PHILOSOPHY OF CASH FLOW

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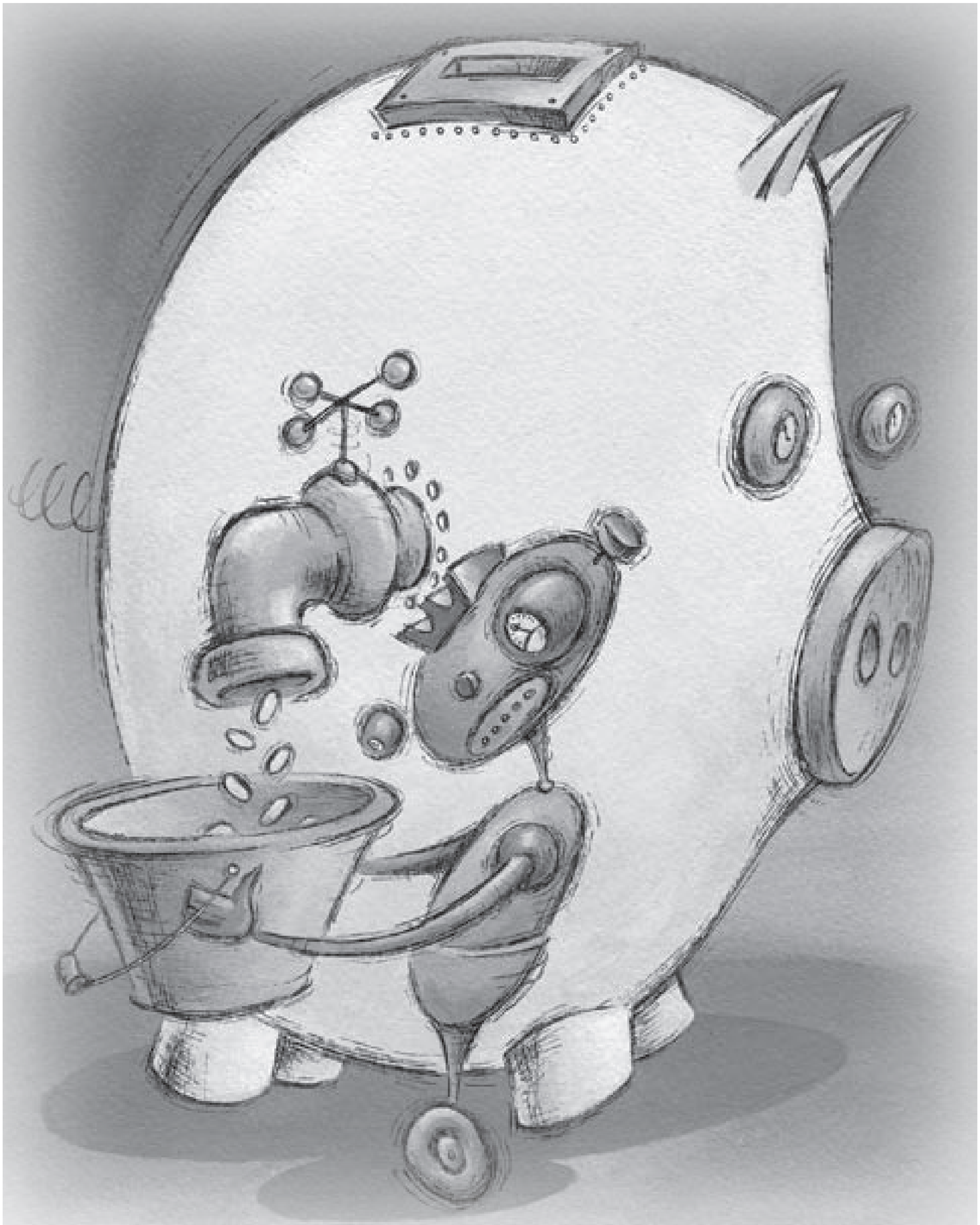
PHILOSOPHY OF CASH FLOW

INTRO



YOU'VE BEEN PROGRAMMED! Introduction

This book is designed to help you put into practice the well-known philosophies of Robert Kiyosaki—his CASHFLOW Quadrant®, B-I Triangle, and financial statement theory, while also utilizing active established learning models (specifically, Edgar Dale's Cone of Learning {1969}) to help you put the information into practice. By now, I'm sure you're jumping for joy and can't wait to turn the page! Well, relax and let me put the same information into language that might have more meaning to your life and financial situation.

The purpose of this book is to assist you in evaluating your current level of financial intelligence in order to mentor you as you move towards your goals of becoming wealthy. It is interactive, relevant to your current financial standing, and it is structured in a way that makes it easier for you to evaluate your life situation, decide what is working for you, what you want to keep, and what you want to throw out or change. To put it in a short phrase, "We are here to serve you as you begin to move towards financial freedom."

You may not be completely familiar with Robert Kiyosaki's history, so by way of introduction, let me assure you that his story and upbringing are not that much different from most Americans. He was born in 1947 to a family who believed in the American dream of, "go to school, work hard, get a good job, save your money, and everything will be alright." His father was a professional educator, so the focus on school and traditional education was strong. His other family members included some highly educated relatives who had been great students and grown up to become doctors—so his mother longed for Robert to follow in their footsteps. And this is where Robert's story takes a left turn—he was not a good student, he struggled to make C's in his classes, and he couldn't find a way to meet the expectations of his family while also remaining at peace with himself.

Luckily, he had a friend whose father was quite the opposite of his own—the man was a highly dedicated entrepreneur. Over a period of several years, this man mentored his own son and Robert to act and think from an entrepreneur's viewpoint. That process changed the course of Robert's life and it is how the story in Rich Dad, Poor Dad was born.

From his "rich dad," Robert learned the lessons of entrepreneurship, and at a young age, began investing in business ventures. From his "poor dad," Robert saw first-hand how the system and the government would fail him if he placed his trust in them. Taking the philosophies of his father and his friend's father, Robert began to examine what would work in the Age of Technology (vs. the Industrial Age), how the rules of money and retirement were changing, and what would move him to financial freedom with the highest probability of success.

In short, he made a conscious decision about how he wanted to live his financial life. He may not have been an A student when it came to Calculus, but he got a PhD. in financial freedom (and the PhD. stood for Pretty High Dreams!)

Rather than just accept the belief system handed down to him from his family, he took the two messages of his youth, and made decisions that would shape not only his own life, but the lives of millions of people around the world. We believe you can be one of those people as you become more familiar with his life, his work, and his teachings. We are here to help you begin the process of putting your new goals into action!

Needless to say, Robert was not born with a silver spoon in his mouth—he was born into a real world of middle class people who worked hard for a living. Perhaps one of the hardest things he ever had to confront was his seeming inability to do well in school. We all want to please our parents, particularly when we are young, and it must have been very confusing to him to know what was expected but feel inadequate to rise to the occasion. There is a lesson in this for each of us: sometimes the most painful experiences in life can bring us tremendous growth and benefit after we have gone through them.

Robert's story is not one of instant success without hardship. He had no roadmap to guide him. What he did have was a deeply ingrained commitment to his beliefs. He and his wife, Kim, have spent much of their adult lives working to create a roadmap for others. They have written many books, created strategic alliances with professionals who are here to help you, and they have coached thousands of people to live the life of their dreams.

Hopefully, this book will help you move more easily through the process that Robert found himself going through at a young age. As he asked himself these questions, this book will walk you through the same process and you will find yourself asking: "What do I believe about wealth accumulation?", "What are my financial goals?", "What do I need to learn and to change in order to reach my goals?", and, "How do I sort through the information from my past and the new financial knowledge of my present?"

These are all questions we will help you ask, and we will mentor you through the process as you find your own answers. In addition, we encourage you to ask yourself, "Are there deeply embedded beliefs that have been handed down from my family, friends, and society that are not working for me?", and, "What would it mean for me to re-define those beliefs?" Finally, you will consider the value of a mentor as you ask yourself, "If I have a mentor to walk me through the process, do I have the courage to make the changes that will move me towards financial freedom?"

Our hope is that you do—and we will be with you every

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step of the way as you evaluate and refine your beliefs about money, wealth, financial freedom, and financial intelligence. So, let's get started because defining your understanding about money and your core beliefs will either move you towards wealth—or away from it.

Rich Dad Education

CHAPTER ONE


E
B
S
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A Quick Introduction To Rich Dad Philosophy

One of the first decisions Robert needed to make as he began evaluating how to seek financial freedom was how he wanted to earn his money—as an employee, a specialist or small business owner, as a big business owner, or as an investor. The following chart shows the four quadrants from which wealth can be created. It is important to understand, from the beginning of this discussion, that there is no "right" or "wrong" answer here; rather, it is simply a question of how much wealth you want to create and how hard you want to work to create it.

As well, there are typical attitudes, internal conversations, and strong belief systems that are associated with each of the four areas. This diagram is what Robert calls The CASHFLOW Quadrant®, and it represents the ways people get cash to flow from their work to their checkbooks.

Some of the people reading this book will already be very familiar with this image, while others may be

seeing it for the first time. We encourage all of you to see and think about it with fresh eyes. If this is not new information, but you are still earning your money from a part of the quadrant that you do not choose to be in, it is imperative to do this exercise.

Now, this may be a little early for this mentoring tip, so buckle your seat belt and stay with us: "On a financial level, you are exactly where you have chosen to be up to this moment in your life, and you have chosen to be there because that is the belief system that currently drives your behavior." You may think you have already made the decision to change, and that is why you are reading this book and taking your first training, but experience has taught us that those deeply held core beliefs are not easily cast aside.

However, having walked thousands of students through the process of changing their attitudes, beliefs, and behaviors, we assure you that there is still much to think about, act upon, and learn. The purpose of this book is to help you blend your new context (belief system) with the content you will be obtaining as a real estate investor. Our objective is to help you earn your money from the portion of the CASHFLOW Quadrant® of your choosing—and that is typically from the right side—either as a B or an I.

As you begin your investing career or expand it to include larger real estate deals, you will find that your current and core beliefs are firmly embedded—and those beliefs begin working overtime as you begin to make different choices! For example, your programming and beliefs are probably in line with you purchasing a single family home in a working class neighborhood to rent out because the price will be fairly low and the programming in our society is aimed toward you avoiding risk and seeking safety and security. However, one house doesn't create enough wealth for you to have the freedom to retire.

The conflict begins when you decide to shift your actions and become rich—when you move towards investing in real estate for the purpose of becoming financially free, rather than having a little investment on the side to keep you busy. It is the difference between security and freedom—a small rental house to bring in $100 a month cash flow while you continue to work, versus a 60 unit apartment complex that will net $8,000 a month so you can leave your job for life!

Your programming and comfort level in the portion of the CASHFLOW Quadrant® that you currently earn money from will begin to throw up all kinds of red flags as you make this move. Your internal questions might very well be, "What am I thinking? I'm going into DEBT! I'm going into a property that is worth $4 million and my payments are going to be $15 thousand a month, just for principal and interest! I can't make that amount of money—oh my goodness, I'm going to go bankrupt!"

At that exact moment, your brain has begun a new cycle called, "Fear and desperation!" You've forgotten all about the positive side of investing—leverage, cash flow, equity build up, and tax write-offs to investors. All you can see or hear are the crashing waves of fear that are programmed into both the "E" and "S" quadrants. The desire for financial freedom caused you to sign up for your real estate training, but until you can consciously choose beliefs that will get you to the level of wealth that you want to build, and act upon them, your old programming will continually throw up roadblocks to keep you where you already are.

THE MINDSET OF AN EMPLOYEE

1 From the perspective of an employee, what are your beliefs about your ability to create wealth? What drives an employee's behavior? And, what are the goals of an employee?

BELIEFS ABOUT WEALTH: ______________________________

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WHAT DRIVES EMPLOYEES' BEHAVIOR? __________________

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WHAT ARE AN EMPLOYEE'S GOALS? ______________________________

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HOW IS AN EMPLOYEE'S BACK AGAINST THE WALL? ________________

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WHAT OBSTACLES HOLD EMPLOYEES BACK OR KEEP THEM STUCK IN THIS PORTION OF THE QUADRANT? WHAT DO THEY NEED TO DO TO OVERCOME THESE OBSTACLES? (Hint: Money is not holding them back.) ________________

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Employees are driven by their internal longing for safety and security, and they will exchange freedom to get it. They want to feel that they will be taken care of, whether that means a paycheck on Friday or a retirement plan when they are 65. They have been programmed into a culture of dependency and somewhere along the way in life, they bought into the belief that the world was too frightening for them to be on their own and create their own financial destiny.

To be an employee does not necessarily mean that people have low incomes. The CEO of a Fortune 100 company is still an employee. The question is why someone earning as much as $4 million a year (and being taxed at a very high rate) would choose to build wealth for someone else when typically they have the knowledge and expertise to create a destiny (and dynasty) of their own?

Employees must have a job—and they feel completely out of control if their job goes away. They are highly taxed and they realize it, but they would rather pay more in taxes than feel the pressure of self-reliance which comes from having to create income on their own. In short, many don't believe they are capable of making it on their own. They have been programmed to go to school, get a job, and live with the consequences of having too little money because they have very little control over their income possibilities. The only way for them to increase the cash flow that comes into their accounts is to work more hours—but there are only 24 hours in a day, so the feeling of being at the mercy of their employer is tremendous.

Particularly in today's economic crisis, the employee is at high risk—what their parents could do (get a job, stay on the job for 40 years, and retire) is much less likely in our new world. Employees have always been motivated by a longing for security, and Robert tells us that there is a huge difference between freedom and security. The longing for security is fear based, but today, that fear has grown because, even when employees have jobs, they no longer have the illusion of feeling safe or secure.

Employees trade money (wealth) for this feeling of security—and they will make tremendous sacrifices to gain it—less money, more hours, demanding physical labor, whatever it takes to ease the fear of the unknown.

THE MINDSET OF A SPECIALIST

2 What are the beliefs about creating wealth if someone is a specialist (doctor, attorney, engineer, etc.)? What drives a specialist's behavior? What are the goals of a specialist? What does a specialist believe about the value of traditional education? Many specialists are wealthy—and they have enough money to be able to make it "big." Why do you think they continue to operate at the specialist level, since money is seldom what is holding them back?

BELIEFS ABOUT WEALTH: ______________________________

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WHAT DRIVES THEIR BEHAVIOR:_______

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WHAT ARE A SPECIALIST'S GOALS? WHAT DOES A SPECIALIST BELIEVE ABOUT THE VALUE OF TRADITIONAL EDUCATION? ___________________

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WHAT BELIEFS WOULD A SPECIALIST NEED TO CHANGE TO BREAK OUT OF THESE VALUE-BASED BELIEFS AND OPERATE HIS OR HER BUSINESS AS A BIG BUSINESS?

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SINCE MANY SPECIALISTS ARE HIGHLY TRAINED AND HIGHLY PAID, WHY DO YOU THINK THEY RESIST THE IDEA OF GOING BIG IN THEIR BUSINESSES?___

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HOW IS A SPECIALIST'S BACK AGAINST THE WALL?

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THE MINDSET OF A SELF-EMPLOYED OR SMALL BUSINESS OWNER

3 What does the small business owner/self-employed person believe about his or her ability to create wealth? What drives a small business owner's behavior?

What are the primary or pervasive goals of a small business owner? And finally, what is the small business owner's game plan when it comes to retirement?

BELIEFS ABOUT WEALTH: ____________________

WHAT DRIVES THEIR BEHAVIOR: ____________________

WHAT ARE A SMALL BUSINESS OWNER'S GOALS? ____________________

WHAT PLAN IS IN PLACE FOR A SMALL BUSINESS OWNER'S RETIREMENT? ____________________

HOW IS A SMALL BUSINESS OWNER'S BACK AGAINST THE WALL? ____________________

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A specialist is driven by a belief that education will protect him or her from destitution and poverty. The fear is similar to that of an employee because the specialist is once again seeking security—but with a little more control than the employee. The other difference is that the specialist or small business owner has attempted to "take control" of the situation and try to earn his or income independent of an employer.

Typically, the "S" still expects to work hard (often harder than the "E"), but expects to be paid to do it. They feel more in control of their earning ability even though it is still tied to the number of hours available in one day. For the price of their independence, they are typically expected to earn a higher "per hour" salary when they calculate it. What they fail to recognize is the number of hours they spend thinking about, worrying about, and dwelling on their work.

The motto of an "S" is, "If you want something done right, do it yourself!" and they are rugged individualists who will often describe themselves as perfectionists. These are the A students in the classroom. They are smart, independent, and focused—but they are seldom team players, and work hard to make it happen on their own. It is very hard for them to trust others to do a job and do it well.

This perfectionism is inherent in the "S's" nature and that is why we hire them. Robert actually uses the example of a brain surgeon in one of his books when discussing the "S." If you are going to have brain surgery, there's nothing better than having a highly skilled perfectionist perform the surgery. However, if you're the brain surgeon, you can only operate on one person at a time—and in today's world, insurance companies dictate how much you will make for performing that operation.

Often, when the small business person does train someone else to carry part of the load, they sabotage themselves. They choose other highly motivated people because they see themselves, and are more comfortable in trusting him or her to get the job done.

That creates a system that engenders distrust; a common complaint of S's is that every time they train someone else to do a job, the person leaves and becomes their competition! This keeps them working harder and harder to do it all on their own. Like the E, but in a different context, they are operating from a spirit of scarcity.

Many small business owners find themselves in a horrible situation when it comes time for retirement. The business is built around them—both their name and their reputation. That makes it pretty hard to sell for a profit because the head cheese is leaving for Florida, and their ego-driven and ego-based system has conditioned their clients to ask for them! More often than not, throughout the business' existence, the money that should have gone towards retirement was invested back into the business for equipment, to cover a bad month's earnings, to expand, etc. So retirement time comes, but retirement money is sorely absent.

THE MINDSET OF A BIG BUSINESS OWNER

4 What are your beliefs about creating wealth if someone is a big business owner? What drives a big business owner's behavior? What are the goals of a big business owner? How would your life change if you controlled/owned a big business? How would your family and friends feel about you becoming rich?

BELIEFS ABOUT WEALTH: ______________________________

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WHAT DRIVES THEIR BEHAVIOR:________________________

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WHAT ARE A BIG BUSINESS OWNER'S GOALS?

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HOW WOULD YOUR LIFE CHANGE IF YOU OWNED A BIG BUSINESS? _____

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HOW WOULD YOUR FAMILY & FRIENDS FEEL ABOUT YOU BECOMING RICH?

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A "B," or Big Business Owner, is nearly the opposite of an "S." True entrepreneurs (the "B's") surround themselves with smart, hard-working people from all of the other portions of the quadrant. They are masters at delegation and training others to be the best they can be; it either comes naturally to them, or they train themselves to learn this skill so they can have freedom over their time. The "B" type person does not live to work hard—they live to make money and have the free time to enjoy it!

Henry Ford was the quintessential industrialist "B." A famous quote by him illustrates the mindset of a "B": "Thinking is the hardest work there is. That is why so few people engage in it." The true "B" is a creator—he or she is always thinking about the next step, the next endeavor, the next asset, and the next way to create wealth.

They are leaders who are committed to bringing out the best in others, and they are masters at building teams and systems that can run their business and free up their time for other things. They see the big picture and it is a mural, not a miniature. Their behavior and goals are based upon freedom rather than security. It is not that they don't feel the fear of loss. They simply use fear to move them toward ever-expanding horizons that will provide them with new avenues of wealth. Work becomes a game to them, a way to exercise their creativity and a way to expand their ideas into a reality that is seldom even imagined by others.

They also view risk differently than the "S's" or the "E's." It is not that they ignore risks—they balance the potential risk with the potential reward of an endeavor and if the reward outweighs the risk, they look for ways to minimize their liability and then they move forward. They don't see life as potentially defeating—they see life as challenging and exciting.

Because the "B" type business owner creates jobs for many others, they are also rewarded with tremendous tax advantages. This means that they keep more of the money they make rather than consistently paying most of their earnings to the government.

THE MINDSET OF AN INVESTOR

5 What are your beliefs about creating wealth if someone is an investor who lives off his or her interest income? What drives an investor's behavior? What are the goals of an investor? How would your life change if your investments generated enough for you to live the life of your dreams?

WHAT ARE AN INVESTOR'S BELIEFS ABOUT WEALTH? ______

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WHAT DRIVES AN INVESTOR'S BEHAVIOR? ______________

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WHAT ARE AN INVESTOR'S GOALS?

HOW WOULD YOUR LIFE CHANGE IF YOUR INVESTMENTS GENERATED ENOUGH FOR YOU TO LIVE THE LIFE OF YOUR DREAMS?

WHAT LEGACY COULD YOU LEAVE FUTURE GENERATIONS OF YOUR FAMILY IF YOU BUILT THIS LEVEL OF WEALTH?

WHAT GOOD WOULD YOU DO WHILE YOU WERE STILL LIVING?

THE B-I TRIANGLE

One of the qualities of a "B" type business owner is his or her ability to incorporate systems into their businesses. These systems allow the owner to utilize a power team of professionals so that their time is freed up to pursue new initiatives and goals and so that they can focus on the bottom line—cash flow.

Robert repeatedly points out that cash flow and assets are the bottom-line focus of a true professional business owner's concern: how much cash is being generated and whether or not the asset base is expanding. In the case of a real estate investor, the systems could put people into positions to complete the steps of a deal so the owner could then pursue new streams of income and other types of deals.

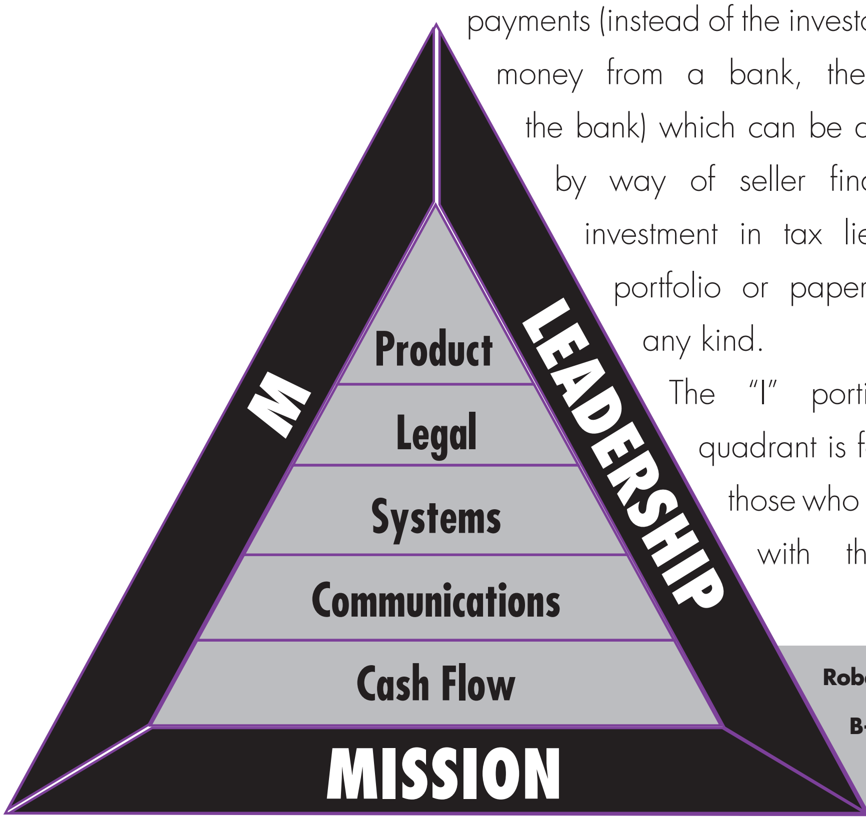
Robert's B-I Triangle (RIGHT) will illustrate this point with a wholesale real estate transaction example.

As we discussed earlier, one of the main differences between an "S" and a "B" business owner is the ability to build strong teams and the commitment to develop his or her leadership skills. If the team has been trained to find potential deals, negotiate, draw up contracts, and find a buyer, then the business runs smoothly no matter where the owner happens to be at the time. His or her time is free.

How would you like to have deals being processed while you are on the beach in Maui? Would your cash flow be coming in? The product (in this example, a wholesale deal) is being delivered efficiently and safely. Once you can do the business safely, you can do it quickly, over and over again!

What does all of this mean to you, the real estate investor? It simply relates to your ability to continually refine and build new systems for your business(es). In doing so, you are able to produce enough cash flow to move to the "I" portion (the investor portion) of the CASHFLOW Quadrant®. Investors are people who have money that makes money for them. This is often done via interest payments (instead of the investor borrowing money from a bank, the investor is the bank) which can be accomplished by way of seller finance deals, investment in tax liens, through portfolio or paper income of any kind.

The "I" portion of the quadrant is for the rich—those who make money with their money.



Robert Kiyosaki's B-I Triangle

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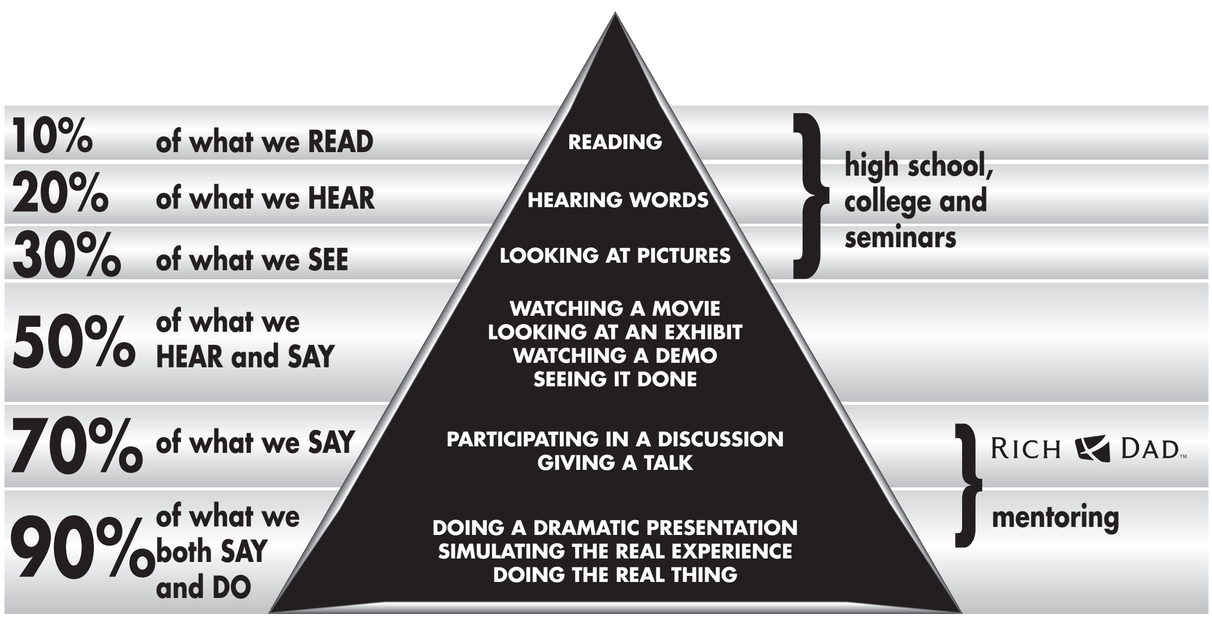
They are no longer working because they have learned how to accumulate enough money and make it do all of the work! Robert tells us that in order to become truly rich, we must come to the "I" quadrant because that is where money is converted to wealth.

THE CONE OF LEARNING

The following diagram illustrates some of the mistakes that the employee, specialist, and small business owner make as they work hard, go to school, and attempt to get "good grades." They are following some of the most fundamental lessons our society teaches us—read, listen to lectures, and study hard. The problem with these lessons lies in the human brain's capacity to study hard and then apply that knowledge to real life situations.

Take a moment to reflect on when you were learning the most as you read through the last few pages of this book. Was it when you were reading, or did you learn the most lasting lessons when you were writing and reflecting on the different aspects of the CASHFLOW Quadrant®?

Another example that might be helpful is if you consider how much information you would retain if I wrote a chapter here on investing in real estate foreclosures. Would you learn something? Probably. However, if we hit the streets, found some foreclosure opportunities, and then worked the deal together from start to finish, do you think



Adaptied from **THE CONE OF LEARNING,** Edgar Dale. (c)1969 Holt, Rinehart, and Winston.

you would learn more than if you simply read a book and tried to execute it on your own?

The Cone of Learning illustrates that point, and all of Robert's trainings are based upon creating experiential learning models as a result of this information. We only retain about 10% of what we read and about 20% of what we hear. Imagine that a brain surgeon who was going to operate on your brain had read many books on the topic but never attempted to actually perform brain surgery! Not a very reassuring situation, to say the least.

So, throughout this book, do the exercises and then find a friend or partner to discuss what you have read and learned from the exercises, as well as how that has altered the way you think about that topic. We retain much more information simply by having a discussion or simulating the real thing (such as playing The CASHFLOW Game). Then, with the changes in your thinking and the higher level of knowledge you have gained, you are better prepared to enter into a business endeavor with gusto!

One of the problems with traditional learning systems and the accepted education process in place in American society today is that students listen, read, and view slides illustrating a lecture point, but they are absorbing and storing only a small portion of the information. Yet we have been programmed to believe that is what the learning process should look like—students listen and teachers teach.

The word "educate" actually comes from a Latin term which means "to draw out." Yet, what is easier and more efficient for a teacher: to lecture or to engage students in an active learning process? This is only one of the ways that our programming is faulty at best. We have been programmed to expect things to look a certain way, not because it is best for us, but because it is easier or better for the "comfort" of the leader or the group.

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To compound the problem, we have also been conditioned to be lazy—yes, I said lazy—and have someone do the work for us. We are used to having someone tells us what to think. There will be a large percentage of people who read this book who tell themselves, "I don't need to actually do these exercises—I read it, I get it, I'm going to move on."

Lasting change will probably not take place for those people because they have not made the information their own and they haven't truly taken advantage of the opportunity to think and grow. Few teachers and mentors have expected and taught students to do either. So, they'll move through the materials more quickly, but they will close this book for the last time fooling themselves—thinking that their beliefs have changed (or that they already know all this) when in reality the only thing that changed was the time of day.

A big part of the lesson here is how, as a "B" type business owner, you will integrate this information into your business and train your team through participation, rather than verbal direction. Since this is where active and usable knowledge can be applied, this is one of the ways that big businesses succeed.

Take a few minutes to reflect and write about the power of training others through an interactive approach. Jot down some memories about how your education has failed you in the past due to the static nature of your learning process.

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This first chapter of the book has given you much to think about: the way you learn, how people earn money, and the mindset and conditioning (programming) that our society utilizes to create a system that keeps money flowing. Hopefully, you also spent some time thinking and writing about where you want to generate income from in the CASHFLOW Quadrant® diagram.

Take a few moments to answer the following questions and if possible, discuss your findings with someone else before moving on to the next chapter.

1 What did your parents teach you to do in order to earn a "good living" once you had grown up and finished school?

2 Was there a strong focus in your family's messages or in the lessons you learned in society for you to work hard, get a good education, and then find a good job? Are those lessons serving you in today's world?

3 How do you react to the following:
Change?

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Fear of the unknown?

What do you think your friends and family will have to say about your desire to change?

The idea of becoming rich?

Do you have strong feelings or beliefs about how much responsibility comes with financial freedom?

What feelings arise when you consider the possibility of becoming rich?

What would it mean to you to become rich?

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And finally, what were the biggest programming messages you received from your family as you were growing up in reference to making money and becoming financially free? Can you recall anyone in your early years sitting down with you and teaching you how to become wealthy? What did they teach you about money, either directly or indirectly?

CHAPTER TWO

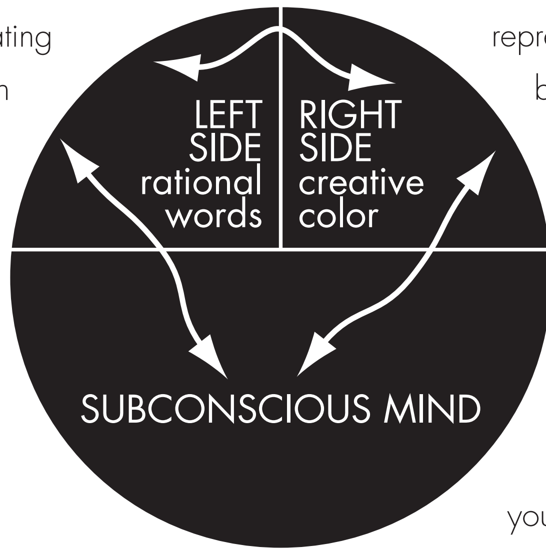
What Has Your Programming Conditioned You To Create?

By the end of Chapter One, we had begun to look at the ways we had been conditioned to think about money, education, wealth accumulation, and becoming rich. This chapter continues that study ,but before we move on, there is an important distinction to understand. There are many times we know things and believe in them on a conscious level, but the true test of what we know is almost always reflected in what we do. Here is the dilemma we face: our actions, in large part, are dictated by our subconscious beliefs. Far below our level of awareness, there is a little voice that is calling many of the shots in our lives. And the consequence of this is that we do things that on a conscious level we wish we hadn't/wouldn't do. We think we "get it," we think we are in control, and we think we believe "this," but our actions are a reflection of an entirely different set of beliefs.

You see, most of the time we take action based on our sub-conscious beliefs—and many times those beliefs are not a part of our conscious process. That is why so many people say they want to build wealth and financial freedom, but do not act in ways that help them reach their goals.

Here's one example: if you polled 1,000 people and asked every one of them if they should use credit cards to purchase depreciating goods and services (such as dinners out on Friday night, or a new outfit that costs more than they can afford to spend), it's a safe bet that 100% of them would provide you with a resounding, "Of course not!" Yet, if you then re-polled that same group and asked them if they were carrying any credit card debt that they had charged when they knew (consciously) that they shouldn't have done so, most of them would have to tell you, yes, they were.

How is this possible? Their programming has conditioned them to go after consumable goods—and for as many years as they are old, that conditioning has come at them in the form of billboards, television ads, friends, radio spots, and newspaper advertisements. "If you have this or do this, you will be happy!" So, they bought.



The power of your sub-conscious programming cannot be stressed enough, because, if you want to be rich, you will have to find and expand upon ways to access your whole brain instead of just part of it! The following illustration represents the parts of your brain that you use to be creative, and the part of your brain that you use to make rational decisions. The diagram also illustrates the part of your brain where your subconscious beliefs reside. Take a moment to look at the illustration and reflect on the implications at this concept.

By the time you were five or six years old, much of your belief system was in place—about money, people, the world, what you deserved, what you could expect, and how to accomplish your goals. From that point, this information became a part of your subconscious belief system. Now, here you are, many years later, and for the most part, you are still operating from those childhood tapes and stories about life. No wonder we make so many mistakes when it comes to wealth accumulation and financial decisions! If we believe the world is a scary place and there will never be enough ______________________________ (you can fill in the blank with anything from food to money!), of course you will buy into any programming that makes you feel better, more secure, or more in control.

In addition, as a potential "B" type business owner, you want to be extremely creative as you make business decisions and evaluate potential on a deal or endeavor. Yet, if you look at the diagram above, you can see that only about 10% of your brain is typically utilized in making rational decisions, and only about 10% is used in the creative process. That leaves 80% control to a force that directs your behavior from old programming and conditioning—from below your level of consciousness!

The goal as we study and discuss this diagram is to uncover those subconscious beliefs, evaluate them, and then either choose to keep them if they are working for you or change them if they are not. Then, whole brain learning can take place from a more healthy perspective. You can access your entire brain's ability to process information knowing that the sub-conscious beliefs are in alignment with your conscious desires.

To further illustrate this lesson, consider how much of your past education has focused on financial intelligence, how to improve the quality of your financial information, and how to leverage your business ability. Probably very little, if you are like the majority of our population. So where do you begin as you attempt to uncover and understand your true motivation in regards to money and wealth? Let's begin on the left side of your brain—with your rational mind...

Some of your earliest lessons as a child focused on being careful, not getting hurt, and not stepping off that curb without looking both ways—and the lesson was so powerfully delivered that you weren't taught to look once, you were probably taught to

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look three times! On top of these cautionary lessons (that admittedly saved your life many times, back then), your parents were either a product of the Great Depression or had parents who were products of the Great Depression. What do you think their programming was in terms of always being careful? And that has been passed down from their generation to yours.

As well, those same parents lived and grew up in the Industrial Age and their working careers were a product of a history that included pension plans, not 401K's. It is no wonder that their programming was to get a good job and keep it until they retired. If they followed that advice, then they would be taken care of for the rest of their lives—back then, that system worked fairly well (as long as their expectations remained middle-class expectations).

However, in today's world, we have a new reality and there is no longer the job security of the past—not to mention the lack of pensions in today's world. Do you know anyone who has been with a company, been a great employee (not just a good one), and after ten, fifteen, or even twenty years, they are let go? And what do those people do? Many go out and look for another job—they even go back to school and get new training so they can go out and get another job—and then they re-enter the job market and compete with their children who are in their 20's and 30's! That isn't just crazy, it's insane! Why do they continue to put their trust in an employer and a job when all the evidence stacks up and tells them it is a mistake to do so? Their programming. It is so strong, so prevailing, and so ingrained, that it's the only thing they feel safe doing!

As well, the fear of loss—the fear of losing what they've worked so hard to get—is an overwhelmingly compelling message that plays and replays twenty-four hours a day. This is a middle class mantra that never stops running for millions of Americans who have no financial education and no ability to generate money out of little more than their knowledge and belief in themselves.

This fear is fairly understandable when viewed through middle-class eyes. If you have to work day and night, scrimp and save, or worry and fret over buying a new car, of course the fear of losing it could be enormous. However, the solution is not to try and hold on to it with all your might—the solution for the rich is to figure out a way to make it easier to buy.

One of the big issues for the poor and middle class is that they don't understand how to generate income—and they see their possessions as hard to get and hard to keep. There's an old adage from the Industrial Age along the lines of, "The only people in the middle class who have no fear are the ones who have nothing to lose. The ones who are comfortable can be controlled." Corporations across American learned that all they had to do was figure out exactly how much to pay workers to keep them comfortable, without paying them enough to be able to leave.

From this lack of knowledge comes the need for the middle class to budget and live below their means. Think about it: if Robert wants a new car or a vacation home, he has the ability (knowledge) to invest in an asset (such as real estate) and increase his cash flow to pay for it. If an employee wants either of these things, there's a huge hurdle to overcome—how to get the money to make the purchase. Budgeting is all about cutting back, holding on, making do, and living lean. That's pretty close to the opposite of creating cash in the form of a new stream of income, isn't it?

So, the rich create while the middle class budgets and saves. And the saving part is a dollar at a time—which gets extremely frustrating since they know good and well that just before they get the last dollar saved something unexpected is going to happen to defeat them and they'll have to start all over again. It is no wonder that they succumb to the temptation to just charge it. It is no wonder they have such a fear of losing what they've got since by the time they get it paid for they had to work three times harder to buy it than the rich had to work (if not more).

What's the answer to this? Know what the rich know—never depend upon one stream of income for all your needs and understand that cash always flows—from the E's and the S's to the B's & the I's. Begin to do what the rich are doing and find a way to learn what the rich already know! The rule for the rich is to invest their money in assets. That begins with turning your mind into an asset.

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Speaking of assets, the rich define them as something that produces cash flow. That, in itself, is a re-definition for the middle class since they typically see an asset as something that has value and that can be sold—such as their home. Robert sees a personal residence as a liability since it doesn't produce income (cash flow) and costs money to maintain. If there is a mortgage on your home, it is the bank's asset, not yours, since it is producing income for the bank, not for you.

THE FOUR ASSET CLASSES– THE FOUR TYPES OF INCOME PRODUCTION

There are four classes of assets or income production, and a true entrepreneur will probably want to have investments (and knowledge!) in all four. They are as follows:

1 BUSINESS—Whether it is a service business (such as a property management company), or a retail business (one example could be a dog grooming shop), or even a business that manages the distribution and sale of books you have written (such as your upcoming bestseller), a business must bring in cash flow to be a viable entity.

2 PAPER ASSETS—stocks, bonds, mutual funds, savings, hard money lending, seller financing, etc. Most E's and S's have most of their investment money in their 401K's and the problem with this type of investment strategy is that they do not have the knowledge to control these investments. Consequently, month after month, and year after year, they continue to put money into their accounts and hope that someone else (whether it is their financial planner or their retirement fund manager), knows what to invest in, when to get in, and when to get out. A financially educated entrepreneur does not continually pour money into something that he or she does not understand and just hope for the best.

3 COMMODITIES—Gold, silver, precious metals, oil and gas.

4 REAL ESTATE—Robert says that this is the best time to get back into the market. The key for Robert and Kim is that they purchase rental properties that have cash flow. Remember, an asset is something that puts money in your pocket!

Let's continue our discussion about real estate for a little while... As you may already be aware, Robert and Kim are heavily invested in real estate—partially due to the fact that it produces rental income. But another big reason is because it is one of the easiest ways to borrow money to invest. That means they have the power of leverage. In other words, they can use debt to purchase property that then has a mortgage, which someone else pays off (via the rents) and still have money left over at the end of the month.

It is very important to understand, from the beginning, that if you are going to use debt, you have to be highly educated and financially literate. Having said that, let's look at an example of how the rich get richer, while the poor and middle class continue to struggle (aka budget).

$5,000,000 Apartment Complex
$1,000,000 Down Payment
$4,000,000 Mortgage

The investor now controls $5,000,000 worth of property, collects the rents on $5,000,000 worth of property, and has tax deductions (both in depreciation allowances and interest expenses) on top of the cash flow. AND, as the property increases in value over time due to appreciation on the complex, five years later the investor can sell that same piece of property for $8,000,000, possibly roll the money at closing into a 1031 tax exchange, possibly pay NO taxes at the time of the sale, and purchase an even larger complex which he or she again goes to a bank to borrow money and buy! A smart investor doesn't invest for just cash flow, or invest just for capital gains (appreciation). They invest for the benefits of both!

Now, I can just hear you thinking…"How would I ever be able to buy a $5,000,000 complex?" or, "Where would I ever get a $1,000,000 down payment?" "I can't do that!" Kim's first real estate deal, done in 1989, was a two bedroom one bath

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house. She put down a $5,000 down payment (which was borrowed money,) and from there she learned, did her next investment, and then her next investment, and now, in 2010, twenty-one years later, they regularly do deals that are at the multi-million dollar level. They started with nothing except their financial education, and made a commitment to their futures and their financial freedom. Do you think they ever felt any fear as they grew into bigger and bigger deals? Of course. But did they allow that fear to keep them from creating the life of their dreams? Never!

1 What is your definition of security? How does that definition differ from freedom?

2 How do you currently accumulate enough cash to pay for the finer things in life— things like a new car, a wonderful vacation, or your child's wedding? Does it cause stress in your life as you work to get the money together?

3 List some of the ideas that have come to mind in terms of you thinking like an "E" or an "S" that you now understand are detrimental to you moving to the right side of the CASHFLOW Quadrant®. What thoughts might hold you back from becoming financially free?

4 What attitudes and beliefs are so deeply ingrained in your thought processes that you hardly realize they are not working for you? Which of these concepts have you bought into at a deep level—and continue to exercise in your life even as you see they are not relevant or working for you? "Go to school and get a good job?" "Work hard and you will have a good retirement?" "Save your money so you are prepared to handle unexpected expenses?" "Live below your means?" "Stay out of debt?"

5 What (or who) has held you back in the past and kept you from becoming rich? List as many reasons and excuses that you can think of.

6 Explain, in your own words, the difference between budgeting to make ends meet and creating to generate cash flow.

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7 Take a few minutes and consider the emphasis that was placed on you to make good grades and do well in school. What was the message about who you were as a person if your grades were "good," and who you were as a person if your grades were "bad."

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8 Consider the validity of Robert's statement that "your home is not an asset because it costs you money to maintain and doesn't generate income." How does this definition differ from what you have been programmed to believe?

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This chapter is not a particularly long one—a few pages that have enough thought-provoking information to keep your mind occupied for at least a month (or a year). What have you learned about yourself? Your core beliefs? The messages and programming that has driven your behavior for your entire adult life? Be certain to share this information with your spouse, partner, or a friend. What does it mean to you? What will you do to overcome that programming?

CHAPTER THREE

Reprogramming Your Mind By Raising Your Financial I.Q.

One of the best ways to reprogram your mind and get rid of those old beliefs that do not work in today's world is to increase your financial intelligence. What does Robert mean by financial intelligence? At the most basic level, he is referring to your ability to read a financial statement, and to have a deep level of understanding about its components. Without giving it a name, we have already begun this process with re-defining the term "asset."

To move one step further in this examination, a financial statement is a record of what your cash flow is, what your expenses are, and how they offset your income (this is the income statement portion of a financial statement) and the balance sheet (a record of your assets, what you owe on them, and what they are worth in today's market).

When we began this journey on page one, we learned that we retain much more information when we "simulate the real experience," rather than simply reading a book or listening to a lecture. In your Basic Training course, we will work with financial statements as we play The CASHFLOW Game®. For now, we are going to look at some diagrams as well as read about financial statements in an effort to begin to introduce you to the key concepts or parts of a financial statement.

LET'S BEGIN WITH A PICTURE OF THE FINANCIAL STATEMENT THAT IS A PART OF THE GAME:

Profession ______________________ **Player** ______________________

Goal: To get out of the Rat Race and onto the Fast Track by building up your Passive Income to be greater than your Total Expenses.

Income

Description	Cash Flow
Salary:	
Interest:	
Dividends:	
Real Estate:	
Businesses:	

Auditor ______________________

Person On Your Right

Passive Income= ______________
(Cash Flows from Interest + Dividends + Real Estate + Businesses)

Total Income: ________

Expenses

Taxes: ______________________

Home Mortgage: ______________________

School Loan Payment: ______________________

Car Payment: ______________________

Credit Card Payment: ______________________

Retail Payment: ______________________

Other Expenses: ______________________

Child Expenses: ______________________

Bank Loan Payment: ______________________

Number of Children: ____________
(Begin game with 0 Children)

Per Child Expense: ____________

Total Income: ________

Assets

Savings: ______________________

Stocks/Mutual's/CDs	No.of Shares	Cost/Share

Real Estate:	Down Pay:	Cost:

Business:	Down Pay:	Cost:

Liablities

Home Mortgage: ______________________

School Loans: ______________________

Car Loans: ______________________

Credit Cards: ______________________

Retail Debt: ______________________

RE Mortgage: ______________________

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Liability: (Business) ______________________

____

Bank Loan: ______________________

Source: CASHFLOW BOARD GAME, Rich Dad Operating Co., LLC.

Using a pencil, follow the instructions listed below, and fill in the financial statement as you read the instructions and explanations:

1. Under "Profession," write down your current job title.
2. Under "Player," write your name.
3. Under "Salary," write down your current monthly take home pay.
4. Under "Expenses," list your current monthly expenses, and, using the blank lines, add in any additional payments that do not have listings or categories.
5. Under "Assets," fill in the blanks in that section, using your current financial information.
6. Under "Liabilities," fill in the blanks to record existing loan balances.
7. Under "Auditor," write down the name of your accountant.
8. Under "Passive Income," record any recurring monthly income that comes to you in the form of business revenue (other than your paycheck), rental income (that comes to you in the form of rent), etc.
9. Adding together your "Salary" and your Passive Income, fill in the TOTAL INCOME you receive each month.
10. Under "Number of Children," write down the number of dependents you currently support and Under "Per Child Expense," multiply the number of children you support x $400 apiece.
11. Under "Total Expenses," add together all your monthly payments from the left hand side of the Expense section and the total amount of money you came up with for dependent children. That is your TOTAL EXPENSES figure.
12. Now, subtract your TOTAL EXPENSES from YOUR TOTAL INCOME and record that number under "MONTHLY CASH FLOW."

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Before going any further, are you in a positive cash flow situation each month? How much is left over after expenses? Is that number adequate to meet your financial needs and does it allow you to move into investments in one of the ASSET CLASSES we discussed in Chapter Two?

The top portion of the Cashflow Game worksheet is the equivalent of an income and expense portion of a financial statement. Take a few moments and study this section of the worksheet to see what insights you gain from seeing your personal financial information in print form, sitting on the desk or table in front of you.

1 After seeing this worksheet, think back to the programming and core beliefs that you have operated under and consciously identified in Chapters One and Two. What new insights do you now have about that programming as you evaluate your income and expenses?

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2 Is it now more important than ever to become conscious of your programming and commit to reprogramming your closely held beliefs?

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3 How will you find the resources to gain financial knowledge, increase your cash flow, and begin to invest in one of the asset classes we discussed in Chapter Two?

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NOW, LET'S WORK ON THE BOTTOM PORTION OF THE WORKSHEET:

1 Under "Savings," write down the amount of cash you currently have sitting in the bank. This is money you currently have access to for bills, emergencies, and investments.

2 Under "Assets," list any real estate, stocks, or businesses you have an interest in and fill in the blanks regarding the cost, down payment, and number of shares.

3 Under "Liabilities," list the outstanding loan balance totals in the appropriate categories.

NOW, LET'S EVALUATE THE BALANCE SHEET PORTION OF THE WORKSHEET:

1 Total all your asset amounts, and then subtract the total assets from the total liabilities. Is your number a positive one or a negative one? ____________________

2 This number represents your net worth. How do you feel about the number? Is it as high as you need it to be to keep you on track for retirement? ____________________

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3 What have you learned about your financial situation after completing this exercise? ____________________

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In the real world, you no longer live by your report card or grade point average. Your financial statement is your new report card and it is a reflection of your financial literacy. There is a key distinction between financial intelligence and financial I.Q. Financial intelligence is that

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part of our mental intelligence we use to solve our financial problems. Financial I.Q. is the measurement of that intelligence. In other words, it is how well we are solving those problems!

For instance, if I make $100,000 a year in income, and pay 20% in taxes due to my investment strategies and my ability to shelter my income through legal tax deductible expenses, my financial I.Q. is higher than another person who earns the same amount of money but pays as much as 50% in taxes.

There are several other ways to measure your Financial I.Q. and I have listed them below:

1 MAKING MORE MONEY: Most Americans have the ability to earn money. Those of us who can dictate the amount we choose to make and leverage our ability to increase our income have a higher Financial I.Q. than those who are at the mercy of the number of hours in a day or the amount an employer is willing to pay us to work for a certain period of time. So, those who have the ability to make higher earnings than others will typically have a higher Financial IQ.

2 PROTECTING YOUR MONEY: Using the example above, the person who has the ability to earn a higher amount of money and shelter it from high levels of tax will have a higher Financial I.Q. than a person who has little or no control over the amount of money owed to the government.

3 BUDGETING YOUR MONEY: Robert teaches us that budgeting your money takes a certain level of financial intelligence (remember, we are solving problems with financial intelligence).

Now comes the distinction between the two: some people budget like a poor person—with a sense of scarcity and with a goal of holding onto something or of cutting back on our spending. Those with a higher financial IQ will budget by living on a portion of the money they earn for the purpose of having some of their money set aside for investments. This is called budgeting for a surplus and it requires a high level of financial intelligence.

4 LEVERAGING YOUR MONEY: This is the ability to not only budget for a surplus, but to then leverage your ability to invest that surplus to maximize your return on the investment. Once again, a real estate example will serve us well in gaining a

deeper understanding of this concept. Let's say you have budgeted a surplus and have $40,000 to invest. One thing you could do is take that money and purchase a certificate of deposit—which could earn you, at most, about 2% interest. However, you have not leveraged your money in any way since you cannot typically borrow additional funds to buy a CD that is worth more than the original $40,000.

However, let's take the same $40,000 and apply for a loan on a piece of real estate that is valued at $260,000. Although its value is $260,000, you had the knowledge to find and negotiate with a distressed seller, so you were able to buy it for $200,000. You buy the building and pay $40,000 down, leaving you with a $160,000 mortgage. Now, you lease that building out on a three year lease option and over the next 36 months, it brings in $200 per month in positive cash flow. At the end of the three years, the leasee purchases it from you at the current fair market value of $300,800. (reflecting an annual appreciation rate in that area of 5%).

Your mortgage balance is now $157,400, and after closing costs you walk away with a check in your hand for $125,000! Added to this amount is the $200 per month x 36 months which equals another $18,000, and the capital gains tax on your sale is taxed at only 15% under current tax laws!

On the other hand, the person who invested the money in a CD @ 2% interest cashes out after three years and realizes a total gain of $2,448.32—which is then taxed at his or her earned income rate of 32%! Which investor has the highest Financial IQ?

5 IMPROVING YOUR FINANCIAL INFORMATION: This principle actually precedes the power of learning to leverage your money. The reason that so many people invest in what they consider to be low risk strategies (such as mutual funds, certificates

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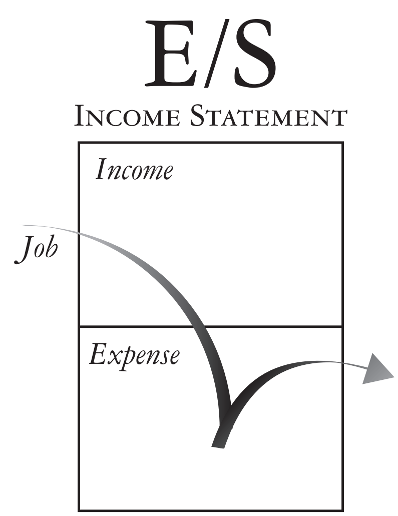
of deposit, and other paper instruments) is due to their lack of understanding about financial aspects of investing, so they attempt to play it safe by turning their money over to the "experts."

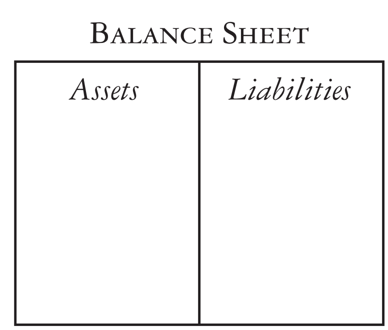
The problem with this is you don't learn, and you don't increase your understanding of money, leverage, or evaluation of return on investment because someone else is handling your money for you. You will have to "grow into these shoes" and it won't happen overnight—but avoiding the lessons rewards others for their financial intelligence and it rewards them handsomely in the form of commissions and management fees!

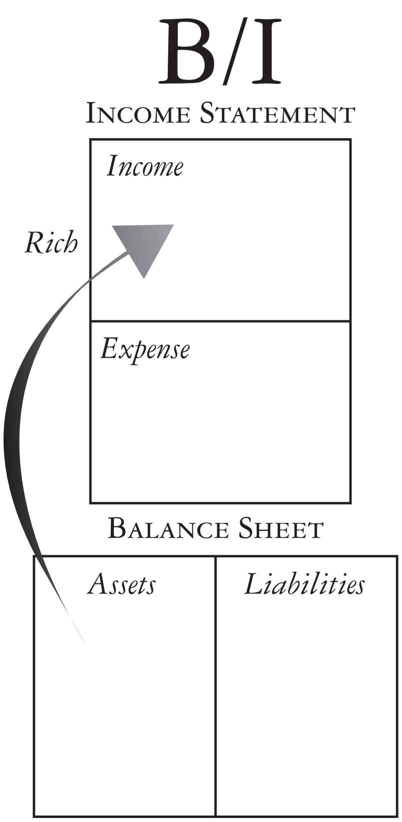
You must start wherever you are, as the saying goes—but just start. One of the best ways to begin is by doing the exercise on your financial statement and taking the time to evaluate it and understand it. Throwing your hands in the air and announcing, "I'm confused!" won't help you. Ask a mentor to sit down with you and explain it. Practice filling in the blanks, one blank at a time. Do whatever it takes, but as the Nike ad says, "Just do it!"

UNDERSTANDING HOW CASH FLOWS

Now that we've learned about the CASHFLOW Quadrant® and the parts of a financial statement, as well as Financial I.Q . #1, Making More Money, we can begin to put some of the pieces to your financial future together. The first concept, "Making More Money" can be tied to the principles of the CASHFLOW Quadrant® and the financial statement of income and balance sheet. So, let's put it all together in a picture so you can see it more clearly:







As the "E" or the "S" work they receive their earnings in the form of income, which goes towards their expenses. Money in, money out. What this means is that when we work from the left side of the Cashflow Quadrant ("E" or "S"), we are working for money. The second diagram illustrates that the "B's" and the "I's" work for assets that produce cash flow or capital gains (or preferably, both). The bottom line is this: "E's" and "S's" work for their paychecks, while "B's" and "I's" work to acquire assets that produce income. The left side workers are focused almost entirely on the income statement, while the right side entrepreneurs are focused on the asset column and are working to increase their net worth.

To compound the dilemma, the "E's" and the "S's" are not only failing to increase their long-term net worth, they are earning their money in what is termed, "Earned Income," which is the most difficult income to shelter from taxation. On the other hand, the "B's" and the "I's" are creating what is defined as either passive or portfolio income—the easiest money to be able to shelter or reduce in tax.

While this chapter is not a long one in terms of the number of pages, once again, the information it contains is of vital importance to you as you continue to evaluate your programming and the changes you want to make as you become an entrepreneur. Take some time to go back through the information and ask yourself the following questions:

1 How has my programming left me unprepared to increase my Financial I.Q.? ______

2 Was there any education or emphasis placed on the Balance Sheet portion or the financial statement, or was the focus on "How much can you make?" Was there either a direct or indirect conversation in your home that "Money is hard to come by?" and "There is never enough money!"?

3 What lessons did your parents teach you about investing in one or more of the Asset Classes (Business, Real Estate, Paper Instruments, or Commodities)? ______

4 By example, rather than words, what lessons did you learn from your family about setting goals and focusing on increasing your assets each year? ______

5 Take a few minutes and write about either the abundance or the lack of financial education you received as you were growing up. Are there holes in your knowledge base that need to be filled? ______________________________

6 And finally, spend some time with someone you care about deeply (a spouse or a partner if you are in a relationship) and share the information you have gotten from this chapter. Put it in your own words and work towards explaining the importance of the two of you working together to build a life of financial freedom. _____

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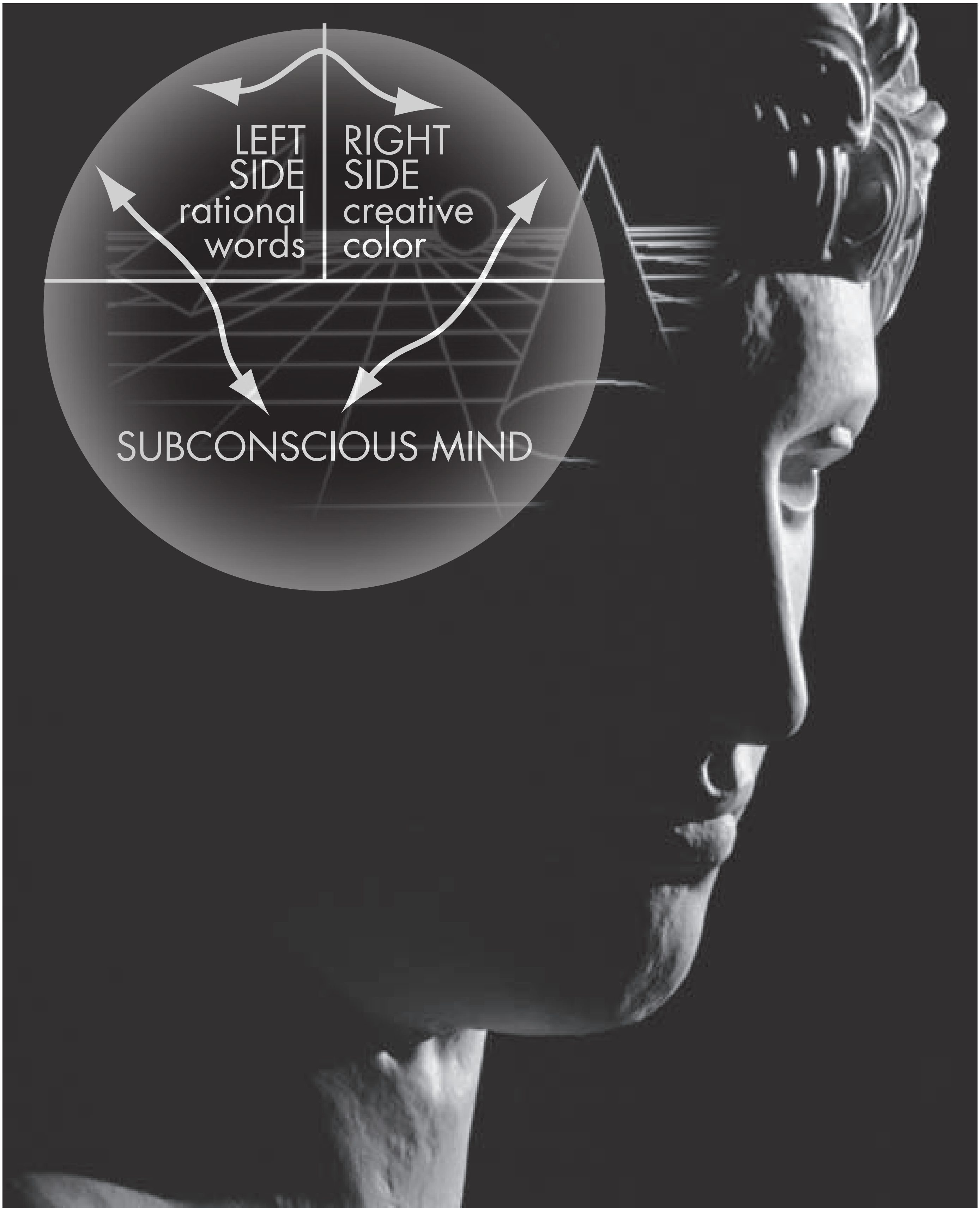
CHAPTER FOUR


LEFT SIDE
rational
words
RIGHT SIDE
creative
color
SUBCONSCIOUS MIND

How The Rich Have Programmed Their Minds

In previous chapters, we learned the definitions of both Financial Intelligence and Financial IQ. As well, we learned about the three parts of our brain's ability to process information. We are reprinting the diagram you studied earlier so you can begin to take this knowledge and see how it applies to the lessons in Chapter Four.

To recap those definitions, Financial intelligence is that part of our mental intelligence we use to solve our financial problems. To go one step further, although it takes the rational side of our brain to execute and calculate, for the most part, we are using the creative, right side of your brain as we engage in this problem solving activity.

Financial I.Q. is the measurement of that intelligence. In other words, it is the evaluation of how well we are solving our financial problems. To understand this at a deeper level, realize that the left side, or rational side of our brain has the capacity to measure our success.

In this chapter, there is a new term that will be of tremendous importance. Emotional Intelligence is the ability to control your emotions, particularly greed and fear, and the ability to use your emotions to make your life better. To clarify this definition a little more, realize that the subconscious portion of our brain is where our emotions originate. Robert tells us that, "Financial intelligence is directly related to emotional intelligence. Emotional intelligence is how well we control that nagging little voice in our subconscious mind."

EMOTIONAL I.Q.

Just as Emotional Intelligence is directly related to Financial Intelligence, Emotional I.Q. is directly related to Financial I.Q.—it is the measurement of how you're doing in terms of Emotional Intelligence. If your goal is to raise your Financial I.Q., it is important to constantly measure your ability to control your thoughts and emotions and be certain you have learned to use your emotions to make your life better.

WHAT DOES THIS LESSON MEAN TO YOU?

Take a moment to measure your Emotional Intelligence. Take the Emotional I.Q. test!

1 Think back on a time when you were going to make a change in your financial life, and fear crept in. Did you back away from your original decision or did you monitor the level of fear and move forward anyway? Describe what happened in the space below. ____________________

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FROM THOUGHTS TO DESTINY...

Thoughts	→	*Emotions*
Emotions	→	*Beliefs*
Beliefs	→	*Words*
Words	→	*Actions*
Actions	→	*Character*
Character	→	*Destiny*

Robert believes that Emotional Intelligence is the foundation of Financial I.Q. because it is through our emotions that we either move forward towards our financial goals or we stop ourselves because of our fears. The ability to control our emotions and choose to access or create emotions that move us towards our goals is a skill that the rich have typically mastered.

Human beings are emotionally driven animals—but they often (mistakenly) believe that they are at the mercy of emotion. In other words, they believe that emotions just happen to them and they do not have the capacity to control or change them. Let's evaluate how emotions are created: we have a thought and then we begin to dwell on it. Next, we begin to expand on the thought and often we begin the process of predicting the future. The following example illustrates the powerful effect that our thoughts have on the outcome of our lives:

EXAMPLE: Bill finds his first big real estate deal He runs the numbers and evaluates the property and cash flow (left brain, rational thinking activities). He negotiates with the motivated sellers, finding a way to create a win/win situation for everyone (right brain, creativity) and gets the building under contract. Everything looks good and he applies for a loan; for his down payment he intends to pull $200,000 out of some mutual fund investments that he has earmarked as a part of his retirement package. The mutual funds have lost nearly $50,000 in value over the past two years but during the last six months, he has regained about $6,000 of that amount.

That night, Bill goes home and after his wife, Sophie, and the kids (Susie, age 6, and Jimmie, 13 months,) are asleep he lies in bed and begins the process of going back over the deal. This property's purchase price is $1,000,000 and Bill has never, ever signed for a loan bigger than his home's mortgage—which is $233,000.

Bill starts asking himself some important questions, "What if the tenants move out and I have to make the monthly payments?" "What if the air conditioning system goes out? That's going to cost at least $20,000 to replace!" "What are my family members going to say when they find out that I'm now over ONE MILLION DOLLARS IN DEBT??????????" "How in the world am I ever going to be able

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to send Susie to college and pay her tuition if I'm on the hook for over ONE MILLION DOLLARS? We're going to lose our house, we're going to end up going bankrupt, and Sophie is going to kill me! I'm going to lose all my money—which took me the past 10 years to save, and I'm never going to be able to retire!"

"Our credit will be ruined, just like it was when we first graduated from college and we had all those student loans to pay back and no income to make the payments! It took five long years—some of the best years of my life—to fix that mess and get our credit repaired! I don't ever want to have to go through that again!"

Bill jumps out of bed, calls his realtor on the phone (it's 2 a.m.), and can't get through to her. "Oh, great! I'm in this all alone, I don't know what I'm doing, and I don't even know the name of a good air conditioning repairman—not that I'd trust a repairman to tell me the truth anyway! What in the world was I thinking when I signed that contract? The last thing I need is more stress in my life—we're doing okay—we don't need a 10 unit apartment building and 10 tenants to worry about. I've got to get out of this deal!"

Now, I hope that this conversation has been a source of some amusement to you as you read it. However, most of us have engaged in this kind of activity hundreds, if not thousands, of times during our lifetimes. And, it is internal conversations like these that keep us in the exact same financial situation that we've been in our entire adult lives! We go to work, we avoid risk like we'd avoid the bubonic plague, and we do what our friends, family, and co-workers are doing. If they're all doing the same thing, they must be right and we must be wrong!

Let's go back and analyze what just happened as Bill was lying in bed. He began thinking thoughts that generated an increasingly higher level of fear each moment. As he began to dwell on what might go wrong **(thoughts)**, the fear **(emotions)** increased and the rational side of his mind clamped shut tighter than a bank vault at five p.m.! His old programming kicked in: the fears about what other people would think, his insecurity about where he belongs on the financial spectrum emerged **(beliefs)**, and he began to generate emotions that were based upon what I call, "What if's?" **(words)**. Whenever we engage in "what if" thinking or words, we are typically projecting into the future and attempting to predict a reality that has not yet happened, a realty that might never happen. As the fear escalates, we begin to create increasingly horrific futures that are typically very unlikely to happen. From there, we abandon our dreams and forget why we were doing this deal in the first place **(actions)**.

With the first frightening thought, Bill was at a crossroad in his life, and he had an opportunity to further develop his character and stop scaring himself to death. Why didn't he? In the scenario, it's easy to see the mistake he is making, isn't it? Why couldn't he see it? Because his emotional intelligence has not been developed or nurtured to a point that he is able to recognize the faulty logic or control his thoughts (and his emotions). He is out of his comfort zone and his subconscious mind is much more powerful than either his right or his left brain's ability to take control of the situation.

Did you notice that Bill didn't seek the solution to even one of his "what if" questions? We seldom attempt to answer this type of question because the question wasn't formulated from the rational side of our brain—nor was the intent of the question to find an answer to a legitimate problem. The purpose of every question was to get Bill back into line—back where he "belongs." Unconsciously, and as a result of years of programming, he believes he belongs at work earning his $65,000 a year salary (after all, he went to college for six years to get that job!), at home (fixing the sink when it gets stopped up), and in his six year old Ford Taurus (who does he think he is, wanting a BMW?).

That is one of the most profound differences between the rich and the middle class. It isn't that the rich don't have the same crazy internal conversations; the rich think the first thought, catch themselves doing it, and get out of bed and rerun the numbers. If the numbers work, they do the deal. They weigh the risk and the reward and then they look for ways to minimize the level of risk ("I think I'll have the inspector take a real close look at that air conditioning system when he comes out and I'll ask him to give me an idea of how long

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he thinks it's likely to be before it needs to be replaced.")

Let's analyze how emotions are created. First, we have a thought. Depending on the thought, we begin to generate either positive or negative steam (emotion). From that steam, we begin to feel a certain way. From that feeling, we begin to project into the future, make statements about the quality of our lives, and decide how things are progressing. From that decision, we take some type of action, because even inaction has impact.

HOW DOES BILL'S STORY RELATE TO YOU?

Refer back to the diagram that illustrates the way we begin with thoughts and change our destiny by choosing to move toward either building our character or we choose to let emotions drive our behavior, unchecked. How does this lesson apply to your life? Think back on a time when you were fearful but acted with courage, and it made a positive impact on either your life or the life of someone you care about.

FEAR

F*alse*

E*vidence*

A*ppearing*

R*eal*

If Bill's Emotional I.Q. had been better developed, he could have had a much better night… in fact, let's look at this scenario from that point of view. Bill's first thought was, "What if the tenants move out and I have to make the payments?" In that moment, if his Emotional I.Q. had been more developed, he could have used both his rational and creative abilities to seek an answer to the question. "Well, what is the likelihood that ten tenants will all move out at the same time?" "Not too great because I checked the leases before I made my offer and three of the tenants have been living in their apartments for longer than eight years. Five others are in their third year of occupancy, and the two new tenants were on a waiting list to move in before there was a vacancy. I think I've got that fear covered! Boy, this deal has a projected positive cash flow of $1,700 a month! It sure is going to be easier to plan for the kids' college educations now!"

One of the best ways to take these principles and ideas and apply them to your life is to think back to a time when you went off the "deep end." Can you recall how it started? Take a few moments and try to recall a time when you generated a ton of fear that never came to pass. Most of the things we worry the most about never happen! There is an acronym for fear that's been around for a long time—but it is truer in today's world than it has ever been because much of our subconscious "evidence" is faulty and a result of old programming and inaccurate core beliefs that belittle our intellectual and creative abilities!

And because of our programming, most of the things that we don't allow ourselves to worry about, such as our retirement, happen and catch us in a state of unpreparedness. It is so much easier to fantasize about things that might happen than it is to plan for things that are sure to happen. "Maybe if I just don't think about turning 65, it won't ever come. . . "

Did you notice that once Bill's internal conversation started, it was like opening the race track door for the horse to begin the run? Logic stopped and he was in a cycle of events (albeit fantasies) that he felt he couldn't control or even understand. How do we stop a cycle once we're in the throes of the battle? By creating a new event! In the second scenario, Bill stopped the thoughts, redirected himself to move toward the rational and creative, and then created a new cycle ("College educations for my children are going to be a whole lot easier to provide!")

HOW THE RICH TAKE ACTION

Thinking back over your adult life, identify a time when your thoughts generated intense emotions relating to fear—a time when you had an opportunity that you didn't take advantage of because of your fear.

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The rich have typically learned that they have a choice when it comes to their thoughts. As soon as fearful ideas begin to come into their heads, they immediately move their thoughts in another direction—typically into problem solving mode. The middle class and the poor believe this is because the rich can afford to lose, so they don't have as much fear. This is an incorrect assumption—the numbers may be bigger for the rich but they still play to win, they still worry, and they certainly value the price of a lost dollar. Remember, they worked hard to earn that dollar and become rich—they paid a price for wealth and have no desire to lose that wealth.

On the other hand, the rich don't spend their lives worrying because they realize that worrying is the poor person's way of pretending that they're actually doing something. Neither do they spend their lives as prisoners holding themselves hostage for past mistakes. Both worry and guilt are ways for us to pretend that we're noble and responsible. We also use guilt to hold other people at arm's length so we don't have to be responsible to them. If they see us immersed in guilt and feeling terrible about what we've done, how can they "kick a guy when he's down?"

Instead, the rich spend their lives planning and then taking action on their plans. The rich don't waste their time fretting about what other people are going to think because they understand that they can't begin to control other people's thoughts anyway—and what other people think is none of their business. Their business is to create financial freedom and move towards their goals so that when their parents are old and need their help, they will be ready to step in and provide for them!

The rich use their emotions to create the life of their dreams not to scare themselves to death! And, the rich develop their ability to act courageously. They understand and embrace the reality that ***life requires courage.***

Fear comes from the subconscious part of our brain. Notice how Bill's rational and creative sides of his brain shut down and literally stopped working when fear (his subconscious beliefs) took over. He was no longer thinking rationally, or trying to solve his "future" problems. He was not creatively using the right side of his brain to come up with solutions either. Instead, he was immobilized by ***his learned fear of loss, rejection, inadequacy, and past mistakes that were so painful he would sacrifice his dreams in order to avoid a repeat performance—a mistake.***

Money is an emotional subject, and, by the time we've reached adulthood, we've been programmed not to talk about money, not to ask what other people make, and not to bring it up because

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it isn't polite. On top of that, we've seen too many people fight over money, seen disagreements over money break up families and destroy relationships. Then there are all those rich movie stars who are constantly in and out of drug rehab centers… money and fame sure hasn't give them stability or wisdom!

This fear, these emotions that Bill was generating, becomes a powerful teacher. The mistakes we've made and the lessons we've learned from them, are designed to ***help us rationalize our choice to give up.*** And that is one of the primary reasons that the middle class stays in their low paying jobs, clinging to the lifeline of job security.

What Bill has chosen to do in this scenario is what Robert refers to as, "playing not to lose." He isn't playing to win—he is playing with the intention of staying safe and secure. Rich Dad taught Robert that, "The biggest failures I know are people who have never tried." And the sad part is, your parents have taught you these lessons without ever realizing what the ultimate cost would be to you—the damage that lesson would do to your spirit. It was not intentional, but that doesn't make it any less painful. Make a conscious decision to never walk away again—from your dreams, your commitments, and your future. You will be so thankful that you did.

HOW THE RICH MAKE DECISIONS

The rich make their decisions based upon return on investment (R. O. I.). That means they run the numbers on a venture and calculate the amount of money it will take to do the deal, and the amount of money that deal will make them. The following example will make this concept much easier to understand:

BILL'S DEAL:
10 unit apartment complex in a high
Class C neighborhood

FMV: Fair Market Value,	$1,200,000
Contract Price:	$1,000,000
Down Payment: (from his mutual fund cash out)	$200,000
Loan Balance:	$800,000
PCF: (Positive Cash Flow) after reserves	$1,700 per mo

Bill is investing $200,000 of his own money in this deal. It is going to make him $20,400 per year in positive cash flow. His ROI is over 10% per year ($200K divided by $20,400 = just over 10%).

His reserve numbers are generous, allowing for repairs, maintenance, a 10% vacancy rate, and taxes and insurance. He has prorated the long term maintenance and repair items that get some investors in trouble: the roof, the AC, updating and remodeling, new appliances, etc.

What should Bill be afraid of? Leaving the money in a mutual fund account that has already lost him over $45,000! Why isn't that what keeps him up at night? Because all his friends and co-workers have also lost money in their retirement accounts, so it "sure feels" as if this is the norm.

Now, from an investor's point of view, let's look at the deal one more time and compare it to the potential to reclaim his money in the stock market funds and break even.

Leave it in the mutual funds for two years and based upon the last 12 months, regain about $10,000 of the value each year. What's wrong with that picture?

1 He still has no control over the fund manager and no education in how to control it himself.

2 After two years, at this rate of return, he will have regained HALF of what he will realize in cash flow from the complex.

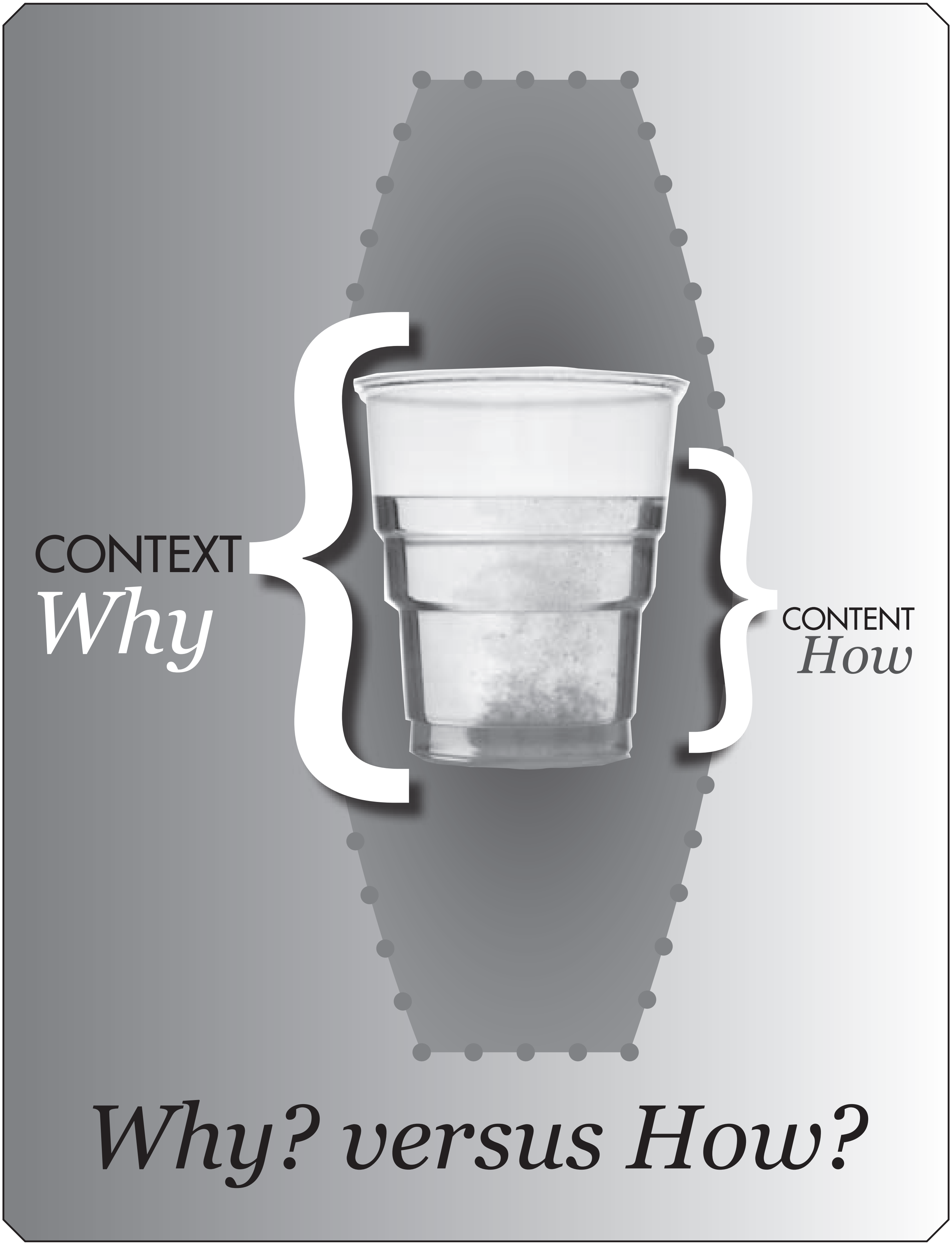
3 He will have no shelter from taxes, no depreciation allowance, and no appreciation from the funds; in the apartments he will have all three benefits.

When we run the numbers and calculate ROI, the emotion is taken out of the deal. It's either, "Yes, the numbers work and give me my bottom line return on investment," or, "No, this deal doesn't provide me with enough cash flow to cause me to want to risk my $200,000." That is the way a business owner or an investor considers and evaluates a real estate deal. They make their decisions from the left side of their brain (the rational side) and then use the right side of their brain (the creative side) to further enhance the deal or maximize their returns and minimize their risk.

Take a few moments on each of the following reflection points and evaluate how your level of understanding is increasing as it relates to The CASHFLOW Quadrant®, Whole Brain Learning, Your Past Programming, and How the Rich Think.

Looking back over this chapter, take a few minutes and write about the most powerful lesson you learned in your reading. What have you identified in this information that relates most profoundly to your life?

CHAPTER FIVE


CONTEXT
Why
CONTENT
How
Why? versus How?

I Should Be Driving A Taurus

Context Determines Our Capacity For Wealth Accumulation

Another lesson for us to learn revolves around Bill's beliefs about where he belongs and what he deserves from his life. This is his context or, to say it another way, this is his core belief system about his place in the world and how he fits into the mold he has defined for himself. Context often refers to "why" you do certain things, while Content refers to "how" you get those things accomplished. Henry Ford once said, "Those who know how, work for those who know why."

To move from one portion of the CASHFLOW Quadrant® to a different one, people must typically redefine the context of their lives. The rich usually have a different context than the middle class, and consequently, they think differently when they approach obstacles and make financial choices.

This information is an important part of understanding the differences in the ways employees and "B" type business owners are programmed. Applying this to Bill, his **contextual capacity** about money is equal to about $65,000 in annual earnings and about $250,000 in total indebtedness. The following illustration will help you to understand this new concept as we discuss it in more depth. See context as the glass and content as the liquid inside the glass. You cannot have more content than the context will hold.

Notice I said **contextual capacity** —because one of the things that context determines is capacity, and it is why so many lottery winners end up bankrupt or broke a few short years after their big windfalls. Their cash flow (content) changes dramatically, but if their context does not change along with it, they will make decisions that take them right back to the financial situation they were in before they bought the winning ticket.

We can only be as wealthy as our context allows, just as a 64 oz. Big Gulp cup can only hold 64 oz. If we try to pour a gallon of liquid into that cup we're going to end up with a big, sticky puddle of soda on the floor. Neither can our minds contain more than their capacity—if our programming comes from the viewpoint of an "E", as Bill's clearly does, then it is focused on things like security, safety, and hard work; if our content changes, we must change our context to hold it. If we fail to do this, when opportunity comes along, our programming will kick into overdrive attempting to make sense of the chaos—and we will make choices that a business owner would not make.

Robert tells us that context can be an attitude or an opinion and this attitude is then expressed in words or thoughts such as, "I'll never be rich," or, "Investing is risky," or even, "I'm not interested in becoming rich because the rich are obsessed with money, and don't have good family values." With internal conversations running like these, of course we have a challenging time becoming rich since the very idea of wealth accumulation is against our core beliefs about who we are and what we can accomplish in our lives.

If all these internal conversations were originating from the rational side of our conscious mind, it would be very easy to change our context, but they aren't. The tapes are running all the time but for the most part, we can't hear the music being played—it's playing its tune below the level of our consciousness.

CONTEXT AFFECTS OUR CONTENT

If the Big Gulp cup is context (how much you can hold), then it also affects the type of content (what kind of liquid goes in the cup). If you attempt to fill a thin plastic cup with scalding hot coffee, there is going to be a problem. The cup was designed to hold cold beverages, not hot ones.

Well, if your context is your mental environment, and if it has been programmed or designed to hold, "Go to school, get a good job, and live below your means," then content about investments such as real estate deals will be rejected. If your context is, "I'm not interested in real estate because it's too risky," then information about real estate investment will be filtered and rejected out of hand. One way to view context is to understand that it is a filter or screening process that is in place and working overtime, all the time.

Now for the good news—context can shift and change, it just takes a conscious and committed effort to do so. Many of the exercises in the early chapters of the book were designed to assist you in first identifying your context and then making decisions about changing it. Most people who read this book learned to read in the public school system. Schools focus on the contextual capacities of the "E" and the "S" quadrants. One example is the message of, "Go to school so you can get a good job and have financial security."

By the time a student has heard this mantra for 13 to 19 years, depending on their level of education, most will be thoroughly programmed and their context well defined. No wonder so few people ever reach and surpass the ability to become multi-millionaires! First, there weren't lessons in school, delivered day after day, that encouraged them to even consider this as a possibility, and second, the school system in place is designed to create employees to work at jobs so the system will be sustained! Very few majors at the university level will prepare a person to strike out of this mold and create the next Microsoft or Federal Express!

How do the entrepreneurs who have a different context deal with this? Many of them, like Bill Gates of Microsoft, Steve Jobs, the creator of Apple, Henry Ford, the founder of Ford Motor Company, or Ted Turner, owner of CNN, left school and created their empires through their street smarts. But of these few, millions have tried to make themselves fit into the mold society has poured for them. Why?

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Because our society needs these employees to work for the corporations, so schools are training people to fill that need.

CONTEXT IS MORE IMPORTANT THAN CONTENT!

Changing your context changes your life—because your context is your core set of beliefs—who you are, what you do, and where you belong in the world. Choosing to pay the price and study hard to be an "A" student is context—it is a price you pay so you can receive the reward and reputation of being an "A" student. Regardless of how hard you work in school, if your goal (context) is still to have the security of a job, it will be very difficult to become an entrepreneur.

If you shift your conscious thoughts and begin reprogramming your mind to seek a different goal, the "poor person" context will begin to change, as well. So, no matter how much you know (content), it is harder to become an entrepreneur (a creator) until your context has changed.

An entrepreneur's context has been defined (or redefined) with a goal on accumulating assets and increasing cash flow—becoming rich. The rich think different thoughts and do different things than the poor and middle class do—and many of them had to pay a price to get where they are today. What was the price? Unless they were born into a family with a high financial I.Q., they probably went through the battle of changing their context.

Now, before you begin going down the thought highway of, "Well, it's easy to make money when you already have it," let's look at a family that has young adults who were raised to have a high financial I.Q. Most of us have seen or heard about spoiled rich kids who were born into tremendous wealth. They are emotional disasters, and do nothing to build upon that inherited wealth. There's nothing further to learn from them—but there is something to learn from Donald Trump's sons and daughter.

Do some research on these young people and notice how they are being educated, how they work, and their level of respect for others—in essence, their values. They were raised to value hard work, financial freedom, making a difference, and doing something with their lives. The result is a group of siblings who are dedicated and knowledgeable about how to work as entrepreneurs—how to be the leaders they were meant to be.

Your job is to redefine your context and become the person you were meant to be.

Robert writes in his book, *The Cashflow Quadrant*, "It's this battle that goes on inside of you that makes it so hard. It's the battle between who you no longer are and who you want to become that is the problem…the part of you that still seeks security is in a war with that part of you that wants freedom."

Think about that statement for a moment—"the battle of who you no longer are"[1] refers to this moment in your life when you consciously realize that the old programming no longer works and your dreams and desires are pointing you in a new direction. The change doesn't happen overnight, nor is it an easy one to make. But when you become consciously aware that while you might still wish for security, your true goal is freedom, and you realize that contextual change is necessary and vital to your success.

In the book he wrote with Donald Trump, *Why We Want You to Be Rich*, Robert provides a profound illustration about the difference between security and freedom.[2] He begins by describing a prison inmate's situation—there are three meals a day, clothes to wear, and a roof over the prisoner's head. There's a bed for him to sleep in and four walls that protect him from the rain, sleet, or snow. The prisoner knows that his basic needs are going to be provided—food, shelter, and clothing. He has security—but he has no freedom.

There is a former student of Robert's who shares her experience here, after reading this passage that defines security and freedom. "When I read this passage for the first time, my entire context shifted. It was one of those Ah-Ha moments for me—I had security, I knew I had the ability to keep my job and I could take care of myself. But in that moment, as I read that passage, I realized I had no freedom. I had to get up every day and go to work; I could not retire. If I got sick, I knew that it would only be a matter of months (at best) before I was in trouble financially. If something happened to one of my children, I was not in a financial position to make a

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Sources: 1 Kiyosaki, Robert T., and Sharon L. Lechter. RICH DAD'S CASHFLOW QUADRANT. New York: Warner Business Books, 2000 2 Trump, Donald J., and Robert T. Kiyosaki. Why We Want You To Be Rich. Rich Press, 2006 difference. If one of them needed something extra, I didn't have the resources to help them. That realization changed my life, my outlook, my destiny. In that moment, I made a decision and I made a commitment—to myself and to the people I loved. Would it be frightening at times? I was sure that it would be. Would I do it anyway? I became certain, in that moment, that I WOULD do whatever it took."

You will have many such moments as you begin this journey and pursue your dreams and passion for living. There will be examples, situations, life experiences, or wake-up calls that alter your reality or your thinking—your own Ah-Ha moments. As well, there will be times of fear and questioning. Fear pushes aside our passion in life and for life. You can almost see the passion emanating from a rich person's eyes when he or she tell you the story of how he did what he did to get where he is. The passion for change and for creation was bigger than the fear and need for security. That is what it takes, and that is the price the rich are willing to pay. They will courageously endure the fear of loss and the insecurity in order to create a future that far surpasses the average person's wildest dreams.

We began this chapter with an expanded definition of Financial Intelligence and Financial I.Q. and went on to add in a definition of Emotional Intelligence. Reprinted below, is the beginning portion of the chapter and those definitions. As well, let's expand these definitions to include context and content now that these new terms are a part of your financial vocabulary.

TO RECAP THOSE DEFINITIONS

Financial Intelligence is that part of our mental intelligence we use to solve our financial problems. To go one step further, financial intelligence is usually generated from the right side, or creative portion of the brain. Although context often refers to our subconscious programming, as our financial intelligence increases, we can use the creative genius (the right side of the brain) to control and create a new context (belief system) to replace our old (and often ineffective) programming.

Financial I.Q. is the measurement of that intelligence. In other words, it is how well we are solving our financial problems. To go one step further in understanding our ability to measure our financial I.Q., realize that the left side, or rational side of our brain has the capacity to measure our success.

Emotional Intelligence: The ability to control our emotions, particularly greed and fear, and the ability to use our emotions to improve the quality of our lives. To take this definition one step further, realize that the sub-conscious portion of your brain is where emotions often originate. Having said that, our emotional intelligence can be measured by how well we use the left or rational thinking side of the brain to control and monitor those emotions.

Take a few moments on each of the following reflection points and evaluate how your level of understanding is increasing as it relates to The CASHFLOW Quadrant®, Context and Content, Whole Brain Learning, Your Past Programming, and How the Rich Think.

1 Looking back over this chapter, take a few minutes and write about the most powerful lesson you learned in your reading. What have you identified in this information that relates most profoundly to your life? ________________________________

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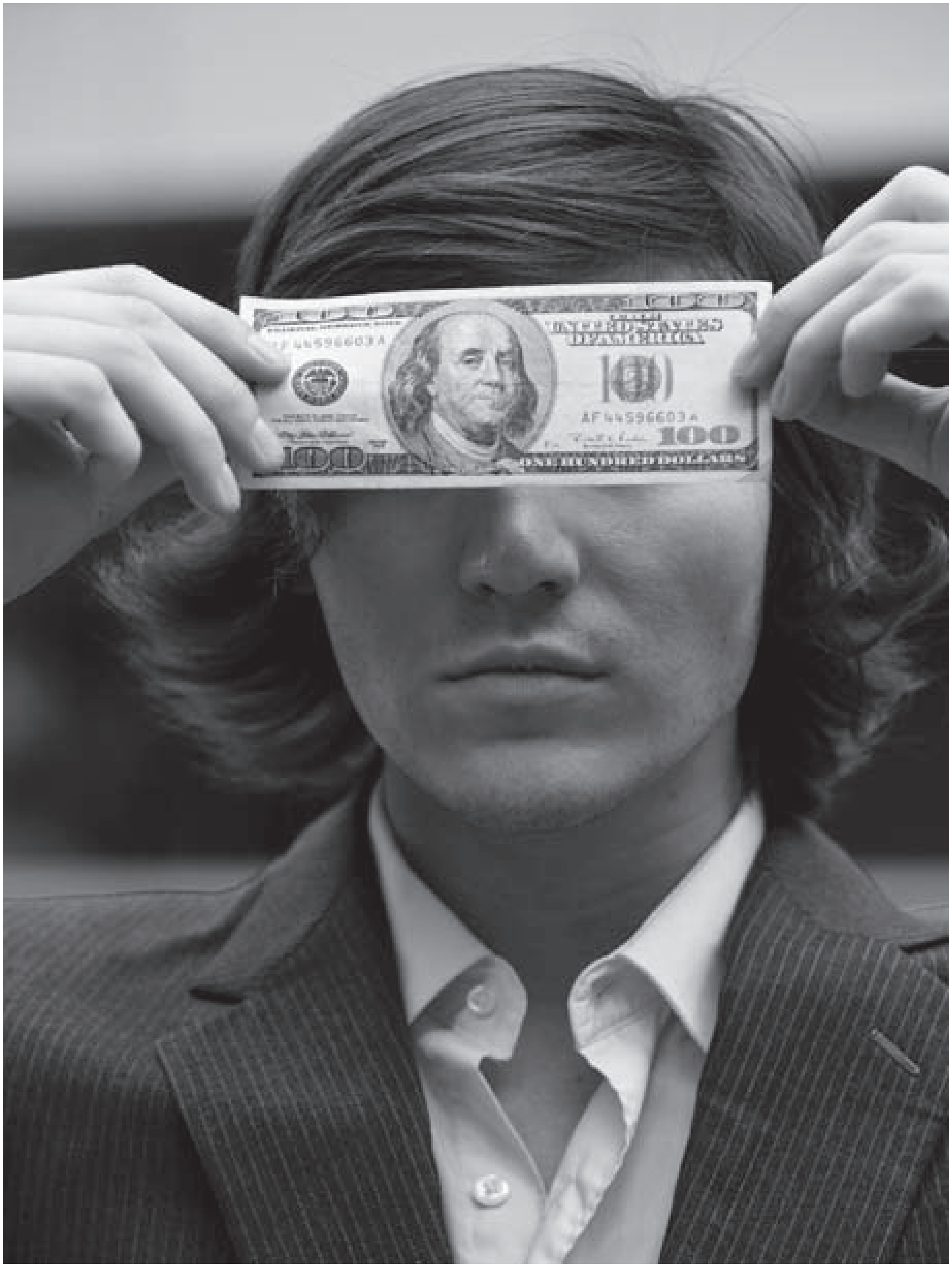
2 Explain in your own words how the statement that, "context is more important than content," is true for you.

4 What do you think your capacity is in terms of context? In other words, what do you believe you should receive, per year, in terms of cash flow? In terms of assets?

3 What is your passion? What will keep you going during times of fear and discouragement?

5 What good will you do with a portion of the wealth you create? Who will you help?

CHAPTER SIX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ONE HUNDRED DOLLARS

Reprogramming Your Mind About Money

If you had to make a guess, how many times in your adult life do you think you've said, "I can't afford it?" Now, multiply that number by 1000, and that's approximately the number of times that you've thought it! The conversation at the dinner table in most American homes conveys a message of, "There's not enough money, money is hard to get, and we can't afford it." Most children have this message deeply embedded in their psyche from an extremely early age, and it is a message that they carry with them throughout their entire lives.

That message couldn't be more wrong! There is plenty of money out there, it's just unevenly distributed!. If you don't believe that, just look at the amount of money that's being printed every single day. The issue isn't about the availability or quantity of money, it's about your willingness to get it (and your belief that you can). We're right back to context!

There are two basic approaches we can take when it comes to the quantity of money available: not enough money and too much money. Which one do you feel will serve you best as you begin to invest in real estate? The people who believe there's not enough money compensate for this lack by saying things like, "Money isn't important to me," and "Money won't make me happy." Well, it may not solve all your problems, but it takes care of about 90% of them, and you can then focus all your attention on solving the other 10%!

How do you begin changing your beliefs about the amount of money that is out there and available to you as an investor? One of the first things you will have to do in order to learn to access money is to believe that you can be trusted to use it wisely. As we learned in the previous chapter on context, what we believe tends to become a self-fulfilling prophecy. If you believe (even subconsciously) that you might not pay the money back, or that it will be very hard to pay the money back, then you will be very hesitant about using other people's money.

Next, become committed to your dreams and to the development of your knowledge—with a particular emphasis on increasing your level of financial intelligence (once again, your ability to define a money problem and then solve it). By now, I'm sure you're thinking, "Just tell me how to get to the money!" Well, believe it or not, I am. Your ability begins with believing, knowing how to handle other people's money, and with your dreams.

In the following section, take the time to set some short, mid, and long term goals for your life. Ask yourself, "What do I want to be financially different, six months from now?" "One year from now?" And, "Where do I want to be in five years?"

SIX MONTH GOALS & DREAMS

ONE YEAR FROM NOW, GOALS & DREAMS

GOALS & DREAMS FIVE YEARS FROM TODAY

What does your home look like? What type of vacation are you going to take? Who do you want to have the resources to help? How much money do you want to have as a reserve, sitting in the bank? Place a dollar value on the amount of assets you want to be controlling in five years. How many units/buildings, etc.?

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LEARNING TO LEVERAGE YOUR MONEY, TIME & ENERGY

One of the things that separates the rich from the poor is the ability to leverage—whether it is time, money, or energy. Leverage is your ability to use other people's resources, and the "B" type business owner is a master at the game of leverage. When someone wants to move to the right side of the CASHFLOW Quadrant®, one of the skills that needs to be developed is the skill of leverage because it is only through the power of team that a business will grow to the point that one person is not responsible for every task and decision.

YOUR 333 DATABASE

One of the best ways to enjoy the benefits of leveraging is to become a master at accessing money and, this means the aspiring entrepreneur must actively seek to expand his or her Circle of Influence. The chart illustrates the average number of human beings that the average person knows. It may surprise you to learn that you know approximately 333 people, and even more surprising is that each of those people also know 333 people. If you do the math, the numbers are staggering! You have access to millionaires on a daily basis, but as long as your belief is, "Everyone I know is broker than me," you won't recognize them when you see them!

The people you know, for the most part, are in roughly the same financial situation that you are in – and for the most part, they are also working from the same portion of the CASHFLOW Quadrant® that you earn your money from. Before your sub-conscious mind kicks into overdrive here, just take out a pad of paper and begin writing down the names of every single person you know: family members, friends, professionals, club or church members, retirees, etc. And, for the next thirty days, keep that pad right beside you. Every time you encounter people—whether friends or simply acquaintances—add their names to the list. At the end of thirty days, you will be surprised at the number of people you have added—whether they are the attendant at the dry cleaners who assists you when you drop off your clothing, or the physician who has been your family doctor for the past ten years. This is your current

Circle of Influence—the people you influence and the people who influence you.

Next, begin creating situations that will allow you to expand your Circle of Influence to include more people who have higher financial intelligence than your current circle of influence has. One way to do this is at trainings such as the one you are getting ready to attend. Another is to meet and network with people at Robert's Annual Forum—a three day convention of his students who come together to learn more about wealth accumulation and to increase their Financial I.Q. Robert tells us, "You are the direct result of the people you spend the most time with, so surround yourself with positive, successful people from all walks of life who will guide you to your dreams."

BRAINSTORMING EXERCISE

In the space below, create a list of five ways for you to meet new people who are working toward financial freedom and who have similar goals for their financial future. Consider joining the Chamber of Commerce, your local Cashflow Club, or the local chapter of your city's Real Estate Investment Association (R.E.I.A.). What other ways could you being to expand your Circle of Influence?

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________

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What Does This Mean To You?

The next two exercises will begin to help you build your investor database—but you must be willing to stop that internal voice that is saying, "These people won't invest with me," or "These people don't have any money." Just begin (and trust the process) by brainstorming and writing down some names. Notice if you want to internally edit or judge this process as you are writing. As the Nike ad says, "Just do it!"

In the space below, list the names of ten wealthy "S's" — the doctors, attorneys, engineers, architects, dentists, etc. that you know. Include any working professional, paying particular attention to anyone who refers to their work as a "practice."

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________
6. ______________________________
7. ______________________________
8. ______________________________
9. ______________________________
10. ______________________________

Now, continue your "333 List" by writing down the name of at least ten people you know who are over the age of 55. Retirees are looking for ways to increase their income during retirement, but remember that the vast majority of people are also operating from a fear of losing what they have worked so hard to get. Consequently, these people often invest in Certificates of Deposit or other "safe" investment strategies that earn them very little return on investment. If they believe their money will be safe with you, and if you can provide them a higher return, you will be amazed at how anxious they will be to invest with you.

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________
6. ______________________________
7. ______________________________
8. ______________________________
9. ______________________________
10. ______________________________

Having the ability, understanding, and insight to use other people's time, money, and energy are three of the things that differentiate the "S" from the "B" business owner. Make a conscious choice to become a master at leveraging. It is one of the major abilities that will move you forward and over to the right side of the Cashflow Quadrant.

We have mentioned several times throughout this book that the rich think differently than the poor. The following list represents some of the most common money problems of the poor. As you review these items, ask yourself how many of them apply to your life, and what you will do to put a stop to the chaos these situations and feelings bring into your life.

THE MONEY PROBLEMS OF THE POOR

1. Not having enough money
2. Using credit to supplement money shortages.
3. The rising cost of living.
4. With every increase in earnings, taxes go up at a higher rate.
5. Poor financial advice.
6. Not enough money for retirement.

ON THE OTHER HAND, THE MONEY PROBLEMS OF THE RICH ARE:

1. Having too much money and needing to find a way to invest it for a high return on investment.
2. Not knowing whether people like them, or their money.
3. Needing smarter financial advisors.
4. Raising spoiled kids.
5. Estate and inheritance planning.
6. Excessive governmental taxes.

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When people tell me that they can't find anyone to partner with them and invest in deals, I immediately know what is holding them back from finding money partners: lack of financial intelligence. People with money want to do business with people who can be trusted with their money. When they are comfortable that they have found someone who knows what he or she is doing, they are excited to do business with you—because you are leveraging their time. If you are finding and executing the deal with their money, they don't have to work—their money is working for them!

Before you will be able to access money from private investors, lenders, banks, or other money sources, you will need to evaluate your comfort level about borrowing money. The following exercise will help you identify your belief system as it relates to money and to debt. Take a few moments to truthfully answer the following questions:

1 What is the highest dollar amount of debt (including mortgages) that you have ever been responsible for? ______________________________

2 Was that debt consumer debt (used to purchase depreciating items) or investment debt (used to purchase cash flow producing, appreciating items)? ______________________________

3 Was it stressful to you to be in debt? ______________________________

4 Who was responsible for making the payments on that debt? (You, tenants, others.) ______________________

5 How would it feel to be $6,000,000 in debt? ______________________
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6 How would you go about asking someone you know to loan you $250,000? In the space below, begin formulating the way you would approach an investor/partner. ____________________
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____
____

7 How have you used alternative means ______of credit in the past to build wealth? ______________________

8 What resources do you have at your disposal, right now, to help you begin your real estate investment business?

9 Are you willing to use those resources to help you get started?

10 What mistakes have you made in the past that you have not forgiven yourself for when it comes to using credit?

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11 As we learned in the previous chapter, we often create feelings of guilt or worry so we can feel as if we are noble and doing something about our problems. This can be a way of holding yourself hostage so you never again make a similar mistake, never again take a risk, or you don't have to actually do anything to rectify the problem—after all, you're feeling so guilty about it that you're miserable all the time! Can you think of anything involving money, credit, or borrowing that you need to forgive yourself for so you can commute your prison sentence and begin fresh?

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THE VALUE OF FINANCIAL AND PROFESSIONAL EDUCATION

As we've previously discussed, our society has conditioned us from early childhood to "go to school and then get a good job." If you attended college or professional/technical school, you paid handsomely to buy that job. Looking back over your life, how much money did you spend to be able to get that job? ______________________

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How much money, per year, does that job now allow you to earn? ___________How many hours of your life do you give away to earn that living? ____________________ per week.

With the rising cost of retirement and the escalating cost of living, how much money, per year, do you have left over to invest?

____

If you are too uncomfortable and unwilling to borrow money and leverage your knowledge, how will you reach your goals and realize your dreams? How much money do you feel you should have set aside in a reserve account to handle any emergencies that come your way? ______________________________

OVERCOMING THE FEAR OF BEING WEALTHY

Most people who have been programmed from an early age to become either an employee or a small business owner have also been programmed to think about the rich in a negative way. If your internal conversations center around a belief that, "Rich people are greedy," or, "Rich people are selfish," or even, "The rich are dishonest in their business dealings," it will be imperative for you to change that by looking for new evidence that refutes those old beliefs.

Whoever you are is with you, wherever you go. To have a blanket set of beliefs that cover all economic groups leaves you quite vulnerable to making mistakes in judgment about other people. In addition, if your belief is that rich people are selfish, it will be a challenge to become rich since you certainly don't want to also be selfish! That internal voice will kick in and create obstacles along the way to wealth so you never realize your dreams.

Another fear about becoming wealthy has to do with your belief about what you deserve, and also how much responsibility you will need to take on if you are rich. While we have discussed the first roadblock at length in other chapters, we need to consider the second one here. There is no denying that, "to whom much is given, much is expected." However, when your biggest problem in life is having too much money, it does not feel like a burden to be of service to the people you love. I refer to this as having the courage to stand in the gap for my family.

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There is also responsibility for team when you are wealthy—building, refining, and developing your power team. This will be one of your biggest responsibilities as an entrepreneur. Having said that, team building is a learned skill and once you have mastered the art of team building, it becomes a part of the bigger picture—and a source of excitement. Live by the motto, "The better my team, the more money I make and the less I have to work!"

LEARNING TO PROTECT YOUR MONEY

Shielding your assets and minimizing your taxable income is also one of the big business owner's responsibilities. With a prosperous business, there are often many tax advantages available to you in the way of deductions, tax credits, and stimulus programs. As a real estate investor, there are enormous tax benefits—and taking advantage of these deductions will save you thousands of dollars in taxes.

Taxes are the business owner's single largest expense—so the ability to understand and minimize this expense is of paramount importance to you. Think about this for a moment—we are taxed on everything from our gasoline to our food. Permits, licenses, clothing, meals, education, and even death are taxable items!

What most people don't understand is that income is taxed differently, depending upon the type of income it is: either earned, passive, or portfolio. Earned income is the type of income that most employees create, and earned income offers very few deductions, so it ends up being taxed at the highest tax level of all three types. A short definition of earned income: the trade of hours for dollars—as long as the employee gives hours of his or her life away, he or she will keep getting dollars (in the form of paychecks).

In real estate, there are several ways to minimize the amount of taxes that you are obligated to pay. In fact, more than nearly any other type of business, real estate investment has many laws that limit your tax liability. While the purpose of this book is not to advise you on taxation law or principles, it is our desire to provide you with information so you can ask better questions of your tax professional.

Ask about the 1031 Tax Exchange—a law that allows you to sell one piece of property for the purpose of investing in another piece of property that is of equal or greater value, and pay no tax at the time of the first sale! This is a deferred tax opportunity—and no tax is due (provided the 1031 is handled properly) until you cash out by selling the new property at some point in the future. Even better, if a 1031 Exchange is executed at the time of the second sale so that you can buy an even bigger or better third property, once again you can generally roll the profit into a deferred tax situation at some point in the future.

There are also numerous tax deductions available to real estate investors such as write-offs that are called depreciation allowances, and expenses that are used in the day to day operation of your business. There are also ways to claim passive losses if you qualify to be a real estate professional, as well. Be certain to ask your accountant about these opportunities. For more in-depth information, make a commitment to obtain advanced level knowledge of asset protection strategies and tax deductions.

WHEN I THINK I CAN'T THEN I KNOW I MUST!

Much has been covered in this book about internal conversations, deeply held personal belief systems, and the power of moving through obstacles, rather than allowing obstacles to overcome you. However, there is a big difference between the rich and the poor when it comes to, "I can't." There are very few situations in a person's life that present an obstacle that is so large that it can't be overcome. Yet, the poor and middle class have made, "I can't afford it," and, "It's too hard, I can't do it," their mantras.

When they encounter a new challenge (or even an old one), the first thing they do is give up. When the rich have a mountain to climb, what do you think they do? They put one foot in front of

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the other and start climbing. The rich have typically stopped saying, "I can't," and replaced it with, "How can I overcome this obstacle?" That makes all the difference in the world because, "I can't," stops the brain from entering a state of creative problem solving. "How can I?" does the opposite!

Erase the phrase, "I can't," from your vocabulary and replace it in every situation with, "How can I?" Notice that one is a statement and the other is a question . . . one stops all dialogue, while the other opens up dialogue. One comes from a belief, while the other stimulates the right side of your brain to begin coming up with a list or set of possible solutions to the problem.

There is a saying that has often been repeated in today's world: "I got sick and tired of being sick and tired!" Aren't you sick and tired of telling yourself that you are helpless in the face of a challenge? If someone can, then you can! If you have a hill to climb (or even if that obstacle looks like a mountain), start climbing that hill! Make your motto, "I will trust only movement!" In other words, active problem solving replaces static despair!

WHAT DOES THIS MEAN TO YOU?

1 Think back to a time that you had an opportunity that you passed up because you thought you couldn't afford it. What was the cost of your missed opportunity? There is a saying, "Some of the greatest losses in life are those that come from missed opportunities." Write about a missed opportunity that resulted in your inability to realize financial independence and freedom because you, "thought you couldn't make it happen." What could you have done differently? ________________

2 Make a list of every single fear and obstacle that has kept you from becoming wealthy up to now . . . in other words, what has held you back in the past? ______________________

3 How will things be different this time? ________________

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4 One of the biggest obstacles that people have to overcome is the obstacle of their spouse's fear and conservative, middle class beliefs. What will you do to overcome the fears of your spouse or partner? Will you allow his or her fear to hold you back? ______________