred funds then went down over 50 percent.

While her facts and data are somewhat accurate, the problem is that her data does not go far enough back in time. If she knew her history of markets, she would have known that we have a depression every 75 years, on average. While this does not mean we will have a depression every 75 years, that little bit of ancient history does explain why the market has gone up over the past 40 years. The last market crash and depression was in 1929. It took the market approximately 25 years to recover to 1929 levels in the year 1955. I was talking to her in 1998, and so her facts were accurate that the market had gone up for 40 years. Her view of the future was hindered because her view of the future did not include enough of the past.

One of the things my rich dad had me do was read books on economic history. A great book I recommend people read, if they want to understand the future, is the book *The Worldly Philosophers*, by Robert Heilbroner. It is a great book for anyone wanting to see the future by studying the past.

When I teach my investment classes, I have people fill out a financial statement. I then have them look at their past and ask them if what they also see is their future. If they do not like what they see, which is a financial statement filled with bad debt, bad income, bad expenses, bad liabilities, and no future, and if that is the picture of the future their financial statement is showing them, I advise them to begin to get unfrozen, get hip, throw out their old clothes, update their wardrobe, change their old friends, and begin to see the future. If you can change your context to be excited about the opportunities in the future, you have a better chance of retiring young and retiring rich.

As simple as some of those changes are, I am always amazed at how hard just cleaning out your closet and updating your clothes is for most people. Many people go out and buy new clothes, but they fail to update them. They just buy new clothes from the old era, the era of their life when life was fun and exciting or an era when they felt most successful. Many people are so afraid of the future, and the possibility that the future could be fun, hip, cool, and exciting, that they would rather stay stuck in the past.

I wrote in the introduction that retiring young and retiring rich was easy. It was not hard to do. Yet for many people, letting go of their past and stepping bravely into the uncertainty of the future is much harder

than becoming rich and retiring young. For millions of people, it is safer and more secure to stay stuck in the context, clothes, and collections of their parents and the past. That is why more than 50 percent of the population will retire at or near the poverty line. They climb on the slow train and ride it to the end of their lives, all according to plan.

Chapter Ten

THE LEVERAGE OF SEEING A RICH FUTURE

When I show classes the following numbers for exit strategies, many cannot imagine a financially free future with more than \$100,000 or more a year coming in without working.

Poor	\$25,000 or less per year
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>

The reason many people cannot imagine having that much money is because they do not have it in their reality. Many people may dream of such dollar amounts and may say that someday they will make that much, but in reality, most people are just dreaming. The statistics verify this reality.

Your Future Is Created Today

Many people do not realize their financial goals because they use such words as *someday*, *maybe*, or *in the future*. Rich dad always said, “Your future is created by what you do today, not tomorrow.” When you look at the above figures, the question you may want to ask yourself is this: “Is what I am doing today going to get me to the financial goal I want tomorrow?”

The harsh reality is 99 percent of the U.S. population will end up just above the \$100,000 mark. Most will follow in their parents' footsteps following their parents' plan. In other words, they will do the same thing and wind up on target.

Just after my return from Vietnam, I remember the frustration of earning only \$900 as a Marine Corps officer when Mike was earning nearly a million dollars a year from his investments alone. I remember feeling defeated and depressed about the gap between his world and my world, his reality and my reality.

For those of you who read *Rich Dad's Guide to Investing*, you may recall rich dad sitting down with me prior to my leaving the Marine Corps and helping me develop a plan. As the book stated, "Investing is a plan, not a product or procedure."

A Plan Is the Bridge to Your Dreams

Rich dad drew a rough sketch of a large river with me standing on the bank of one side of the river. He said, "A plan is the bridge to your dreams. Your job is to make the plan or bridge real, so that your dreams become real. If all you do is stand on this side of the bank and dream of the other side, your dreams will forever be just dreams. First make your plan real, and then your dreams will come true."

Between 1985 and 1994, Kim and I worked on making our plan real rather than dreaming of our dreams. What we did is what most combat pilots do. We practiced every day, preparing for the day when our window of opportunity would appear. Once it appeared, we took our shots and then the window closed.

As rich dad said, "Your future is created by what you do today, not tomorrow." In other words, what you are doing today is your future. The reason Kim and I did not take jobs, even though we were strapped for cash, was because we had no plans on being employees in the future. Instead we spent our time in seminars learning either how to build a business or invest in real estate. Even though we had no money, each and every day we practiced building better businesses and investing in real estate. We were doing today what we planned

on doing in the future. Today, we build businesses and invest in real estate. Tomorrow we will probably be building businesses and investing in real estate. I have no plans on doing what my poor dad did after he retired, which was to look for jobs so he could supplement his Social Security income. He started his life preparing to look for a job, and he finished his life looking for a job. By the year 2020, there will be millions of people my age doing the same thing my poor dad did, looking for a job to supplement their Social Security income. They will be doing tomorrow the same thing they are doing today.

A Change of Realities

There is another thing my poor dad did almost every day of his life. He always said, “I will invest when I have some money.” He also said on a regular basis, “I can’t afford it.” When pressed to take action, he would say, “Look, I don’t have time to do anything about it today. We’ll talk about it tomorrow.” That was his daily reality, and it was his reality at the end of his life. In my opinion, the primary reason he was poor was because he had a poor person’s reality, even though he made a lot of money, and he was not willing to change his reality.

As I said, the easiest way to get rich is to constantly change and improve your reality. Yet it is obvious that, for many people, changing their reality, changing what they do today, is the hardest part of becoming rich. When I go home to Hawaii, I see many of my friends who are doing exactly what their parents did. When my friends ask me what I do and I tell them I build businesses and invest in real estate, many of them say the same things my parents said, “I can’t do that,” or “You know I’ve been thinking about investing. Maybe someday when I have the money, I’ll begin to invest.”

When I tell them about preparing and learning to invest before investing, they usually say, “Oh my, do you know how busy I am? I don’t have time to learn to invest. The government should have free courses on how to invest. Then maybe I would go take a few classes. Why should I pay to learn to invest? Anyway, investing is too risky. I’d rather keep my money in the bank.” My rich dad would say, “Listen to their words and you will see their future.”

If you want to retire young and retire rich, you may want to begin by listening to your words and seeing your future. Ask yourself, “If I keep using these words and thinking these thoughts, at which level will I exit? Will it be poor, middle class, affluent, rich, or ultra-rich?” If you are truthful and want to change your plans, the first thing to do is change your reality by changing your plans, your words, and your daily actions. Your future is what you do today, regardless of your dreams. As rich dad would say, “It’s tough to meet your fairy prince or fairy princess if all you do every day is sit on the couch, watch TV, and eat bonbons.”

Start Your Future Today

Why is it that so many people will retire poor and retire old? They cannot stop doing what they are doing, even though it has no future. They cannot change their context of job security, hard work, and saving money. Many people will grow old, wear clothes from a time that has passed, cling to ideas from their parents and the Industrial Age, and then fall out of sync with the present and with the future. It is not a matter of a person’s age. It is a matter of a person’s context.

So how does a person begin their rich and free future today? Again, the good news is that it begins in your mind. It begins with your words, your thoughts, and your actions each and every day. It begins by taking stock of where you spend your time and with whom you spend your time. It begins with knowing that you must make your plan real in order to build a bridge from where you are, over the roaring waters to your dreams. As rich dad said, “Dreamers dream dreams. Rich people create plans and build bridges to their dreams.” Start your future today by creating a plan to the future. For many people, one of the first steps on the plan is to stop doing today what you do not want in your future. If you do not want to work hard all your life for ordinary income, start asking yourself how you can learn to work for passive and portfolio income. Once you come up with some answers, make those answers a part of your plan. It may mean studying more, reading more books, listening to tapes, attending more

seminars, starting a home-based business, and meeting new friends. In other words, do today what you want for your tomorrows.

How Do You See the Future?

I am also often asked, “How do I see the future if I cannot yet see it with my eyes?” or “How can I see a million dollars a year when I cannot see \$50,000 a year today?”

That is an excellent context-expanding question. The answer is found in something my rich dad said to me years ago. He wrote out in big words on his yellow tablet:

SIGHT is what you see with your ***eyes***.

VISION is what you see with your ***mind***.

When I asked rich dad what improved a person’s vision, he said, “Words and numbers.” He stressed the importance of learning how to read financial statements because you could not see your financial future if you could not read financial statements. In fact, if you cannot read a financial statement, you cannot see your financial past, present, or future. I created the *CASHFLOW* games to assist people in improving their mind’s vision by teaching them the numbers and vocabulary of rich people. One thing that has worked for many people is to get a group of friends together to play *CASHFLOW 101* on a regular basis. Once you have *CASHFLOW 101* mastered you may want to teach it to others and inspire them to take action, and/or you may want to move on to *CASHFLOW 202*, the more advanced game. As you play, always remember rich dad’s statement, “Your future is today.” When people ask me how I became rich so quickly, I say, “I play the game every day.” The reality is, the more you play the game, the more you teach the game, and the more you make the game a part of your life, the better your vision of the future will become. As rich dad also said, “If you want healthy teeth in the future, brush your teeth today.”

Fast Words for Fast Plans

If you want to create a fast plan, you need to learn to use fast words. Many people cannot get rich quickly because they use slow words rather than fast words in their plan. If you want to improve your vision of getting rich faster, you need to use faster words.

If you want to retire young and retire rich, if you want to get rich more quickly, you need to use more up-to-date, more hip, faster words of business and investing. Not using faster, more efficient words would be like a professional woodcutter saying, “I don’t care if I can chop more wood with a chain saw and make more money. My dad gave me this axe and I plan on using this axe until the day I die.” Many people today are going to work and still use their mommy and daddy’s axe to make and invest their money.

Are You Swinging Your Daddy’s Axe?

After telling the story of chopping wood with an axe rather than using a chain saw, I ask people if they are still swinging their daddy’s axe.

After a puzzled moment and some puzzled looks, I am occasionally asked, “Are you asking me if I am still doing things like my parents, when it comes to managing my money?”

My reply is “Yes. That is exactly what I am asking.” I continue, saying, “Many people today are not in the same professions as their parents. But when it comes to money, investing, and retirement, they do exactly the same things. When it comes to money, many people are still swinging their parents’ axe.”

If asked to explain further, I say, “Words are tools just as an axe is a tool. When it comes to money, millions of people use word tools that are as slow and antiquated as using an axe to chop wood.”

Tools for Your Brain

In one of the classes I taught, a bright young woman asked, “Do you mean to say that when it comes to money, there are fast words and slow words?”

My reply was, “That’s exactly what I mean. If money is an idea, then ideas are made up of words. Most people use slow words, which leads to them having slow ideas, which means they acquire wealth slowly.”

“Words are tools?” the young woman said quietly, just loud enough for the people around her to hear.

Nodding, I said, “My rich dad said, ‘Words are tools for your brain. The reason so many people struggle financially is because they give their brain old, slow, and obsolete tools to use. If you want to be rich, you first need to update your tools.’”

“Can you give me an example of old and slow word tools?” she asked.

“Sure,” I replied. “Most people think it is smart to save money. Saving money is slow. You can become rich saving money, but the price is time—your lifetime. So to me, *save* is a slow word. My poor dad taught me how to save money. My rich dad did not save. Instead, he taught me how to raise capital.”

“But what if someone does not know how to raise capital?” asked another student.

“Then it is best you save money or invest some time learning how to raise capital. Raising capital is a learned skill.”

“But isn’t it difficult to ask people for money?” asked a student.

“It was for me at first, just as learning anything new is. It’s just like learning to ride a bike. I was very nervous at the start and made mistakes at the beginning, and I still make mistakes today. Yet I learn from those mistakes, so my education and experience make raising capital easier and easier the older I get. There are other people who are getting older and older and are still trying to get ahead by working hard and saving money. That is a very slow plan using old and slow word tools they probably inherited from their parents.”

“So while I struggle to save \$100 a month, you can raise millions of dollars in the same time,” another student chimed in. “That is what you mean by words are tools, and that some words are fast and others are slow.”

I just nodded and said, “Words are tools for your brain.”

Plan to Use Faster Words

If you plan on creating a plan to retire young and retire rich, you may need to update your vocabulary. If you change your vocabulary, you may speed up your ideas. For example:

Slow Words	Fast Words
High-paying job	Cash flow

My poor dad always advised: “Get a high-paying job.”

My rich dad always advised: “You want cash flow from assets.”

Finding a high-paying job may seem like the fast way to get rich at the start, but in most cases it is the slow way to become rich in the end. Remember my poor dad earned more money than my rich dad at the beginning of their careers, but by the end of their lives, the gap between their incomes was as wide as the Pacific Ocean. In fact, very few people ever become rich via a job ... even a high-paying one. The following are some of the reasons why cash flow from assets is better than income from a job.

Let’s review the three different types of income:

Ordinary income	50%
Portfolio income	20%
Passive income	0%

Ordinary income, in most cases, is income that comes from a person’s labor or work.

Portfolio income, in most cases, is income from paper assets such as stocks, bonds, and mutual funds.

Passive income, in most cases, is income from real estate.

As always, before making any financial decision, it is very important to have competent professional advice on any matter involving taxes. What may be legal tax planning for one person could be a tax violation for someone else. The point of this section is to know the difference that words can make. There is a substantial tax difference between ordinary income and passive income. As far as leverage goes, taxes for most people

are reverse leverage or negative leverage. A person who works hard for ordinary income has to work at least twice as hard as someone who works hard to earn passive income. Working for ordinary income is like taking two steps forward, and then taking one step back.

They Tax You Even After You Stop Working

People who say, “Work hard, save money, and invest in a 401(k)” are working for 50-percent money. Once you retire and you begin to withdraw money from your 401(k) plan, that money exiting the plan is then taxed at the ordinary income rate, or 50-percent money, as my rich dad would call it. Interest from savings is also taxed at the ordinary-income rate.

Many people say, “I must continue to work because my Social Security income from the government does not cover my living expenses.” The moment a person begins to work for ordinary income to supplement their Social Security income, the government not only taxes your earned income, the government often begins to reduce your Social Security payments because you have a job. When my rich dad said, “Most people plan on being poor,” he knew what he was talking about. He was aware of the government’s laws regarding earned income after retirement. If you aren’t poor and you want to earn more money, the government won’t help you. Many retired people simply find it better to be poor and not go back to work for tax reasons.

The point is, choosing to use the words *work hard*, *save money*, and *invest in a 401(k)* is choosing to use very slow words, which causes you to have a very slow financial plan. While choosing to use these words in your financial plan may allow you to reach the affluent level of \$100,000 to \$1 million a year in retirement income, those same words will in most cases not allow you to go on to the rich and ultra-rich levels of income. As rich dad said, “There is more to being rich than having a lot of money.” The rich use a different set of words and those words guide them to different life experiences such as learning how to raise capital rather than save money.

Other words are:

Slow Words

Save money

Fast Words

Make money

Rich dad recommended that most people learn how to save money. But he himself did not save money. He said, “Focusing on saving money takes too much of my time, and there is not enough leverage in saving money.” Rich dad also said, “The money most people save is after-tax money.” For a person to save \$10, the real dollar amount earned was \$20 because it is ordinary income or 50-percent money. On top of that, the interest that you earn on your savings is also subject to higher taxes.

Instead of focusing on saving money, rich dad spent his life training himself to make money. He said, “If you know how to build businesses and invest money, you can make so much money that your problem will be too much money. When you have too much money, you have excessive cash sitting in your bank rather than savings.”

In *Rich Dad's Guide to Investing*, I wrote about the two types of money problems. They are:

1. Not enough money, and
2. Too much money.

Most people only know the first problem, the problem of not having enough money. These people should definitely learn how to save money. My rich dad's financial plan was to have too much money. His problem was that he had too much money sitting in his savings account and he was constantly looking for investments to move his excess money into. His reality or context was that the world had an abundance of money. My poor dad's reality was that money was scarce and that is why he struggled all his life trying to save money.

What is the difference between working for money and making money? If you read *Rich Dad Poor Dad*, you may recall the story of me listening to my poor dad and trying to (literally) make money. I tried to make money by melting down lead toothpaste tubes and then casting quarters, dimes, and nickels in plaster-of-paris molds.

My poor dad had to explain to me the difference between making money and counterfeiting. My poor dad was not able to tell me how to make money simply because all he knew to do was work for money. In the real world of money, many of the rich do become very rich by making money, rather than working for money. For example, Bill Gates became the richest man in the world not by working for money, but by making money. He became the richest man in the world by building a company and selling shares in his company.

Selling shares in your company is one form of making money. In principle, as long as there is a ready market of buyers and sellers for whatever you may produce, then you are, within this context, making money. My books, for instance, are a form of making money. As long as there is a market for them through booksellers, then my books are making me money rather than me working for money. If I were a doctor who had to personally work to get paid, then I would be a doctor who worked for money. If I were a doctor who invented a new medicine and sold it in the form of a pill through pharmacies, that pill would be a form of the doctor making money rather than working for money.

In summary, working for money in most cases is slow. Finding ways to make money can be much faster if you know what you are doing. So if your plan is to work for money and then try and save money, then you may be swinging your mommy and daddy's very slow and very dull axe.

There are other words that can slow your wealth creation down, and there are words that can increase the speed at which you make money.

Slow Words

Appreciation

Fast Words

Depreciation

If you do not fully understand the terms *appreciation* and *depreciation*, do not worry. It took me a while to fully understand them. If you really want to understand them better, you may want to ask an accountant or a professional real estate investor to explain the concepts to you. A brief example of how each of these terms applies to your financial plan follows.

The other day, a television program ran a story about high school kids learning how to invest in the stock market. One of the students being interviewed said, “I made a lot of money because I bought shares of XYZ company and the price of those shares went up.” In other words, he was playing the market in the hopes of *capital gains* or *appreciation* in the value of the shares that he picked. When most people say, “Our home is a good investment,” they say that because they expect their house to appreciate in value.

I hear friends say statements such as, “I bought a lot in this new golf-course community. It’s a good investment, and I expect the lot will double in value in five years.” To them, such returns are a good investment, and hopefully they will realize a doubling of their money in five years.

Rich dad taught his son and me to use different words. When it came to buying any investment, he always said, “Your profit is made when you buy, not when you sell.” In other words, he never expected his investment to appreciate in value. If it did, to him, appreciation was a bonus. Rich dad invested for immediate returns on his investment, or cash flow. He also invested for a thing he called “phantom cash flow,” aka depreciation. An example of depreciation of a building was given in an earlier chapter. He loved immediate cash flow and depreciation because he did not have to wait for his investment to appreciate in order for him to make money. He would say, “Waiting for a stock or piece of real estate to appreciate in value is too slow and too risky.”

The point is this, if you are waiting to make money sometime in the future, your plan is a slow plan because you are using slow words, which lead to slow ideas. Repeating my rich dad: “Your profit is made when you buy, not when you sell.” I meet so many people who buy a piece of real estate, lose money on it each month, and say to me, “I’ll make my money back when the value of the property goes up and I sell it.”

In Australia, many people buy property, lose money on it every month, and think it is a good investment because the government gives them a tax break for losing money. In my opinion, that is a loser’s way of thinking. I often ask them, “Why not buy a property that makes you

money every month *and* get a tax break every month.” The response I often get back is, “No, my accountant told me to look for a property that costs me money every month and gives me a tax break.” Talk about choosing to board the slow risky train rather than the fast more profitable train.

Slow Words

Avoid risk

Fast Words

Gain control

My poor dad said, “That’s too risky,” or “Play it safe,” or “Why take the risk?” The more he believed in those ideas, the more he lost control over his financial life. By being an employee playing it safe, he lost control over his taxes. By saying that investing was risky and he was not interested in money, he lost more and more control over his financial education. In the end, he paid more and more in taxes, even though retired, and invested only in safe investments that went nowhere or lost money.

I have a distant relative who spent 25 years in the military, retired as an officer, and today sits in front of the TV set watching the financial television shows, watching the value of his stock sink lower and lower. He gets more and more depressed simply because he has no control over the value of his portfolio. One day, he saw the president of one of the companies he owns a substantial number of shares in flying in their new private jet, announcing that his staff were all getting million-dollar bonuses. While he joined the chorus of irate shareholders, there was very little that he could do.

In *Rich Dad’s Guide to Investing*, I wrote about rich dad’s ten investor controls. These controls are vital to anyone who wants to have some degree of control over their life and their future. At present, my concern is that 90 percent of the population of the United States and many other Western countries have very little control over their financial future. That percentage is even worse in developing nations.

Rich dad told me to have a plan on learning how to have more and more control over my financial future. He said, “In order to be a player on the Fast Track, you will need to have a plan on how to gain

more and more control. On the Fast Track, control counts more than money.” If you would like to know more about these ten controls, you may want to read or reread *Rich Dad’s Guide to Investing*.

A final word on risk versus control: Rich dad said, “The more a person seeks security, the more that person gives up control over their life.” Today I see two worlds evolving. One is the world I call “the Responsible Society.” It is the group that believes in being responsible for their lives and the ultimate outcome of their lives. There is another world that I call “the Victim Society,” which is the group that believes that someone else—a company, or the government—is responsible for their lives. In any group, family, or company, there are usually both types of societies. Both see the world from their own context or reality and both think they are right. I have found that one of the dividing factors between both societies is their core view on the ideas of *risk* versus *control*. Victims tend to want to give control over their lives to someone else in order to avoid taking risks. Then they get angry when they feel someone abuses the control they granted the abuser in the first place. In other words, victims are often victims of themselves.

In the coming years, there will be many financial victims—people who gave control over to financial professionals and bought their advice hook, line, and sinker. Many of the future victims will have believed the mantra of “Invest for the long term, diversify, go long and hold, the market has gone up over the last 40 years, and play it safe.” These victims bought these words of advice simply because they wanted to believe the words. If they failed to choose their advisors wisely, they may become financial victims.

Slow Words

Mutual funds

Fast Words

Regulation D, Rule 506

Today, millions and millions of people are betting their financial future and their financial security on stocks and mutual funds. Personally, I do not have much faith in the stock market. I also find that mutual funds are too slow and require me to use my own money. As I said earlier in this book, I would rather use borrowed money to

get rich rather than use my own money, and banks will not let me borrow money to buy mutual funds.

The other reason I say that mutual funds are slow is because the big profits or appreciation in any paper asset is made at the formation of the company, prior to the company going public. When rich investors begin investing in the share of a company, they are often investing according to the terms and conditions spelled out by the SEC's (Securities and Exchange Commission) Regulation D, Rule 506, and other such regulations. In other words, the rich invest in shares of a company when the company is still a private company. The public invests in shares of a company after it becomes a public company. The differences can be enormous. For example, if you had invested \$25,000 in Intel prior to it going public, that \$25,000 might be worth more than \$40 million today, depending upon the ups and downs of the stock market.

The point is, the rich have already made their money prior to the public even being aware that the company exists. That means the rich often invest with much lower risk and with the potential of much higher returns. By the time a mutual fund buys shares of the company, the profits have already been made. Then the general public buys the mutual fund that has purchased the shares of the public company, the same company that the rich invested in while it was still private. In other words, instead of investing in a mutual fund or public stock, the rich have invested via a private placement memorandum, also known as a 506 Reg D. The difference in the potential speed of getting rich between mutual funds and IPOs or 506 Reg D's is astounding. As rich dad said, "Investing in mutual funds is investing at the end of the food chain."

I can hear some of you saying, "IPOs were good in the heyday of a bull stock market, but not in a down or bear market." There is some truth to that statement, yet regardless of the market, the rich are always offered private investments that are not offered to the general public. That is why knowing the words, vocabulary, and the jargon of the investments of the rich improves your chances of becoming richer quicker.

In the near future, the rich will get richer because they will be involved in pre-IPO offerings. They will not be investing in technology or

computers or dotcoms. Instead they will be investing in hot new biotech companies, genetic engineering companies, and new companies with the words *system* or *network* after their names. They will be investing in the hot companies of the future, companies that we have not heard of yet. They will invest in companies and real estate projects that the average person will hear about only after the profits have been made. They will be investing in private placement memorandums, or limited partnerships, and other such investment vehicles, rather than mutual funds.

Slow Words

Pay retail

Fast Words

Buy wholesale

Most of us know that there is always a wholesale price as well as a retail price. The same is true in investing. The rich get richer because they pay the wholesale price rather than the retail price.

When you look at the *CASHFLOW* board game, you will see the Rat Race and the Fast Track. The Rat Race is where investors pay retail. The Fast Track is where investors pay wholesale. The rich get richer because they are known as friends and family of people who have access to investments that are priced at the wholesale level.

Slow Words

Buy shares

Fast Words

Sell shares

Bill Gates did not become the richest man in the world by buying shares of Microsoft. He became the richest man in the world because he is what is known as a “selling shareholder.” The rich become rich because they are often the selling shareholders of a stock. To become a selling shareholder, you often need to be the founder or a friend or family member of the founder.

Slow Words

Go to school

Fast Words

Go to seminars

My poor dad went back to school often. That is why he attended the University of Chicago, Northwestern, and Stanford University—all excellent, prestigious schools. My real dad would come back excited, enthusiastic, and expecting a promotion because he had invested his time going back to school.

My rich dad went to seminars. He said, “You go to school if you want to be a better employee or better professional person such as a doctor, lawyer, or accountant. If you don’t care about degrees, promotions, or job security, then you go to seminars. Seminars are for people who want better financial results than a job promotion or increased job security.”

I teach seminars rather than teach inside a school. Schools attract a different type of student than seminars do. For example, my wife, Kim, and I have an agreement that we go to at least two seminars a year together. We go together because we find that seminars, even bad ones, make our marriage, friendship, and business partnership stronger. Information or education has the power to bind people closer together by the common experience. It can also drive a wedge between them if they do not learn together.

Over the years, we have attended many seminars on marketing, sales, systems development, handling employees and, of course, investing. We attended a seminar on how to borrow money from the government to invest in low-income housing. The seminar cost only \$85, was put on by the government, and we expect to make millions from what we learn. That is what I mean by people attending seminars for results rather than promotions.

I meet authors who did well in school as writers, but their books do not sell as well as mine do. When I suggest to them that they attend direct-marketing courses or sales-training courses or copy-writing classes, many get very indignant. As I said in *Rich Dad Poor Dad*, I am a best-selling author not a best-writing author.

The other day, I met a friend who sent his daughter to a relatively good state school. He was rather proud of the fact that he paid \$85,000 over four years for her education. She has just found a job for \$55,000 a year, and he is thrilled.

He then asked me how much my seminars cost, and I told him about \$5,000 for three days. He gasped at the price and said, “I can’t afford that. That is too expensive for such a short amount of time.” When he asked what I taught in three days, I replied, “On day one, we cover how to build a business like Bill Gates did and take it public

via an IPO. We also cover on day one how to become a member of the friends and family level of the IPO, just in case you do not want to be like a Bill Gates and you only want to buy stocks at the wholesale level.” I then said, “On days two and three, we cover how to find real estate investments, how to quickly analyze them, and how to finance them. In other words, we teach you to think, negotiate, and analyze deals similar to how people like Donald Trump think and invest in real estate. On the last day, we teach people how to use options trading the way hedge-fund managers trade, which is not the same way mutual-fund managers trade. On top of that, we cover how to use corporations to pay less in taxes and protect your assets. You will meet inside investors from the Fast Track who will tell you how to find the best leveraged investments in the world. And most importantly, you will meet people just like you who think just like you. In other words, you will probably make new friends who are moving at the same speed you are.”

All he could say was, “That is too much money for three days.”

As I said, there are slow words and fast words. For me, I would rather spend \$5,000 and three days to learn how to make millions and possibly billions, rather than spend four years and \$85,000 to learn how to work for \$55,000 a year for the rest of my life. On top of that, that \$55,000 is ordinary income.

There is one more source of fast, low-cost, high-impact education I use on a regular basis. In 1974 when I left the Marine Corps and knew I was not going to stay in the E quadrant like my poor dad, I began subscribing to recordings from the Nightingale-Conant Company. It has an audio library of some of the great business, motivation, and leadership masters in the world. I still remember buying *Lead the Field* by Earl Nightingale and listening to that tape program over and over as I drove around my sales territory, planning my escape from the E quadrant and the corporate world. In fact I still listen to that program about once a year while at the gym or in my car.

When people ask me “How do I find a mentor?” I often say, “Ask Nightingale-Conant for a catalogue and begin listening to some of the greatest mentors of all time.” As rich dad often said, “The truly rich get

rich at home and in their spare time.” He also said, “It is not your boss’s job to make you rich. That is your job.”

Some of the great masters in the Nightingale-Conant library are Sir John Templeton, founder of the Templeton Fund, Brian Tracy, Zig Ziglar, Dennis Waitley, Og Mandino, Seth Godin, Harvey Mackay, and others. I have learned more, made more money, found new inspiration to carry on, came up with new ideas, or discovered new ways of doing things just while driving my car, working out in the gym, or going for a walk. The collection of masters at Nightingale-Conant is priceless, yet for less than a hundred dollars you can spend as much personal time as you want with some of the great teachers and masters of the world. All you have to do is rewind, and they will repeat exactly what you want to hear. I never received a college degree from these tapes, but I did find financial freedom and, most importantly, the confidence to be true to who I am.

Why Some People Only Seek Content

One of the big differences between those who go to school and those who attend seminars is again the difference between *context* and *content*. I have noticed that when a person who attends schools asks a person who attends seminars, “What did you get from the seminar?” the person who attended the seminar is often not able to explain what he or she got. The reason is, many seminars are more context-expanding than content-increasing. A person who has just had his or her context expanded often cannot say specifically what he or she got. A person who is school-oriented, a person who would rather remain an employee, often cannot understand such vagueness. A person who wants their context to remain the same, and only seeks to have his or her content increased, will not understand a person who is happy to have their reality expanded and is still waiting for the new content to appear. People wanting only content often become very upset if they have their context messed with. That is why they seek content versus an expansion of context. The good news is that both can get ahead, regardless of what they seek. Yet the people getting ahead the fastest are the people who seek to have both their context expanded and content increased.

Is it Time to Get Out of the Rat Race?

The other day, a person said to me, “I played your *CASHFLOW* game once. Now what do I do?”

I replied with, “You played *CASHFLOW 101* once? Only once?”

“Only once,” he replied.

“How long did you play the game?” I asked.

“About three hours,” he replied.

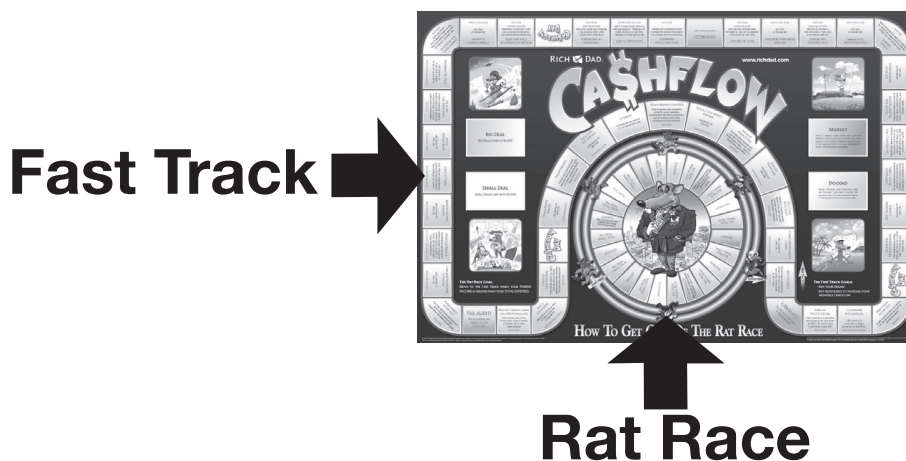
“Did you get out of the Rat Race?” I asked.

“No, I never did. But I got the lesson.”

“What was the lesson you got?” I asked.

“I got bored. I learned that being in the Rat Race is boring and tiring. I learned that I hate games so I am asking you to tell me what to do next. I don’t want to play games. I want to get rich. So tell me what to do next.”

I took out the game board pictured below and pointed to the circle labeled the Rat Race.



Slowly and deliberately, I began to say, still pointing to the Rat Race circle, “So to you, this game is only a silly game?”

Nodding, he smiled and said, “Yup. And I don’t want to play games. I want to get rich in real life.”

“And you don’t think this game is real life?” I asked.

“Nope,” he said with a slight smirk. “That game does not apply to me.”

“That’s interesting,” I said, still pointing to the Rat Race. “To me this game *is* real life. Let me ask you this. Which track are you on? The Rat Race or the Fast Track?”

The young man gave me a blank look in return and said nothing.

Continuing, I said, “To me, this game is real life. And in real life, each and every one of us is on one track or the other.” I happened to have the article from Robert Reich, the former Secretary of Labor, quoted at the start of Section Two. Taking out the article, I read a quotation from Robert Reich:

It's not simply a matter of having a job or even having decent pay anymore.

In the new economy, with unpredictable earnings... two tracks are emerging, the fast track and the slow track, and the absence of gradations between.

“You mean the Fast Track really does exist?” he asked.

Nodding, I said, “It does and so does the Rat Race. Ninety-nine percent of the U.S. population invests from the Rat Race. And those in the Rat Race are falling further and further behind. As Robert Reich says, there is an ‘absence of gradations between,’ which means you are either on one track or the other. So which track are you investing from?”

“Well, I have a high-paying job, and I make a lot of money. Doesn’t that mean I’m investing from the Fast Track?” he asked.

“I don’t think so, but I don’t really know. You have to tell me. What are you investing in?” I asked. “Are you a millionaire, and do you earn over \$200,000 annually?”

“I do have \$350,000 in my 401(k) and I do earn over \$120,000 a year. Doesn’t that mean I qualify for the Fast Track?” he asked.

“I don’t think so,” I replied. “At least according to SEC regulations, you don’t qualify to be on the Fast Track.”

“I don’t understand,” he said. “Would you tell me what I am missing?”

I took a deep breath, relieved to finally have him open his context or his mindset to new content or information. I have always found it difficult

to teach something to someone who thinks they know all the answers. We all know that it is difficult to put more water into a glass that is already full of water. It is also difficult to teach something new to someone whose mind is closed or already filled with other content.

Beginning slowly, I said, "I designed this game with two tracks because, to me, this game is the real game of life. In real life, each of us is on one track or the other. As Robert Reich says, there is an 'absence of gradations.'"

"You mean we are either in the Rat Race, or we are on the Fast Track?" he asked, now with a little more interest.

"Yes," I said. "And the lesson from the game is how you and I can get out of the Rat Race. The purpose of the game is to open your mind to the possibility of you becoming rich and financially free from the Rat Race most of us know, free from the drudgery of spending your life working for money and living below your means. The more you play the game and the more you teach the game to others, the more your mind becomes open to that possibility, and the more real financial freedom becomes in your mind and in your content and context. If your mind is not open, chances are you will be one of the 99 out of 100 people who spends his or her life in the Rat Race."

"Even if I make a lot of money?" he asked.

"Great question," I said loudly. "Best question you could have asked. The answer is that money alone will not get you out of the Rat Race, and money alone will not allow you onto the Fast Track. That is why my rich dad always said, 'Money does not make you rich.'"

"Why?" he asked with a puzzled look. "Doesn't it just take a lot of money to get onto the Fast Track?"

"Another great question. And the answer is no," I said. I was now relieved that his mind was opening up to new ideas rather than pretending to know all the answers. "It takes more than money to get out of the Rat Race, and it takes more than money to invest on the Fast Track."

"I don't understand," he said. "What does it take if it takes more than money? I can understand why it takes more than money to get out of the Rat Race. But I do not understand why it takes more than money to invest on the Fast Track."

I collected my thoughts before answering his question. “Do you remember the advertisements in publications such as *The Wall Street Journal* that have a picture of a well-dressed affluent-looking man holding up a sign on a street corner saying, ‘I have money to invest.’”

“Yeah, I did see those ads. I did not really understand them,” he replied softly and a little puzzled.

“Ads such as those were plentiful between 1995 and 1999. The message was that there were many individuals who had made a lot of money in the stock market or from their jobs, and they were now looking for investments of the rich, investments found on the Fast Track. The problem was that, even though they had money, they still were not allowed into the better investments on the Fast Track. Granted there are many flimsy and sometimes crooked deals on the Fast Track that would have allowed him in, but the best deals are closed to most people, even though they have money.”

“Even though they have money?” he asked. “Why? I don’t understand.”

“Because money does not count on the Fast Track,” I said. “In real-life investing, money only counts to those people stuck in the Rat Race.”

“Money does not count?” he said. “Why doesn’t money count?”

“Because everyone on the Fast Track already *has* plenty of money. That is why money no longer counts. In order to get into the better investments on the Fast Track, what counts is what you know or who you know.”

“You mean it’s what you bring to the table that counts, not the money,” he said quietly.

“You hit it right on the head,” I said, smiling. “Things aren’t different between the rich and the poor and the middle class. Things are opposite. One side thinks money is important. Then once you become rich, you find out money is no longer important.”

I spent the next few minutes showing him the different levels of exit strategies. I explained to him that many people are able to achieve the affluent level, which is \$100,000 to \$1 million of income. Yet if they achieved that level of income by working hard, saving money, and being frugal, they may not be allowed to invest in the investments that

the rich and ultra-rich invest in. Many are not allowed to invest simply because they have money, but they lack the education and experience required for the investments on the Fast Track. They have money, but they do not bring anything else to the table.”

“So that is why there were those ads with affluent people holding up signs that read, ‘I have money to invest,’” said the young man whose mind was now gaining some new context. “They had money, but no one wanted their money because they were not prepared for the Fast Track.”

“That’s correct,” I said. “And that is why my rich dad said, ‘There is more to being rich than having a lot of money.’”

“So what should I do?” asked the young man.

“Well, the first thing I would do is go back and play *CASHFLOW 101* at least a dozen more times. Play until you can get out of the Rat Race in under an hour, regardless of your profession, your salary, high or low, and what market conditions or setbacks you encounter in the game. Then take a look at the words on the Fast Track, and look up some of the definitions of the words. After learning those definitions, begin to seek investors who *do* invest in Fast Track investments. Spend time with them. Listen to their words, and begin to understand what is important to them, other than money. The more you can understand their words, the more you will be able to communicate with them and begin to see their world, the world of the Fast Track.”

“Is that what you did?” he asked.

“No, that is what I do. That is what I do every single day of my life. As I said, this game is real life. You are either in the Rat Race, or you are on the Fast Track.”

“So how did you get out of the Rat Race?” he asked. “I know that you started with nothing.”

“I had a plan. I had a plan on how to get out of the Rat Race. The big difference was that my plan was a rich plan from the start. It was a plan that would allow me to gain a lot of money, but more importantly, to gain the words, education, and experience required for the Fast Track.

So invest some time by first choosing your exit strategy, and then begin to create and design your own plan that will include the education, experience, and the vocabulary required for the Fast Track.”

The young man nodded. His mind was now open. “So many people retire, but do they remain in the Rat Race?”

“Most do,” I replied quietly. “Their lives went according to plan. They got on the slow train and stayed on the slow train all their lives. I did not want to get on the slow train, so I searched for a better plan, a plan that would work for me. I hope you find a better plan.”

The young man nodded his head and said quietly, “I will.”

Leveraging Your Plan

In my opinion, the reason so many people work hard all their lives and still wind up poor or stuck in the Rat Race of life is because they lived their lives according to a slow plan. An important step if you want to retire young and retire rich is to sit quietly and ask yourself, “What and whose plan am I following?”

Other questions you may ask yourself are:

- What is the exit strategy for my life?
- How fast are my words and my ideas?
- What track am I on today?
- What track do I want to be on in the future?
- What kind of income am I working for today?
- What kind of income do I want for my tomorrows?
- What is the long-term price of security?

Chapter Eleven

THE LEVERAGE OF INTEGRITY

From 1985 to 1989, Kim and I did not have any passive or portfolio income. We were working diligently at building a business so that we could have more leveraged earned income. All the extra money we earned went back into building the business. We knew what kind of income we wanted, we knew the definition of the incomes we wanted, we knew that we had to convert ordinary income to passive and portfolio income, but we did not have anything to show when it came to those two incomes. As the years crept on, I could hear my rich dad saying, “The moment you make passive income and portfolio income a part of your life, your life will change. Those words will become flesh.”

Both my dads were sticklers for knowing the definitions of words. The difference was, they did not focus on the same words. One dad had me look up words for school, and the other dad had me look up words that pertained to money, business, and investing. There were many a night I sat up with my dictionary, looking up the different meanings to different words for both dads.

I meet many people who call themselves investors. When I ask them how much passive or portfolio income they have, many admit they don't have much, if any, yet they claim to be investors. Both my dads said, “You're only as good as your word. People who do not keep their word are not much good.” One of the reasons so few people retire young and retire rich is because they are not true to their word. They use words that to them are not real.

More Than Just Definitions

For those of you who have read *Rich Dad Poor Dad*, you will recall the different definitions both dads had for the words *asset* and *liability*. My poor dad assumed he knew the definitions of both words so he never bothered to look them up. It would not have done much good even if my poor dad had looked them up, simply because the definitions found in most academic dictionaries fail to clearly explain the differences.

I hated looking up the definitions of words, yet I continue to look up words I do not really understand. Why do I look them up? I look them up because, in my opinion, words are the most powerful tools available to human beings. As rich dad said, “Words are tools for the brain. Words allow the brain to see what the eyes cannot see.” He also said, “A person who uses poor words has poor ideas, and hence a poor life.” Take a moment to think about the profound impact just knowing the difference between ordinary earned, portfolio, and passive income has made on my life and many other lives. They are relatively simple words, but just knowing the difference can have a huge impact on your life.

If you want to change your financial future, one of the most important and inexpensive steps you can take is to know the definitions of the words you use. On television, several large investment brokerage houses have celebrities spouting off words such as P/E ratio, dividend reinvestment plan, market capitalization, and other investment jargon. These investment houses want you to think that knowing such definitions is important to becoming a better investor, and they are. Yet there are far more basic and more important definitions that one needs to know if you truly plan on retiring rich and retiring young. Some of the more basic, fundamental, and important words to understand are your personal *current ratio*, *quick ratio*, *liquidity ratio*, *debt-to-earnings ratio*, as well as the difference between *assets* and *liabilities*, and the difference between *ordinary*, *portfolio*, and *passive income*.

Harnessing the Power of Words

Why are the latter words more important? The answer is, because the words *P/E ratio*, *dividend reinvestment plan*, and *market capitalization* really have no relationship to you, especially when you are just starting out in business or investing. Much more fundamental to you and your life are basic ratios such as *debt-to-equity* or *liquidity ratios*. Why? Because these ratios are useful to you personally. You can use these definitions in real life. If you understand how those ratios apply to you personally and if you apply those words to your personal life, then the words become a part of your life. The words become flesh. When that happens, you harness the power of the words.

P/E ratios apply generally to publicly traded companies, such as IBM and Microsoft. A P/E ratio does not apply to you unless you personally were up for sale, and I do believe slavery has been abolished for a while now. For those who may not know what a P/E ratio is, P/E ratio quickly evaluates how expensive or inexpensive a stock is. It is similar to a shopper asking what the price per pound of pork butt is. There is a difference between pork butt selling for \$2.99 a pound and pork butt selling for \$1.19 a pound. Any wise shopper would know that, just because pork butt is cheap, it does not necessarily mean it's a good deal. The same is true for a high or low P/E ratio.

A P/E ratio simply measures the relative price of a stock as compared to its earnings. For example, if the stock paid a \$2-per-share dividend and the stock cost \$20 per share, the stock's P/E ratio would be ten. That means it would take you ten years to get your \$20 back if all things remained the same. Just because a stock has a high or low P/E ratio does not mean it is a good buy or a bad buy, just as price per pound does not tell you if the pork butt is a good or bad buy. There are other factors you would want to check out before simply buying cheap pork butt.

During the dotcom mania, many stocks had high P's and no E's, which made investing in a dotcom ridiculous, if all you went on was price-earnings ratios. When the market crashed, there were a lot of people wishing they had bought some cheap pork butt and put it in their freezer, instead of buying stocks with high P's and no E's. Today,

even frozen pork butt is more valuable than the shares of some of the dotcom stocks. The real butts were the people who believed you could invest in the promise of the future without any reality in today. Many young dotcom promoters had the right context, but they failed to have the right content—the content called business and investment education and experience.

There are more important, basic, and fundamental ratios to understand. And if you understand them and use them, your chances of becoming richer and financially successful improve. A more useful ratio is your debt-to-equity ratio. Why is it more important? Because each and every one of us can use this ratio, and we should use this ratio each and every month. For example, if you have long- and short-term debt of, let's say, \$100,000 and you have \$20,000 in equity, then your debt-to-equity ratio would look like this:

$$\frac{\$100,000}{\$20,000}$$

So in this case, your debt-to-equity ratio would be a 5. The question is: What does this mean? Well, in reality it means very little. Yet if next month your ratio is 10, that might tell you that you could be mismanaging your life. A debt-to-equity ratio of 10 could mean that either your debt has gone up to \$200,000, or your equity has dropped to \$10,000. In either case, those numbers have more meaning because they are real numbers that relate to your life. As rich dad said, “Mind your own business.” And knowing these simple ratios are excellent tools for teaching yourself how to mind as well as manage your own business, the business of your life.

Ratios to Apply to Your Life

Just as P/E ratios tend to reflect the confidence the investing company has for the management of a public company, you as a manager of your own life need to have ratios that apply to your life.

The following are some ratios you may want to keep track of if you want to be a better manager of your own financial life.

One of the ratios rich dad had me watch and monitor was what he called *the wealth ratio*. His wealth ratio is:

$$\frac{\text{Passive income} + \text{Portfolio income}}{\text{Total expenses}}$$

The goal of calculating your wealth ratio is to have your passive and portfolio income equal or exceed your total expenses. This would mean you could quit your job (ordinary-income source) and still maintain your lifestyle. Once your passive and portfolio income exceed your expenses, the ratio would be one or higher, and you would be out of the Rat Race. This is the goal of playing my *CASHFLOW 101* game that teaches you how to create passive and portfolio income. An example would be:

$$\frac{\$600 \text{ Passive} + \$200 \text{ Portfolio}}{\$4,000} = 0.2$$

If rich dad had seen this ratio of 0.2, which means that passive and portfolio income equal 20 percent of expenses, he would have had a strong talking to me about working harder to increase my passive or portfolio income. As rich dad said, “The moment you make passive income and portfolio income a part of your life, your life will change. Those words will become flesh.” To him, the more I really knew what passive and portfolio income was, my life would change because my reality of life would change.

Rich dad thought the wealth ratio was a very important ratio to know intimately because it was a great indicator on how well you were managing the business of your life. He said, “Most people retire poor simply because they never know what it feels like to have passive or portfolio income actually in their lives. They may know the definition, but they do not have the integrity to make the words a real part of their lives.”

For five years, Kim and I knew what the definitions of the words were, and we knew we wanted it in our lives. But for five years we did not have those two types of income in our lives. Suddenly after the 1987 stock-market crash and the seven-year recession that followed, we knew that the window of opportunity had arrived. It was our time to make the words real. It was time to have a wealth ratio that was more than zero. We bought our first property in 1989 and, by 1994, we had a little over \$10,000 in passive income a month and our total expenses were less than \$3,000 a month. That gave us a wealth ratio of 3.3. Today, our wealth ratio is over 12, even though our expenses have gone up significantly. That is the power of making those words a part of your life.

If you are serious about retiring young and retiring rich, you may want to make rich dad's wealth ratio a part of your life. You will find that it will be much more meaningful to you than the P/E ratio of IBM or Microsoft. If you will look at that ratio on a monthly basis, I think you will find your life changing much faster when compared to someone who is working for a pay raise. Rich dad's wealth ratio greatly affected what I thought was important for my life.

When I look back upon my life, it was these simple lessons from my rich dad that made me the most money over my lifetime. Today, my personal debt-to-equity ratio is around 0.7, which means I sleep well at night, even though I have a lot of debt. I am by no means debt free and never plan to be debt free. The point is, these simple lessons from rich dad had a far more powerful impact on my life than all the years I spent studying calculus, spherical trigonometry, and chemistry. The reason rich dad's simple lessons had a profound impact was because his lessons are relevant to my life for as long as I live. I have never used calculus, spherical trigonometry, or a P/E ratio to motivate me to make an investment decision. I don't use them because they are not useful and have very little relevance to my personal financial success.

Add Power to Your Life

There are two points I want to make on words, action, and integrity. One point is that a few simple definitions and simple numbers can add a lot of power to a person's life. Just as any good shopper would want to know the price per pound of pork butt, each of us should be aware of our debt-to-equity ratios, our personal wealth ratio, and other simple mathematical indicators, which I will not go into here.

The second point is that there is more to success than simply knowing the definitions of words and throwing around jargon in the attempt to sound intelligent. Too many people today use words they really don't understand. Many financial-services salespeople use financial words that they don't really understand in an attempt to sound more intelligent than their clients. The main point is, if you want to retire young and retire rich, it is important for you to constantly improve your financial vocabulary. But to fully improve your vocabulary, it is also important to know more than just the definition of the word. In my opinion, it is important to make that word a part of your life and a part of your reality. For example, when I say the word *passive income*, I say it with passion because it is an important part of my life. *Passive income* means as much to me as *pay raise* means to many employees. The reason I am not passionate about a pay raise is because a pay raise for me would be income without much of a future.

I have spent years learning how to convert ordinary income into passive income. The more time I spend actually converting ordinary income to passive income, the more real-life experience I gain. The problem I have with many financial-services salespeople, such as stockbrokers, real estate brokers, and financial planners, is that while they are selling investment products to you, products that hopefully will someday give you passive or portfolio income, they themselves are only working for ordinary income. To me, that is being somewhat out of integrity.

How Long Is Your Financial Advisor's Nose?

Rich dad loved fairy tales. One of his favorite fairy tales was the story of Pinocchio, the wooden puppet that wanted to become a real boy. In the story, Pinocchio lied and the more he lied, the longer his wooden nose grew. It was only after he found his heart and began to tell the truth that he turned into a real flesh-and-blood boy. When rich dad would tell his son and me that fairy tale, he would say, “That is another example of the words becoming flesh... or wood.”



I cringe when I think of the millions of people who are betting their financial future and their financial security on a stock market. Millions of people are worried about their financial future as the number of layoffs increases and the market continues to fluctuate.

I read an article in the newspaper of how retirees have lost most of their retirement savings to investment advisors and insurance salespeople they trusted. The newspaper article said the advisors and insurance agents began selling these retirees these bogus investments, not sanctioned by their brokerage houses or insurance companies, simply because the companies they worked for cut back on the commissions (ordinary income) they paid their agents. So the agents found new, bogus products to sell to people who trusted them, people who were hoping for some passive and portfolio income in their old age.

In the coming decades, there will be millions of people who will be in financial trouble in their old age simply because they listened to

so-called professional people with long wooden noses—people made of wood who will continue to say, “The stock market always goes up, mutual funds pay an average of 12 percent per year, invest for the long term, diversify, and dollar-cost-average your losses.”

The Power of Integrity

While both dads did not stress the importance of the same words, they both stressed the importance of the word *integrity*. Both dads agreed that one of the definitions of integrity was “the correlation between a person’s words and a person’s actions.” Both dads said, “Listen to what a person says but, more importantly, watch what a person does.”

In other words, if a person says, “I will be there to pick you up at 7:00 a.m.” and the person picks you up at 7:00 a.m., then he or she is 100 percent in integrity at that moment. Their words and actions are whole. If a person says, “I’ll pick you up at 7:00 a.m.” and that person never shows up, never calls, and never apologizes, then, at that moment, that person has 0-percent integrity. Their actions and their words do not match. Their words and their actions are not whole.

My real dad pointed out to me that one of the dictionary’s definitions of the word *integrity* was the word *whole* or *complete*. He constantly said, “You are only as good as your word.” He constantly reminded his children about the importance of keeping one’s word. He would say, “Ultimately, we are our words. Ultimately, all we have is our word. If your words are no good, then neither are you.” That is why he also said, “Never make promises you don’t plan to keep.”

Two young people in Dallas asked me if they could attend my investment seminar. They asked for free tickets because they had no money. Since they were very convincing, Kim and I agreed to leave two free tickets at the gate. They never showed up, and I realized why they might have had problems with money, even though they had great jobs.

A Plan with Integrity

One of the more simple, yet powerful, parts of my plan to have a life of great wealth was to make sure I had the integrity to be true to my words and respect the power of words by matching my words to my actions. Over the years, rich dad made sure I kept my word on my small agreements. He said, “If you will keep your small agreements, you will keep your big agreements. A person who cannot keep his or her small agreements can never have their bigger dreams come true.”

There are many people who have big plans, but their big plans never come true. The reason is that too many people have big plans, but fail to keep their small agreements. As rich dad said, “People who do not keep their small agreements are people who cannot be trusted. If you cannot be trusted with small agreements, people will not help you make your big dreams come true. If you cannot keep your word, then people fail to trust you and have little confidence in you and your words.”

I have watched the wisdom of both dads’ advice on the power of words unfold. I have seen so many people show their core behavior when the pressure is on. I have one friend who will not keep his time appointments with me, and then he wonders why I don’t want to do business with him. He also breaks his agreements with other people such as his partners, employees, and bankers, and often legally cheats them. Although he is successful, he must always look for new people to do business with. Instead of building upon his relationships, he destroys them and has to start again with completely new people. He has no problem finding new people, but his wooden nose keeps getting longer and it’s getting harder to hide.

Another ex-friend of mine is a person who lies under pressure. Instead of telling the truth, she lies and thinks she can get away with it. When cornered or confronted, she says, “It’s not my fault. I couldn’t help it. Besides, I did not lie. You did not understand what I said.” As my rich dad said, “People who do not keep their small agreements are people who cannot be trusted. If you cannot be trusted with small agreements, people will not help you make your big dreams come true.”

So I pass on the words of wisdom from both my dads and those words are, “Be sure your words and your actions are one.”

In mentioning the fast words and slow words, I assure you that part of my plan was to fully understand each of those words mentally, emotionally, and physically. Rich dad insisted on that. For example, he said, “Your life will change forever once you learn to buy stocks at wholesale versus paying retail. When you know how rich you can become buying wholesale, you will never want to pay retail again.” He also said, “Your life will change forever once you know the difference between saving money and making money. Your life will change forever once you know why it is better to have depreciation rather than hope and pray for appreciation.” Rich dad said, “If you will dedicate your life to making words real and a part of your life, your life will be far different than someone who only knows the words by their mental definition.”

A significant part of my plan was to make sure the new and faster words I learned or became aware of became an active part of my life. From my rich dad’s point of view, I would be out of integrity if I simply threw those financial words around only to sound intelligent and impress other people, and did not actually use them in my life.

So the lesson I pass on to you from my rich dad and my poor dad is that when you create your plan, make it a part of your plan to fully use and understand the power of the new faster words you want in your life. Don’t just know the definition or, even worse, not know the definition and sling the words around as jargon, hoping to impress the uninformed. Make the words a part of your flesh and you will harness the power of the word.

Rich dad often said, “There are preachers and there are teachers. Preachers are people who tell you what to do, but they may not do what they tell you to do. Teachers are people who tell people about what they are doing or what they have already done.” Rich dad also said, “In the world of money, business, and investing, we have far too many preachers.”

In Summary

If you want to retire young and retire rich, take the time to constantly upgrade your financial vocabulary and have the integrity to walk the talk rather than just talk. Always remember that words are tools for the brain and that there are fast words and slow words to wealth.

The Most Destructive of All Words

Rich dad often said, “The most life-destroying word of all is the word tomorrow.” He said, “The poor, the unsuccessful, the unhappy, and the unhealthy are the ones who use the word *tomorrow* the most.” These people will often say things like, “I’ll start investing tomorrow,” or “I’ll start my diet and exercise tomorrow,” or “I’ll start reading tomorrow.” Rich dad said the word *tomorrow* is the word that destroys more lives than any other single word. He said, “The problem with the word *tomorrow* is that I have never seen a tomorrow. Tomorrows do not exist. Tomorrows only exist in the minds of dreamers and losers. People who put off till tomorrow find that the sins and bad habits of their past eventually catch up with them.” He finished his comment by saying, “I have never seen a tomorrow. All I have are today’s. *Today* is the word for winners. *Tomorrow* is the word for losers.”

In the coming chapters and lessons, you will learn how to do simple things today that can greatly improve your tomorrows.

Chapter Twelve

THE LEVERAGE OF FAIRY TALES

Rich dad loved the story of “The Tortoise and the Hare.” He once said to me, “I am successful because I have always been a tortoise. I did not come from a rich family. I was not smart in school. I did not finish school. I am not particularly talented. Yet, I am far richer than most people simply because I did not stop. I never stopped learning or expanding my reality on what was possible for my life.”



Rich dad loved fairy tales and Biblical stories. At the beginning of this book, I shared with you the story of David and Goliath. Rich dad loved the story that a little guy could beat a giant by using the leverage of a slingshot.

Rich dad loved fairy tales, yet he was not a great reader. He absorbed the lessons from those fairy tales, and those lessons guided his life, a life where he started with nothing and ultimately became a financial powerhouse.

Many times when Kim and I were broke and living on very little, I would find a place to sit quietly so I could remember back to rich dad telling me the story of the tortoise and the hare. I remember him saying, “Many times in life, you will meet people who are smarter, faster, richer, more powerful, and more gifted than you. Just because they have a headstart on you does not mean you cannot win the race. If you will keep the faith in yourself, do the things that most people do not want to do, and keep making progress on a daily basis, the race of life will be yours.”

Another fairy tale that rich dad loved was the story of “The Three Little Pigs.” He would often intertwine the story of the tortoise and the hare with the story of the three little pigs. When I was around twelve years old, rich dad said, “Poor people build financial houses made of straw. The middle class build financial houses made of sticks. And rich people build houses of brick.” He would then add, “To be a successful tortoise, it’s okay to be slow, but be sure you are slowly building a house of bricks.”



In 1968 while at home for Christmas from the academy I attended in New York, rich dad and his son invited me to their new home, which was the penthouse of his new hotel. “Remember me telling you

those stories?” he asked, as we gazed from his balcony over the white sand beach and crystal blue ocean. “The stories of the tortoise and the hare and the three little pigs?”

“I do,” I said, still amazed at the beauty of their new home, high on top of their new hotel. “I remember them well.”

“Well, here is the house of bricks,” he said with a grin.

That day in 1968, rich dad did not have to say much more than that. He had told and retold the fairy tales so often that I knew the fairy tale had become real. He was the tortoise who took the longer, slower, less secure road, but now he was on top and climbing higher. He was 49 years old, and he had passed many rabbits along the way.

I also knew that my real dad had built an expensive house of sticks in a very affluent neighborhood of Honolulu. My poor dad had just been promoted to the head of the school systems for the state of Hawaii. He too had reached the top of his ladder. He too had become visible to the public, as had rich dad. The difference was that one controlled his future, and the other did not. One lived in a house made of sticks. The other lived in a skyscraper made of bricks. In three years, my dad would lose his safe, secure job and all he would have was his house of sticks.

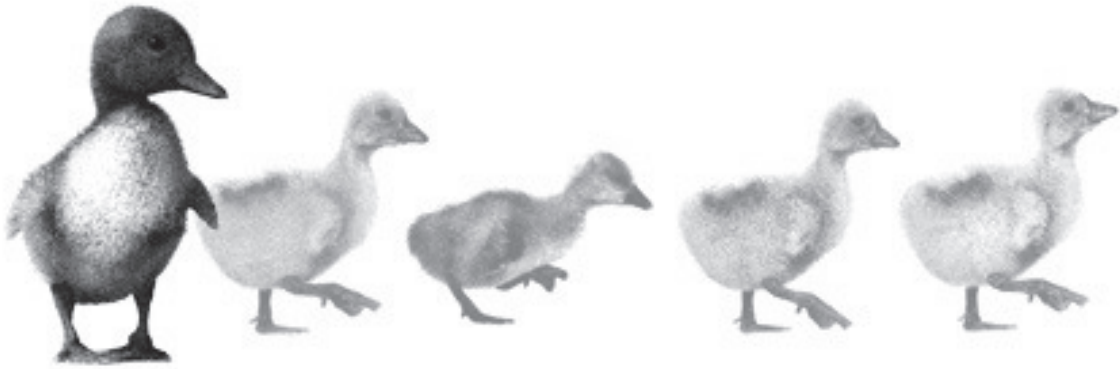
The Value of Being an Ugly Duckling

In 1968 while standing on the balcony of his penthouse, rich dad reminded me of another fairy tale. It was a fairy tale that I did not realize had meant so much to him because he never recounted it to his son and me when we were kids. “Do you know the story of ‘The Ugly Duckling’?” he asked.

I nodded my head as I leaned over the balcony.

“Well, most of my life, I saw myself as the ugly duckling.”

“You’re kidding, aren’t you? How could you see yourself as an ugly duckling?” I found it hard to believe because rich dad was a very handsome man.



“When I dropped out of school at the age of 13, I saw the world as an outsider—someone who did not fit, someone who had been left behind. While working in my parents’ store, high school boys who were on the football team would come in and push me around or damage the store. Many a day, these older athletic bullies would come in and knock cans off the shelves or throw oranges out on the road and dare me to do something about it.”

“Did you ever fight back?” I asked.

“Twice I fought back, but I got pretty badly beaten,” said rich dad. “But I’m not just telling you this story to tell you of athletic bullies. In this world there are other kinds of bullies.”

Wondering where rich dad was going with this, I just looked down from the balcony and listened as he continued.

“I’ve also known people who were intellectual or academic bullies. They would come in the store and talk down to me because they were better educated. It seemed that, just because they thought they were smarter than other people, they could look down upon those of us who did not go to school.”

“I have a school filled with those guys,” I added. “It seems that just because they think they are smarter than you or had better grades, it gives them permission to sneer when they talk to you, or snub you altogether.”

Rich dad nodded. Continuing, he said, “While working in the store, I also met the social bullies. They looked down their noses because they were from rich families, or they were pretty, sexy, handsome, popular, and in the “in crowd.” There were many times

when these kids would laugh or smirk at me as I waited on them. I remember asking one of the girls in the in crowd for a date, and her friends laughed at me for even asking. I still remember one of the girls saying, ‘Don’t you know that rich girls do not go out with poor boys?’ That really hurt.”

“That still goes on,” I said. “I met a girl who said she would not go out with me because I didn’t attend an Ivy League school.”

“Well, at least you are in college,” said rich dad. “When the kids my age went off to college, I felt alone, left behind, and unwanted.

And that is why, for all these years, I have seen myself as the ugly duckling.”

Rich dad had never shared this part of his life with me before. I was now 21 years old, and I realized that his son and I had the advantages he did not have. I knew that at times his life had been physically hard, but I had no idea how mentally and emotionally tough it had been for him.

Standing on the balcony of his prestigious hotel, I began to realize that he was not telling me the story of being an ugly duckling for me to feel sorry for him. He was smiling and too happy to be doing that. So I asked him, “You used the story of the ugly duckling to keep you going, didn’t you? You did not use that fairy tale to feel sorry for yourself, did you?”

“No,” he agreed. “I used the story of the ugly duckling, the story of the three pigs, and the story of the tortoise and the hare to keep me going. Instead of letting those few kids who were athletic, social, or intellectual bullies get me down, I used their snobbish actions to inspire me to do better. Today, I have a house of bricks and we are in the penthouse of that house of bricks. If not for those fairy tales, I would not be here today. I am no longer the ugly duckling. By taking my time to build a house of bricks, using as much leverage as David did with Goliath, and taking my time as the tortoise did, I stand here on top of the streets I grew up on.”

“You became the swan?” I asked with a smile.

“Well, I wouldn’t go that far,” rich dad chuckled. “The point is that we can all grow, evolve, and make dramatic changes in our lives if we want to. The other point is that fairy tales can come true. Ugly ducks can become beautiful swans, and slow tortoises can win the race.”

Ugly Ducklings into Rich Swans

In my investment seminars, I often put up the following exit strategies:

Poor	\$25,000 or less per year
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 the class to not be Pinocchio and instead tell the truth of what is real for them if they continue to do the same things they are doing. I ask them, “If you keep doing what you are doing today, which financial level will you exit at, at age sixty-five?” I also remind them that less than one out of 100 exit at or above the affluent level.

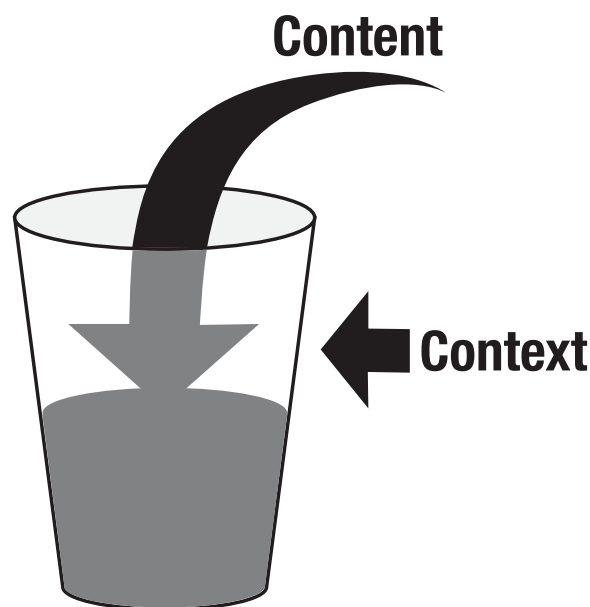
Many admit that they would be happy just to exit at the middle-class level. Their primary concern is that they not exit at the poor level. Yet there are a few who ask the question I am looking for, which is, “What do I have to do to go beyond the affluent level?” The moment someone asks that question, they have the possibility of evolving from an ugly duckling and emerging as a financial swan.

At this stage of the investment course, I may retell the fairy tales rich dad told me. I ask them, “Can you embrace the lessons from these stories and embody them in your life? Can you see the lessons from these stories as real and possible for you? Can you imagine going from a financially poor duck and emerging as a rich and powerful swan?” Some can and others just stare blankly, wondering why I am talking about fairy tales in an investment class.

Then I say, “For me to move from a middle-class mindset and go on to the affluent mindset was a change as large as changing from an ugly duckling into a swan.”

From Slow Plan to Fast Plan

In one of my classes, a young woman asked, “What is the first step?” Before replying, I drew on my flip chart the following picture:



I then said, “In 1989, two years after the market crashed and a recession set in, Kim and I were working our plan. It was a slow plan. Kim and I had agreed that we would buy two pieces of real estate a year for ten years. As the market crashed, we found more and more deals as more and more people panicked. In less than a year, we had purchased five small rental properties, each with a positive cash flow. I estimate that we had looked at over 600 properties just to find those five small houses that made investment sense. But now the market was getting worse and more and more deals were appearing. The problem was, we were out of money.”

“So you had opportunities, but you were out of money?” the young woman asked.

Pointing to the glass on the flip chart, I said, “I realized that we were at the limits of our context, our reality.”

“So it was time to change your reality?” asked another student.

Nodding, I said, “Yes. It was time to change or miss a window of opportunity.”

The class was quiet and listening intently. Knowing that I had their attention, I asked, “How many of you have seen an opportunity but were unable to take advantage of it?”

Most of the class raised their hands.

“When that happens,” I said, “it means that you are at the boundaries of your *context*—what you think is possible for yourself—and at the boundaries of your *content*—the accumulated knowledge by which you handle problems and challenges.”

“Then what happens?” asked a student. “What should we do?”

“Most people give up, saying, ‘I can’t do it,’ or ‘I can’t afford it.’ Many will ask friends for their opinion, and some friends will tell them to play it safe and not to take risks.”

“So what did you do?” asked a student. “What did you do when you realized your plan was too slow, there was a window of opportunity, and you were out of money?”

“Well, the first thing I did was admit to myself that I was being a tortoise who wanted to quit, and it was not time to quit. It was time to push on. I also knew that it was time to become more of a swan than a duckling. Keeping the lessons from those fairy tales in mind, I continued instead of giving up. I knew that I did not know what to do, but I knew I had to do something.

“Days of not knowing what to do turned into weeks. One day after Kim and I had just come back from a trip, I was putting our suitcases down when the phone rang. The phone call was from my favorite real estate broker, who said in an excited voice, ‘I just found the deal of the day. If you are interested in it, I’ll give you a half-hour headstart before I tell another one of my clients.’”

“What kind of deal was it?” asked a student.

“He told me it was a 12-unit apartment house that was in a great area and it was only \$335,000 with \$35,000 down, and the seller

was anxious to sell. The broker then faxed me the sales data on the property with a rough pro forma on income and expenses.”

“Did you buy it?” asked the student.

“No,” I said. “I told the broker to give me half an hour and I would drive out immediately to look at it. When I got there, I realized why it was such a great deal so I dashed to a phone and told the broker I would take it.”

“Even though you did not have the money?” asked another student.

“We had nothing,” I said. “We had just purchased the last of our five units and we were really strapped for cash because we were investing in real estate as well as reinvesting in our business. Even though we had no money, I offered the sellers what they were asking for, which was \$35,000 down and they would carry the \$300,000 at 8 percent interest for five years. It was such a great deal that I could not pass it up.”

“Why was it such a great deal?” asked another student.

“There were many reasons. One was because the owners lived on the property, and they had never raised the rents. The tenants were their friends, and they did not have the heart to ask them for more money, so the rents were at least 25 percent below market. Another reason was that the couple was too old to manage the property, and they just wanted to move out. Not being sophisticated investors, they did not appreciate the value of their property. They were also afraid that the value of their property would fall in value with the recession so they were very anxious to sell. Another reason it was a good investment was because there was also a new computer-chip factory being built just a mile from the property and more than a thousand new employees were going to be moving into the area, which again meant higher rents. But it was the fact that I did not have to go to a bank to borrow the money that really made the deal a good one. So I called my broker and I told him that I would give them their full price and terms. My only problem was now to find the \$35,000 in 30 days, which was when the couple wanted to move out.”

“So for 30 days you kept asking yourself, ‘How can I afford it?’” asked a student.

“Well, for two nights, Kim and I tossed, turned, sweated, and worried,” I said. “We were not asking how we could afford it. We kept asking ourselves why we were so crazy. I kept asking myself, ‘Why am I doing this? We’re doing fine. Our investments are working. Why do I have to push the boundaries of my comfort zone?’ I kept thinking about the \$35,000. I realized that \$35,000 was more than many people earned pretax in a year, and now I had to come up with \$35,000 cash in a month. I wanted to quit. My self-confidence was challenged. I felt inadequate, stupid, and foolish. After four nights, I finally calmed down, and then I began to ask, ‘How could we afford it?’”

“So how did you afford it?” asked a student. “Or did you afford it?”

“Finally, after sweating, praying, and doing our best not to quit, we took the paperwork to our bank and presented our story to the bank manager. After he turned us down, I asked him why he turned us down, and what I could have done better. After he told me, I went to the next bank with the first banker’s improvements, and was again turned down. After being turned down the second time, we again asked the banker why. By the fifth bank, I had learned a tremendous amount about what information banks wanted, why they wanted it, and how they wanted it presented to them. Even though our presentation was much better, we were still turned down by the fifth bank. Almost ready to quit, Kim and I went to the sixth bank. This time, we were much better prepared. We also knew why the investment was a good investment. In trying to convince the five bankers, we had convinced ourselves even more of this investment’s soundness. This time our presentation was clearer and much more professional. We spoke the words bankers wanted to hear. Our numbers were clear, and we included our track record with our five other properties. We could now explain in banker’s words and numbers why it was a great investment. The sixth banker said yes. He had the \$35,000 check for us in two days. With three days to spare, we went to the escrow office and bought the 12-unit apartment house.”

“What happened after that?” asked a student.

“The real estate market continued to slide, and we kept buying,” I replied. “Even though we still had very little money, we kept buying. By 1994, the market turned up and we were financially free for the rest of our lives. That 12-unit apartment building sold for over \$500,000 in 1994 and had put over \$1,100 a month in our pockets during that period. The \$165,000 in capital gains was rolled tax-deferred into a 30-unit apartment house, which is one of the apartment houses we still have today. That 30-unit apartment house began putting a little bit more than \$5,000 a month in our pockets. With the other properties and investments we had, we were earning over \$10,000 a month in passive income, which put us at the affluent level, and we retired. We had about \$10,000 in passive income and about \$3,000 in monthly expenses. We were financially free.”

“So it was not luck,” said a student. “Your plan got accelerated.”

“We were prepared for the window of opportunity, and we took it,” I said. “Soon after 1994, the prices of real estate skyrocketed, and it became a little harder to find such bargains and willing sellers.”

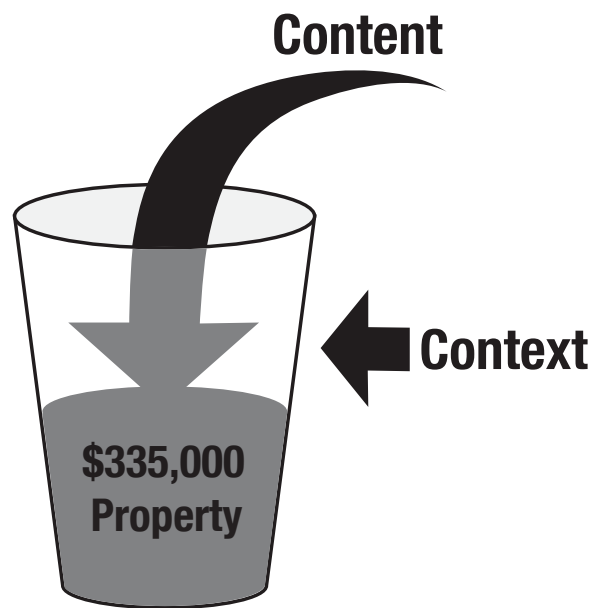
“So you made quite a bit of money without any of your own money?” asked a student.

“Yes, on that deal, but I do not recommend you doing what we did. Investing in real estate without any money down can be very risky if you do not know what you are investing in and if you do not have the cash reserves if things do not go the way you expect them to. I have met many people who bought a property with nothing down, only to find out that the expenses of the property were far greater than the actual income they received. I have had friends who have gone bankrupt because they purchased property or businesses that were too highly leveraged. That is why I do not openly endorse buying no-money-down real estate. I recommend having some experience buying, selling, and especially managing real estate before going after highly leveraged deals. We had looked at hundreds of other properties before buying this particular 12-unit property, and we also had the cash flow from our business to support any unexpected losses from the investment. The trouble with no-money-down real estate deals is

that there is often too much leverage. That type of highly leveraged investment can easily eat you alive if anything should go wrong. So I repeat: I do not recommend anyone do what we did. I tell you this story for only one reason.”

“And that reason is?” asked another student.

Going to the flip chart, I then added to the drawing I had put up there previously:



“The reason I tell you this story is to explain to you the importance of being willing to expand your context as well as add to your context.”

“So today, affording a \$335,000 property is easy for you because you increased your reality and your education. Is that what you are saying?” asked a student.

“Very easy,” I replied. “Looking back upon it now, it seems silly to have let a \$35,000 down payment seem like a lot of money, and a 12-unit apartment house seem like a big deal. But back then, it was a lot of money, and it was a very big deal. The important thing for Kim and me was the willingness to go beyond our context and our content.”

“So most people do not push beyond their comfort levels,” said another student. “Most people find it easier to play it safe and say, ‘I can’t afford it.’”

“That has been my experience,” I said. “I believe that one of the main reasons why less than 1 percent of the population goes

beyond the affluent level is simply because most people find it very uncomfortable going beyond their personal reality, their context, and their content. Most people try and solve their financial problems with what they know, rather than expand what they know so they can solve a bigger problem. Rather than taking on bigger financial challenges, most people wrestle all their lives with financial problems they feel comfortable with. They remain poor but pretty swans, rather than risk becoming an ugly duckling again.”

“Have you become an ugly duckling again?” asked a student a little cynically.

“Sure,” I said. “After the \$335,000 apartment house, we found it easy to invest up to the \$2.5 million level. From 1994 to 2001, we did well in that range up to \$2.5 million and our passive income increased to about \$16,000 a month without much effort. We were definitely at the affluent level, and it was time to move on to be rich. For those of you who know our past, you may recall that *Rich Dad Poor Dad* was written between 1995 and 1996 in rough draft. I designed and created the *CASHFLOW* board game in 1996, and I got back into the world of business. Simultaneously in 1996, I knew it was time for me to learn how to take a company public through the IPO process, which is when I met Frank, as described in book number three, *Rich Dad’s Guide to Investing*. Also in 1996, *Rich Dad Poor Dad* was published. We founded CASHFLOW® Technologies, Inc. in the fall of 1997. We were entering a new world with a new context, content, and friends. Our real estate investing context remained at \$2.5 million in investments.”

“So you moved to expand your context in other areas, but did not expand your real estate reality. Is that what you are saying?” asked a student.

“That is exactly what I am saying,” I said. “Our little company grew far beyond our wildest dreams. After working for five years with Frank, we had four to six companies ready to go public through the IPO process. Both in business and in the IPO process, our reality on what is possible has expanded considerably. Our context in business and the IPO process has taken quantum leaps.”

“But your reality in real estate remained the same,” said a student. “It has remained the same since the \$335,000, 12-unit apartment house. It has remained stuck between \$335,000 and \$2.5 million. That is your lesson, isn’t it?”

“Exactly,” I said. “Just because a person improves in one financial arena does not mean they expand in all arenas. That is why in 2001, Kim and I decided it was time to get back to real estate and push the walls of our context again.”

Getting Rich Gets Easier

Years ago, rich dad said to me, “One of the reasons the rich get richer is because, once you’ve found the formula to getting rich, it gets easier to get rich. If you never find the formula, getting rich always seems hard and staying poor seems natural.”

The reason I have spent so much time on this subject of reality, context, and content is because it was rich dad’s formula. It was his basic formula to never say, “I can’t afford it,” or “I can’t do it.” He chose instead to expand his reality. As you already know, rich dad used fairy tales and Biblical stories as his life-guiding lessons to keep him going through times of doubt and fear. But it was his lesson on acceleration of wealth that was most interesting to me. He would say, “Once you know that the formula to getting rich is to continually expand your reality which increases your leverage, then getting rich becomes easier and easier. For people who become stuck in one reality and think their reality is the only reality, the speed at which they can become rich goes down.”

In other words, rich dad taught me that once you become rich, getting richer is easier and becomes faster. If you never become rich, life becomes harder and slower. Knowing this, I knew it was time for Kim and me to expand our reality on real estate again. We had invested over five years expanding our reality on business and the IPO process, and we had become rich much quicker and faster than ever before. I knew that at the next level, getting richer would become easier and faster. I knew because I saw it happen to my rich dad.

After \$5 Million, It Gets Very Easy

Late in the year 2000, the stock market was crashing, our business was expanding rapidly, our books and games were selling worldwide, and the companies we were bringing public were taking shape nicely and were soon to be profitable. Kim said to me, “I want to get back into real estate. We need to invest in more stable assets if we want to maintain our wealth.” With that, we went back out into the market and ran into our old reality, our old context and content. It felt like we were back again, trying to find \$35,000 for a \$335,000 apartment house. Even though we could easily write a check for three \$335,000 apartment houses, paying cash without needing a loan, we were having trouble again. Things were not coming our way. At that point, I knew it was time to expand our reality one more time.

Up until then, Kim and I were looking for projects that ran around \$4 million. We felt comfortable with that number since we knew we had over \$1 million for the down payment if we needed it. We thought we knew a lot, but we could not find a property or the financing that made sense or that worked according to our new plan. Then I called an old friend named Bill, who does hundreds of millions of dollars in real estate. After finally tracking him down, I asked him what was wrong with our approach. Bill’s reply was, “Four million dollars is a tough market. Banks don’t like investments that big, and projects of that size are not exciting enough for sophisticated private investors. But after \$5 million, it gets easy again.”

The moment he said that, I knew I was at the boundary of my reality, my context. Four million dollars was easy and comfortable, but \$5 million was now just outside my comfort zone. My mind began to scream, saying, “If I can’t get a bank interested in a \$4 million project, how will I get them interested in a \$5 million project?” I could hear my reality speaking loudly to me. I could also hear rich dad telling me to remember the fairy tales and to also remember that getting rich gets easier the richer you get, if you just follow the formula. I knew it was time to follow the formula and push beyond my reality.

It Got Very Easy

At the start of this book, I wrote about how easy it was to retire early by borrowing money from the banks. Once Kim and I were willing to push beyond our reality, our comfort zone, we found out that it is just as easy to borrow money from the government.

I have written about the tax laws being in favor of those who are in the B and I quadrants and against those in the E and S quadrants. I also wrote that most of the people who complain about taxes are E's and S's. That's because the government wants to be the partner of the B's and I's since they create jobs and provide housing. I had always known this, because my rich dad had told me, but I had no idea how much the government helps those that help the government until I began looking into real estate investments over \$5 million, until I was willing to expand my context.

Our search was on. We were now looking for larger projects that were far beyond our comfort zone. At our first meeting in 2001 with a real estate sales person who specializes in low-income government-sponsored housing, Kim and I showed the salesperson our existing real estate portfolio. In our portfolio we had millions of dollars in real estate, mainly in unit sizes of 30 to 50 apartments.

"You know how to manage multifamily apartment houses," said the real estate agent, a young woman in her late thirties. "That's good."

"Why is that good?" asked Kim.

"Because one of the government's requirements is that anyone it lends money to must have a successful track record at managing multifamily apartment houses. You've been doing that for over ten years and have run them profitably. Many people want these government loans, but very few people qualify for them," said the agent. "As you know, most people who do own a few investment properties want to manage their own real estate, collect their rents, and do their own repairs. That is why they never learn how to manage larger properties as you do."

Kim and I nodded. We knew there was much more to real estate than simply collecting rent and fixing a few toilets. We had learned a lot in the last ten years. But now it was time for us to move on. If we

were to move on, we had to meet new people, learn a new vocabulary, and be willing to play a much bigger game. Listening to these two new people in our lives, I realized that over the past ten years we had become hares and swans in the real estate market up to \$4 million. We were the proverbial big fish in a small pond. It was now time to move on and again become uncomfortable, become slow tortoises and ugly little ducklings in a much bigger game.

Sitting next to the agent was an investment banker who specialized in tax-exempt, rated and nonrated government housing bonds. When I asked him what kind of financing programs the government had, he replied, "If you and your project qualify, the government will offer you 95-percent to 110-percent financing."

"You mean they will lend us all of the money to buy our next investment? The government will give us the money to buy our asset?"

"Even more if you qualify," he said. "The government will even lend you the money to fix up or rehabilitate the project if you qualify."

"You mean if the project costs \$10 million, they will lend us all of the \$10 million or more? And if it takes \$3 million to fix the place up, they will also lend us that money? They will lend us all the money for our property?"

The investment banker nodded. "They would prefer to lend you \$20 million or more, but \$10 million would be a good place for you to start. Once you do a \$10 million project, a \$20 million or even a \$50 million project would not be out of line, if you have a proven track record."

I could hear rich dad saying that things got easier and easier, but I could not believe it could become this easy. Still in a little disbelief, I asked, "At what kind of terms?"

"I might be able to secure interest rates between 5 percent to 7 percent, fixed for 40 years, and nonrecourse."

"Nonrecourse?" I gasped. "You mean the government won't come after everything I own personally if the project goes bad and I can't pay the money back? My banker hates nonrecourse loans. Every time I borrow money from him, he makes sure everything I own is also on the line."

“That’s correct,” said the investment banker. “But you realize that there are many terms and conditions that apply here that do not apply to conventional bank financing.”

“I realize that,” I said. “But I had no idea how good the government could be.”

“Occasionally, there are even better programs in these tax-exempt government bond issues. There are occasionally forgivable loans, where the government simply forgets you borrowed money from them if you do certain things well. It is very similar to a grant.”

“Why does the government do this?” I asked.

“Because one of the great problems facing this country is low-income affordable housing. The government is afraid that without people like you, millions and millions of people will go homeless and be forced to live in substandard, crime-ridden slums. The government is going after slumlords and is taking some of them to jail. These slumlords prey on the poor, and the government wants to put a stop to them. At the same time, the government is willing to offer billions of dollars to individuals like you who have proven themselves to be responsible managers of large multifamily projects.”

“They are willing to give me the money to become even richer.”

“That is correct,” said the investment banker as the real estate broker smiled on. “It’s more than just money. It’s big money. If you do well over the next few years, I can help you borrow billions of dollars if you want to get that big and that rich. Last year, one of our divisions had to return over a billion dollars because they could not find anyone who qualified for it.”

It was Kim who said, “The best thing about getting rich this way is that we do a lot of good for a lot of people. It excites me to think about turning a slum into safe housing for people with families.”

“That is exactly what the government wants you to do. Most of our problems come from our slums. It is from our slums where crime breeds and grows. If you can change slums into safe housing, you will have more and more money available to you. As much as you want.”

“So we become rich by becoming partners with the government?”

“As rich as you want to be,” smiled the investment banker. “All you have to do is do what you have been doing for the past ten years, which is own and manage multifamily apartment houses. All you have to do is capitalize on your ten years of experience. And we would love to help you get even richer. Do you know how hard it is to find people with your years of experience? Just let us know when you’re ready. She’ll help you find your property, and I’ll find you all the money you want.”

The meeting was soon over. Kim and I thanked them and headed for our car. Once in the car, we sat quietly in almost stunned disbelief. It took a number of miles before we said anything. Finally Kim said, “Do you remember the 12-unit apartment house we bought ten years ago?”

“I was just thinking about it,” I replied.

“What would have happened if we had chosen to say, ‘I can’t afford it?’” she asked. “What would our lives be like if we had let \$35,000 stop us?”

I thought for a moment and said, “I think we would still be saying the same thing today. If \$35,000 had stopped us back then, it would probably be stopping us today.” As we drove out of the parking lot, I could hear rich dad saying, “Your future is determined by what you do today, not tomorrow.” Turning to Kim I said, “If we had said ‘I can’t afford it’ ten years ago, we would probably be saying ‘I can’t afford it’ today.”

We drove home in silence, feeling excited and blessed. I could hear rich dad telling me that once you become rich, getting rich becomes easier and easier. I could hear him saying to me that the reason many people never go past the middle-class level of life is because they do not believe in fairy tales. Since they do not believe in fairy tales, they fail to learn the lessons from the stories. As I got out of the car, I silently thanked my rich dad and could hear him saying to me, “Always remember that fairy tales do come true, in one way or another.”