

## **RICH DAD, POOR DAD | BOOK SUMMARY**

"Look around; the richest people didn't get rich because of their educations. Look at Michael Jordan and Madonna. Even Bill Gates, who dropped out of Harvard, founded Microsoft; he is now the richest man in America, and he's still in his 30s."

Getting a good education and making good grades no longer ensures success, and nobody seems to have noticed

### **Two perspectives:**

"The love of money is the root of all evil."

"The lack of money is the root of all evil."

One of the reasons the rich get richer, the poor get poorer, and the middle class struggles in debt is because the subject of money is taught at home, not in school. Most of us learn about money from our parents. So what can a poor parent tell their child about money?

Money is not taught in schools. Schools focus on scholastic and professional skills, but not on financial skills.

Our staggering national debt is due in large part to highly educated politicians and government officials making financial decisions with little or no training on the subject of money.

### **Two perspectives:**

"I can't afford it"

"How can I afford it?"

"Study hard so you can find a good company to work for."

"Study hard so you can find a good company to buy."

"When it comes to money, play it safe, don't take risks."

"Learn to manage risk."

Money is one form of power. But what is more powerful is financial education. Money comes and goes, but if you have the education about how money works, you gain power over it and can begin building wealth.

## **LESSON #1 THE RICH DON'T WORK FOR MONEY**

"If you want to be rich, you have to learn to make money...use your head."

When you fail... "You're only poor if you give up. The most important thing is that you did something. Most people only talk and dream of getting rich.

Being able to know when to make quick decisions is an important skill.

If you learn life's lessons, you will do well. If not, life will just continue to push you around. People do two things. Some just let life push them around. Others get angry and push back. But they push back against their boss, or their job, or their husband or wife. They do not know it's life that's pushing.

If you realize that you're the problem, then you can change yourself, learn something and grow wiser. Most people want everyone else in the world to change but themselves. Let me tell you, it's easier to change yourself than everyone else.

### **Lesson No.1.:**

"The poor and the middle class work for money." "The rich have money work for them."

True learning takes energy, passion, a burning desire. Anger is a big part of that formula, for passion is anger and love combined. When it comes to money, most people want to play it safe and feel secure. So passion does not direct them: Fear does.

Most people, given more money, only get into more debt. Simply because it's easier to learn to work for money, especially if fear is your primary emotion when the subject of money is discussed. Just know that it's fear that keeps most people working at a job. The fear of not paying their bills. The fear of being fired. The fear of not having enough money. The fear of starting over. That's the price of studying to learn a profession or trade, and then working for money. Most people become a slave to money... and then get angry at their boss."

Most people have a price. And they have a price because of human emotions named fear and greed. First, the fear of being without money motivates us to work hard, and then once we get that pay check, greed or desire starts us thinking about all the wonderful things money can buy. The pattern is then set.

The pattern of get up, go to work, pay bills, get up, go to work, pay bills... Their lives are then run forever by two emotions, fear and greed. Offer them more money, and they continue the cycle by also increasing their spending. This is the Rat Race.

People also work for money because of desire. They desire money for the joy they think it can buy. But the joy that money brings is often short lived, and they soon need more money for more joy, more pleasure, more comfort, more security. So they keep working, thinking money will soothe their souls that is troubled by fear and desire. But money cannot do that.

The sooner you forget about needing a pay check, the easier your adult life will be. Keep using your brain, work for free, and soon your mind will show you ways of making money far beyond what you could ever get paid. You will see things that other people never see. Opportunities right in front of their noses. Most people never see these opportunities because they're looking for money and security, so that's all they get. The moment you see one opportunity, you will see them for the rest of your life.

## **LESSON #2 WHY TEACH FINANCIAL LITERACY?**

Most people fail to realize that in life, it's not how much money you make, it's how much money you keep.

So when people ask, "Where do I get started?" or "Tell me how to get rich quick," the only answer is; "If you want to be rich, you need to be financially literate."

Now, accounting is possibly the most boring subject in the world. It also could be the most confusing. But if you want to be rich, long term, it could be the most important subject. The question is, how do you take a boring and confusing subject and teach it to kids? The answer is, make it simple. Teach it first in pictures.

Rule One. You must know the difference between an asset and a liability, and buy assets. If you want to be rich, this is all you need to know. It is Rule No. 1. It is the only rule....Rich people acquire assets. The poor and middle class acquire liabilities, but they think they are assets.

"You mean all we need to know is what an asset is, acquire them and we'll be rich?"

What defines an asset is not words but numbers. And if you cannot read the numbers, you cannot tell an asset from a hole in the ground. "In accounting, it's not the numbers, but what the numbers are telling you. It's just like words. It's not the words, but the story the words are telling you.

"If you want to be rich, you've got to read and understand numbers."

Here is how to tell the difference between an asset and a liability.

An asset is something that puts money in my pocket.  
A liability is something that takes money out of my pocket.

This is really all you need to know. If you want to be rich, simply spend your life buying assets. If you want to be poor or middle class, spend your life buying liabilities. It's not knowing the difference that causes most of the financial struggle in the real world.

There is a flaw in the thinking of so many people. The flaw is that money will solve all problems. More money will often not solve the problem; in fact, it may actually accelerate the problem. Money only accentuates the cash flow pattern running in your head. If your pattern is to spend everything you get, most likely an increase in cash will just result in an increase in spending.

Because students leave school without financial skills, millions of educated people pursue their profession successfully, but later find themselves struggling financially. They work harder, but don't get ahead. What is missing from their education is not how to make money, but how to spend money-what to do after you make it.

Is a house an asset or a liability?

When it comes to houses, I point out that most people work all their lives paying for a home they never own. In other words, most people buy a new house every so many years, each time incurring a new 30-year loan to pay off the previous one.

Even though people receive a tax deduction for interest on mortgage payments, they pay for all their other expenses with after-tax dollars. Even after they pay off their mortgage.

Property taxes.

Houses do not always go up in value.

The greatest losses of all are those from missed opportunities. If all your money is tied up in your house, you may be forced to work harder because your money continues blowing out of the expense column, instead of adding to the asset column, the classic middle class cash flow pattern.

The end result in making a decision to own a house that is too expensive in lieu of starting an investment portfolio early on impacts an individual in at least the following three ways:

1. Loss of time, during which other assets could have grown in value.
2. Loss of additional capital, which could have been invested instead of paying for high-maintenance expenses related directly to the home.
3. Loss of education. Too often, people count their house, savings and retirement plan as all they have in their asset column. Because they have no money to invest, they simply do not invest.

Why the Middle Class Struggle

Income goes up, Expenses go up

Assets do not increase, Liabilities do increase

### **LESSON # 3 Mind Your Own Business**

Most people work for everyone else but themselves. They work first for the owners of the company, then for the government through taxes, and finally for the bank that owns their mortgage.

Secret No. 3 of the Rich: "Mind your own business" Financial struggle is often directly the result of people working all their life for someone else. Many people will have nothing at the end of their working days.

Most people

Your Profession -> Your Income

The Rich

Your Assets -> Your Income

Our current educational system focuses on preparing today's youth to get good jobs by developing scholastic skills. They study to become engineers, scientists, cooks, police officers, artists, writers and so on. These professional skills allow them to enter the workforce and work for money.

There is a big difference between your profession and your business. When ask people, "What is your business?" And they will say, "Oh I'm a banker." Then I ask them if they own the bank? And they usually respond. "No, I work there."

A problem with school is that you often become what you study. So if you study, say, cooking, you become a chef. If you study the law, you become an attorney, and a study of auto mechanics makes you a mechanic. The mistake in becoming what you study is that too many people forget to mind their own business. They spend their lives minding someone else's business and making that person rich.

To become financially secure, a person needs to mind their own business. Your business revolves around your asset column, as opposed to your income column. The rich focus on their asset columns while everyone else focuses on their income statements.

Start minding your own business. Keep your daytime job, but start buying real assets, not liabilities or personal effects that have no real value once you get them home. A new car loses nearly 25 percent of the price you pay for it the moment you drive it off the lot. It is not a true asset even if your banker lets you list it as one.

For young people who have not yet left home, it is important for parents to teach them the difference between an asset and a liability. Get them to start building a solid asset column before they leave home, get married, buy a house, have kids

and get stuck in a risky financial position, clinging to a job and buying everything on credit.

Real assets fall into several different categories:

1. Businesses that do not require my presence. I own them, but they are managed or run by other people. If I have to work there, it's not a business. It becomes my job.
2. Stocks.
3. Bonds.
4. Mutual funds.
5. Income-generating real estate.
6. Notes (IOUs).
7. Royalties from intellectual property such as music, scripts, patents.
8. And anything else that has value, produces income or appreciates and has a ready market.

## **LESSON # 4 The History of Taxes and the Power of Corporations**

The real reality is that the rich are not taxed. It's the middle class who pays for the poor, especially the educated upper-income middle class.

Historically, in England and America, taxes were initially levied against only the rich. The idea of taxes was made popular, and accepted by the majority, by telling the poor and the middle class that taxes were created only to punish the rich. This is how the masses voted for the law, and it became constitutionally legal. Although it was intended to punish the rich, in reality it wound up punishing the very people who voted for it, the poor and middle class.

Once government got a taste of money, the appetite grew.

The problem was that the government's appetite for money was so great that taxes soon needed to be levied on the middle class, and from there it kept "trickling down."

The rich, on the other hand, saw an opportunity. They do not play by the same set of rules. It is the knowledge of the power of the legal structure of the corporation that really gives the rich a vast advantage over the poor and the middle class. It seemed to me that the socialists ultimately penalized themselves, due to their lack of financial education. No matter what the "Take from the rich" crowd came up with,

the rich always found a way to outsmart them. That is how taxes were eventually levied on the middle class. The rich outsmarted the intellectuals, solely because they understood the power of money, a subject not taught in schools.

Every time people try to punish the rich, the rich don't simply comply, they react. They do not just sit there and voluntarily pay more taxes.

Financial IQ is made up of knowledge from four broad areas of expertise:

No. 1 is accounting.

No. 2 is investing.

No. 3 is understanding markets.

No. 4 is the law.

## **LESSON # 5 The Rich Invent Money**

Your financial genius requires both technical knowledge as well as courage. If fear is too strong, the genius is suppressed. Urge students to learn to take risks, to be bold, to let their genius convert that fear into power and brilliance.

## **LESSON # 6 Work to Learn. Don't Work for Money**

Most people need only to learn and master one more skill and their income would jump exponentially. I have mentioned before that financial intelligence is a synergy of accounting, investing, marketing and law. Combine those four technical skills and making money with money is easier. When it comes to money, the only skill most people know is to work hard.

You want to know a little about a lot.

The hardest part of running a company is managing people. If you're not a good leader, you'll get shot in the back.

I recommend to young people to seek work for what they will learn, more than what they will earn. Look down the road at what skills they want to acquire before choosing a specific profession and before getting trapped in the "Rat Race."



If you are unwilling to work to learn something new and insist on, instead, becoming highly specialized within your field, make sure the company you work for is unionized. Labor unions are designed to protect specialists.

Many corporations find a young bright student out of business school and begin “grooming” that person to someday take over the company. So these bright young employees do not specialize in one department; they are moved from department to department to learn all the aspects of business systems. The rich often “groom” their children or the children of others. By doing so, their children gain an overall knowledge of the operations of the business and how the various departments interrelate.

The main management skills needed for success are:

1. The management of cash flow
2. The management of systems (including yourself and time with family).
3. The management of people.

In addition to being good learners, sellers and marketers, we need to be good teachers as well as good students. To be truly rich, we need to be able to give as well as to receive.

## **OVERCOMING OBSTACLES**

### **Fear**

Fear of losing money, or fear of failure?

It takes guts, patience and a great attitude toward failure. Losers avoid failing. And failure turns losers into winners.

### **Cynicism**

“Cynics never win, unchecked doubt and fear creates a cynic. Cynics criticize, and winners analyze”

Cynicism blinds you while analysis opens your eyes.

### **Laziness**

How do you beat laziness? The answer is a little greed. Without that little greed, the desire to have something better, progress is not made.

## **Bad Habits**

### **Arrogance**

Arrogance is ego plus ignorance. What you don't know loses you money. When you know you are ignorant in a subject, start educating yourself by finding an expert in the field or find a book on the subject

## **Get Started**

1. You need a reason greater than reality
2. Use the power of choice, invest first, in education
3. Choose friends carefully
4. Master a formula and then learn a new one
5. Pay yourself first
6. Pay your brokers well
7. Be an 'Indian Giver', the power of getting something for nothing
8. Assets buy luxuries
9. The need for heroes, embrace the power of myth.
10. Teach and you shall receive