Introduction

The economy is in tatters; your job is in trouble—if you still have a job. And you know what? I've been saying it for years.

It took a global financial meltdown for most to hear it. But this book isn't about how or why everything has gone to hell in a handbasket. It's about why this bad news turns out to be very good news—if you know what to do about it.

I learned about business from two people: my father, who was a very well-educated, highly placed government employee, and my best friend's father, who was an eighth-grade dropout and self-made millionaire. My real father suffered financial problems his entire life and died with little to show for all the long years of hard work; my best friend's dad became one of the richest men in Hawaii.

I thought of these two men as my "poor dad" and my "rich dad." I loved and admired my real dad very much, and vowed that I would help as many people as possible avoid suffering the kinds of indignities and failures that plagued his path.

After I left home, I had all kinds of experiences. I served in the Marines as a helicopter pilot in Vietnam. I went to work for Xerox, starting out as their worst salesperson and leaving four years later as their best. After leaving Xerox, I developed several multimillion-dollar international businesses and was able to retire at the age of 47 to pursue my passion—to teach others how to build wealth and live the lives they dream of living, instead of settling for mediocrity and sullen resignation.

In 1997, I wrote about my experiences in a little book. I must have touched a chord with at least a few readers: *Rich Dad Poor Dad* shot to the top of the *New York Times* best-seller list and stayed there for more than four years, and has been described as "the best-selling business book of all time."

Since then, I've put out a whole series of *Rich Dad* books, and although each one has a slightly different focus, they all deliver the exact same message as that first book, and it's the message at the heart of this book you now hold in your hands:

Take responsibility for your finances—or get used to taking orders for the rest of your life. You're either a master of money or a slave to it. Your choice.

I was incredibly fortunate in my life to have experiences and mentors that showed me how to build genuine wealth. As a result, I was able to retire completely from any need to work ever again. Up until that time, I was working to build my family's future. Since then, I've been working to help build *yours*.

For the past ten years, I have devoted my life to finding the most effective and practical ways to help people transform their lives in the 21st century by learning how to build genuine wealth. Through our *Rich Dad* books, my partners and I have written about many different types and forms of enterprise and investment. But during these years of intensive research, I have come across one business model in particular that I believe holds the greatest promise for the largest number of people to get control of their financial lives, their futures, and their destinies.

One more thing. When I say *genuine* wealth, I'm not talking about money alone. Money is part of it, but it's not the whole. Building genuine wealth is as much about the *builder* as it is about the *built*.

In this book, I'm going to show you why you need to build your own business, and exactly what kind of business. But this isn't just about changing the type of business you're working with; it's also about changing you. I can show you how to find what you need to grow the perfect business for you, but for your business to grow, you will have to grow as well.

Welcome to the business of the 21st century.

PART ONE

Take Control of Your Future

Why you need to have
a business of your own

Chapter 1

The Rules Have Changed

We live in troubled times. The last few years have brought us a steady parade of fear and panic in the headlines, boardrooms, and kitchen tables across America. Globalization, outsourcing, downsizing, foreclosures, subprime mortgages and credit default swaps, ponzi schemes, Wall Street fiascoes, recession … it's just one piece of bad news after another.

During the first few months of 2009, U.S. company layoffs reached about a quarter-million per month. As I write this in late 2009, unemployment is at 10.2 percent and still rising, and underemployment (where your job stays in place but your hours and pay are drastically cut back) is even worse. The rampant decline in gainful employment is a ravaging epidemic to which few are immune. From executives and middle managers to administration employees and blue-collar workers, from bankers to retail clerks, all are at risk. Even the healthcare industry, until recently considered a job-safe zone, is trimming away significant chunks of its workforce.

In a 2009 *USA Today* survey, 60 percent of Americans polled said they see today's economic situation as the biggest crisis in their lifetime.

In the fall of 2008, a lot of people's retirement portfolios suddenly lost half their value—or more. Real estate crashed. What people *thought* were their solid, reliable assets turned out to be about as solid as water vapor. Job security is gone, a thing of the past. In a 2009 *USA Today* survey, 60 percent of Americans polled said they see today's economic situation as the biggest crisis in their lifetime.

Of course, you already know all this. But here's what you may not know: *None of this is really news*. Sure, it took a major economic crisis for people to start waking up to the fact that their livelihoods were at risk. But your income didn't become at risk overnight—it was *always* at risk.

Most of the U.S. population has been living for years on the knife-edge precipice between solvency and ruin, relying on the next paycheck or two to meet each month's expenses, typically with only a very thin cushion of cash savings—or more often, no cushion at all. That paycheck is called "trading your time for money," and during a recession, it is the *least* reliable source of income there is. Why? Because when the number of employed people starts dropping, there is less disposable income in circulation to pay for your time.

I Told You So

Not to be an I-told-you-so, but … *I told you so*.

I've been saying this for years: There is no longer such a thing as a safe and secure job. Corporate America is a 20th-century dinosaur, trembling on the edge of extinction, and the only way for you to have a genuinely secure future is for you to take control of that future.

Here's what I wrote in 2001, in a book titled *The Business School for People Who Like Helping People*:

> *In my opinion, the United States and many Western nations have a financial disaster coming, caused by our educational system's failure to adequately provide a realistic financial education program for students.*

That same year, in an interview for Nightingale-Conant, I said:

> *If you think mutual funds are going to be there for you, if you want to bet your life on the ups and downs of the stock market, that's your retirement you're betting on. What happens if the stock market goes up and then comes crashing down again when you're 85 years old? You have no control. I'm not saying mutual funds are bad. I'm just saying they're not safe and they're not smart, and I wouldn't bet my financial future on them.*
>
> *Never before in the history of the world have so many people bet their retirement on the stock market. That is insane. Do you think Social Security is going to be there to take care of you? Then you also believe in the Easter Bunny.*

And in an interview I did in March 2005, I said this:

> *The No. 1 strength of a paper asset is its liquidity—and that is also its No. 1 weakness. We all know there's going to be another market crash and we're going to be wiped out again. Why would you do that?*

So what just happened? There was another market crash and many people got wiped out again. Why? Because our habits and mindset caught up with us.

In 1971, the American economy went off the gold standard. This happened without the approval of Congress, by the way, but the important thing is that it happened. Why is that significant? Because it cleared the way for us to start printing more and more money, as much as we liked, without it being tied to any actual, hard, real value.

This shift away from reality opened the gates for the biggest economic boom in history. Over the next three and a half decades, the American middle class exploded. As the dollar devalued and the on-the-books value of real estate and other assets inflated, ordinary people became millionaires. Suddenly credit was available to anyone, anytime, anywhere, and credit cards began popping up like mushrooms after a spring rain. To pay off those credit cards, Americans started using their homes as ATMs, refinancing and borrowing, borrowing and refinancing.

After all, real estate always keeps going *up* in value, right?

Wrong. By 2007 we had pumped as much hot air into this financial balloon as it could take—and the fantasy came crashing down to earth again. And it wasn't just Lehman Brothers and Bear Stearns that collapsed. Millions lost their 401(k)s, their pensions, and their jobs.

The number of people living officially below the poverty line is rising rapidly. The number of people who are working beyond the age of 65 is increasing.

In the 1950s, when General Motors was the most powerful corporation in America, the press picked up a statement by GM's president and turned it into a slogan that carried for decades: "As GM goes, so goes the nation." Well, folks, that may not be all good news, because where GM went in 2009 was into bankruptcy, and by that same summer, the state of California was paying its bills with IOUs instead of cash.

Right now, the percentage of Americans who own their homes is dropping. Mortgage foreclosures are at an all-time high. The number of middle-class families is dropping. Savings accounts are smaller, if they exist at all, and family debt is greater. The number of people living officially below the poverty line is rising rapidly. The number of people who are working beyond the age of 65 is increasing. The number of new bankruptcies is going through the roof. And many Americans do not have enough to retire—not even close.

Has all this bad news got your attention? Sure it has, and you're not alone. Americans everywhere have finally stopped rolling over and hitting the Snooze button. Great! Now you're awake to what's going on, and it isn't pretty. So let's take a deeper look and see what it really means—and what there is you can do about it.

It's a New Century

When I was a kid, my parents taught me the same formula for success that you probably learned: Go to school, study hard, and get good grades so you can get a secure, high-paying job with benefits—and your job will take care of you.

But that's Industrial-Age thinking, and we're not in the Industrial Age anymore. Your job is *not* going to take care of you. The government will *not* take care of you. *Nobody's* going to take care of you. It's a new century, and the rules have changed.

My parents believed in job security, company pensions, Social Security, and Medicare. These are all worn-out, obsolete ideas left over from an age gone by. Today job security is a joke, and the very idea of lifetime employment with a single company—an ideal so proudly championed by IBM in its heyday—is as anachronistic as a manual typewriter.

Many thought their 401(k) retirement plans were safe. Hey, they were backed by blue-chip stocks and mutual funds, what could go wrong? As it turned out, *everything* could go wrong. The reason these once-sacred cows no longer give any milk is that they are *all* obsolete: pensions, job security, retirement security—it's all Industrial-Age thinking. We're in the Information Age now, and we need to use Information-Age thinking.

Fortunately, people are starting to listen and learn. It's a shame that it takes suffering and hardship to bring the lesson home, but at least the lessons *are* hitting home. Every time we experience a major crisis—the dot-com bust, the economic aftermath of 9/11, the financial panic of '08, and recession of '09—more people realize that the old safety nets just won't hold up anymore.

The corporate myth is over. If you've spent years climbing the corporate ladder, have you ever stopped to notice the view? What view, you ask? The rear end of the person in front of you. That's what you get to look forward to. If that's the way you want to view the rest of your life, then this book probably isn't for you. But if you are sick and tired of looking at someone else's behind, then read on.

Don't Be Fooled Again

As I write this, unemployment is still on the rise. By the time you *read* these words, who knows? The situation may have changed. Don't be fooled. When employment and real estate values turn around and credit loosens up again, as they inevitably will, don't be lulled into that same-old sense of false security that got you and the rest of the world into this mess in the first place.

In the summer of 2008, gas prices were soaring over $4 a gallon. SUV sales sank like a stone, and suddenly everyone was on the small-car-and-hybrid bandwagon. But look what happened next. By 2009, gas prices had fallen back down below $2—and so help me, people started buying SUVs again!

What?! Do we *really* think fuel prices are going to stay nice and low? That gas prices are down for good now, and therefore gas-guzzlers make perfect sense to buy? Can we really be that shortsighted? (I'm trying to be nice here. The word I was *going* to use was "stupid.")

Unfortunately, the answer is yes. We aren't just fooled once; we let ourselves be fooled over and over again. We all grew up hearing the fable of the ant and the grasshopper, but the overwhelming majority of us keep living with the foresight of a grasshopper anyway.

Don’t be distracted by the headlines. There is always some idiotic buzz going on that tries to pull your attention away from the serious business of building your life. It’s just noise. Whether it’s terrorism, recession, or the latest election-cycle scandals, it’s got nothing to do with what you need to be doing today to build your future.

During the Great Depression, there were people who made fortunes. And during the greatest boom times, like the real estate surge of the ’80s, there were millions and millions of people who neglected to take charge of their future—who ignored everything I’m going to share with you in this book—and ended up struggling or broke. Most of them, in fact, are still struggling or broke today.

The economy is not the issue. The issue is *you*.

Are you angry at the corruption in the corporate world? At Wall Street and the big banks that let this happen? At the government for not doing enough, or for doing too much, or for doing too much of the wrong things and not enough of the right things? Are you angry at yourself for not taking control sooner?

Life is tough. The question is, what are you going to do about it? Moaning and groaning won’t secure your future. Neither will blaming Wall Street, the big bankers, corporate America, or the government.

If you want a solid future, you need to create it. You can take charge of your future *only* when you take control of your *income source*. You need your own business.

Chapter 2

The Silver Lining

On July 13, 2009, *TIME* magazine ran a piece on page 2 they called "10 Questions for Robert Kiyosaki." One of the questions asked of me was this: "Are there opportunities to create new companies in this turbulent economy?"

"Are you kidding?!" was my first thought. Here is how I answered:

> *This is the best time. When times are bad is when the real entrepreneurs emerge. Entrepreneurs don't really care if the market's up or down. They're creating better products and better processes. So when somebody says, "Oh, there's less opportunity now," it's because they're losers.*

You've heard an awful lot of bad news about the economy. Ready for the good news? Actually, the bad news *is* the good news. I'll tell you the same thing I told *TIME* magazine: *A recession is the best time to start your own business*. When the economy slows down, entrepreneurialism heats up like a stoked-up wood stove on a cold winter night.

> *Q: What do the Microsoft and Disney empires have in common, besides the fact that they are both hugely successful billion-dollar businesses that have become household names?*
>
> *A: They were both launched during a recession.*

In fact, more than half the corporations that make up the Dow Jones Industrial Average got their starts during a recession.

Why? Simple: In times of economic uncertainty, *people get creative*. They break out of their comfort zones and take initiative to help make ends meet. It's a matter of good, old-fashioned American entrepreneurialism at its best. When the going gets tough, the tough get going.

For one thing, the market for new opportunity is ripe during tough economic times. Five years ago, when housing values were soaring and credit was available everywhere, nobody was hungry. People's bellies were full, they felt safe, and few were looking for any alternative means of income. Employees weren't worried about the financial stability of their employers or whether a pink slip might be in their future.

But now that layoffs are rampant and everyone is worried about what the future holds, millions of people are soberly reevaluating their finances and realizing that if they want to have a secure future they can count on, they're going to have to come up with a Plan B. People today are hungrier than ever to earn extra money, and because of that, they are more receptive and more inclined to open their minds to new avenues.

In fact, this was true even *before* the recent economic meltdown. Ever since the '80s, and especially since the turn of the century, the drive to control our own economic futures has been building. Here's what the U.S. Chamber of Commerce said in a 2007 report titled *Work, Entrepreneurship and Opportunity in 21st Century America:* "Millions of Americans are embracing entrepreneurship by running their own small businesses."

72 percent of all adult Americans would rather work for themselves than for a job, and 67 percent think about quitting their jobs "regularly" or "constantly."

Now, I'm no economist, but I know someone who is: Paul Zane Pilzer.

Paul is a whiz kid, was Citibank's youngest-ever vice president, and left the banking world to make millions going into business for himself. He's had a few *New York Times* best-sellers, predicted the Savings & Loan crisis before it happened, and served as an economic advisor in two presidential administrations. He's someone worth listening to.

Paul talks about a 180-degree shift in cultural values around the nature of career paths, with the conventional corporate-employee career structure giving way to the entrepreneurial path.

"The traditional wisdom in the second half of the 20th century," says Paul, "was to go to school, get a good education, and go to work for a large company. The idea of going into business for yourself was most often regarded as risky. Admirable, perhaps, but risky … and maybe a little crazy. Today it's completely the other way around."

Paul's right. That U.S. Chamber of Commerce report I mentioned also refers to a Gallup poll finding that 61 percent of Americans say they would prefer to be their own boss. Another poll, this one by the Fresno research firm Decipher, found that 72 percent of all adult Americans would rather work for themselves than for a job, and 67 percent think about quitting their jobs "regularly" or "constantly."

And it's not just about *making* a living; it's also about the quality of *how* we're living. People are waking up to the fact that they want more control over their lives. They want to be more connected to their families, be in charge of their own time, work from their homes, determine their own destinies. In that Decipher study, 84 percent of respondents said they would be more passionate about their work if they owned their own business. The No. 1 reason they gave for wanting to work for themselves? "To be more passionate about my work life."

What's happening is that the 20th-century myth of job security, with its promise that the path to a long, happy, fulfilling life is to find a job working for someone else, is crumbling before our eyes.

The Employment Mythology

Most of us are so brainwashed by our circumstances that we think of employment as normal. But far from being historically "normal," the whole concept of being an employee is actually a fairly recent phenomenon.

During the Agrarian Age, most people were entrepreneurs. Yes, they were farmers who worked the king's lands, but they were not the king's employees. They didn't receive a paycheck from the king. In fact, it was the other way around: The farmer paid the king a tax for the right to use his land. These farmers actually made their living as small-business entrepreneurs. They were butchers, bakers, and candlestick makers who passed on their trade through the family lineage in what have come down to us as common last names: Smith, for the village blacksmith; Baker, for bakery owners; Farmer, because their family's business was farming; Taylor, derived from the tailor's profession; and Cooper, the old term for the barrel-maker's trade.

It was not until the Industrial Age that a new demand began growing: the demand for employees. In response, the government took over the task of mass education, adopting the Prussian system, which is what most Western school systems in the world are still modeled after today.

Have you ever wondered where the idea of retirement at age 65 came from? I'll tell you where: Otto von Bismarck, the president of Prussia, in 1889. Actually, Bismarck's plan kicked in at age 70, not 65, but it hardly matters. Promising their old folks a guaranteed pension after age 65 was not much of an economic risk for Bismarck's government: At the time, the life expectancy of the average Prussian was about 45. Today, so many are living well into their 80s and 90s that the same promise might well bankrupt the federal government within the next generation.

When you research the philosophy behind Prussian education, you will find that the purpose was to produce soldiers and employees, people who would follow orders and do as they were told. The Prussian system is for mass-producing employees.

In America in the '60s and '70s, companies like IBM made "employment for life" the gold standard of job security. But employment at IBM hit its peak in 1985, and the whole concept of the solid, reliable corporate career has been in decline ever since.

"As GM goes, so goes the nation…"

Here we are, half a century later, and things aren't going so well for GM. Does that mean America is doomed? No, but here's what is doomed: the myth of corporate security and the forty-year plan.

Entrepreneurial Fever

I'm not saying employment is a bad thing. I'm just saying it's only one way of generating income, and one that is extremely limited. What's happening right now is that people are waking up to this fact. These people—including you—are realizing that the only way they're going to have what they really want in life is by setting foot on the path of the entrepreneur.

And by the way, I'm not the only one who sees this. You may or may not have heard of Muhammad Yunus, author of *Banker to the Poor*, but the Nobel Committee in Oslo, Norway, has heard of him. They gave him the Nobel Peace Prize in 2006 for his concept of microcredit for Third World entrepreneurs. "All people are entrepreneurs," says Yunus, "but many don't have the opportunity to find that out."

Entrepreneurial fever has been kicking into high gear, because when the economy slows down, entrepreneurial activity heats up. In fact, entrepreneurs *flourish* in down times.

He said that *before* the economy started tanking in '07 and '08, and in the wake of all the financial bad news, more and more people are actively seeking the opportunity to do exactly what Mr. Yunus is talking about.

Entrepreneurial fever has been kicking into high gear, because when the economy slows down, entrepreneurial activity heats up. In fact, entrepreneurs *flourish* in down times. In times of uncertainty, we look for other ways to generate income. When we know we can't rely on employers, we begin to look to ourselves. We start thinking maybe it's time to break out of our comfort zones and get creative to help make ends meet.

A U.S. Federal Reserve survey shows that the average household net worth for entrepreneurs is five times that of conventional employees. That means entrepreneurs are five times more likely to come out of this downturn unscathed and even stronger than before, because they've created *their own strong economy*.

A recent survey found that most U.S. voters view entrepreneurship as the key to solving the current economic crisis. "History has repeatedly demonstrated that new companies and entrepreneurship are the way to bolster a flagging economy," said the survey's executive director.

No kidding.

Maybe those "most U.S. voters" who say they believe that will actually get off their duffs and *do* something about it. It's possible, though I'm not holding my breath. But right now, the flagging economy that I'm most interested in seeing bolstered by entrepreneurship is *yours*.

These may be economic hard times for the majority, but for some entrepreneurs—the ones who are open-minded enough to understand what I'm going to explain in the next few chapters—these are times pregnant with economic potential. Not only is now the time to have your own business, but in fact, there has never been a better time than right now, today.

As I said, when the going gets tough, the tough get going. And if that's true—which it is—then that leaves just two questions.

First: Are you willing to be tough?

And if your answer is "yes," then question No. 2 is, Get going doing *what*?

I can't answer that first question for you, but I know *exactly* how to answer the second one. Answering that question is what this book is all about.

CHAPTER 3

Where Do You Live?

So you've been working hard for years, climbing the ladder. Maybe you're still near the bottom of the ladder, or maybe you even got near the top. Where you are on the ladder doesn't really matter. What matters is the question that you may have forgotten to stop and ask before putting in all that time and effort climbing: Where is this ladder planted?

As Stephen R. Covey points out, it doesn't matter how fast or high you climb on the ladder if it's leaning against the wrong wall.

The purpose of this chapter is for you to stop climbing for a minute and see where your ladder is planted. And, if you're not happy where it is, to find out where you might want to move it.

How Do You Make the Money You Make?

Most people assume that their financial standing is defined by how much they earn, how much they're worth, or some combination of both. And there's no doubt that this has some bearing. *Forbes* magazine defines "rich" as a person who earns in excess of $1 million per year (about $83,333 per month, or just under $20,000 a week), and "poor" as someone who earns less than $25,000 a year.

But even more important than the quantity of money you make is the *quality* of money you make. In other words, not just how much you make, but how you make it—where it comes from. There are actually *four distinct sources* of cashflow. Each is quite different from the other, and each defines and determines a very different lifestyle, regardless of the amount of cash you earn.

After publishing *Rich Dad Poor Dad,* I wrote a book to explain these four different income worlds. Many people have said that this book, *Cashflow Quadrant*, is the most important writing I've done because it goes right to the heart of the crucial issues involved for people who are ready to make true changes in their lives.

The *cashflow quadrant* represents the different methods by which a cash income is generated. For example, an *employee* earns money by holding a job and working for someone else or a company. The *self-employed* are people who earn money working for themselves, either as solo operators or through their own small business. A *business owner* owns a large business (typically defined as 500 employees or more) that generates money. *Investors* earn money from their various investments—in other words, money generating more money.

E = **E**mployee
S = **S**elf-employed or Small-business owner
B = **B**usiness owner
I = **I**nvestor

Which quadrant do you live in? In other words, from which quadrant do you receive the majority of the income on which you live?

The E Quadrant

The overwhelming majority of us learn, live, love, and leave this life entirely within the E quadrant. Our educational system and culture train us, from the cradle to the grave, in how to live in the world of the E quadrant.

The operating philosophy for this world is what my poor dad—my real father—taught me, and what you probably learned, too, when you were growing up: Go to school, study hard and get good grades, and get a good job with benefits at a great company.

The S Quadrant

Driven by the urge for more freedom and self-determination, a lot of people migrate from the E quadrant to the S quadrant. This is the place where people go to "strike out on their own" and pursue the American Dream.

The S quadrant includes a huge range of earning power, all the way from the teenage freelance baby sitter or landscaper just starting out in life to the highly paid private-practice lawyer, consultant, or public speaker.

But whether you're earning $8 an hour or $80,000 a year, the S quadrant is typically a trap. You may have thought you were "firing your boss," but what really happened is that you just changed bosses. You are still an employee. The only difference is that when you want to blame your boss for your problems, that boss is you.

The S quadrant can be a thankless and difficult place to live. Everyone picks on you here. The government picks on you—you spend one full day a week just in tax compliance. Your employees pick on you, your customers pick on you, and your family picks on you because you never take any time off. How can you? If you do, you lose ground. You have no free time because if you take time off, the business doesn't earn money.

In a very real way, the S stands for slavery: You don't really own your business; your business owns you.

The B Quadrant

The B quadrant is where people go to create big businesses. The difference between an S business and a B business is that you work for your S business, but your B business works *for you*.

I have many B businesses, including my manufacturing business, my real estate business, mining companies, and others.

Those who live and work in the B quadrant make themselves recession-proof, because they control the source of their own income.

The I Quadrant

This is not rocket science. My rich dad taught me to live in the I quadrant by playing Monopoly, and we all know how that works: four green houses, one red hotel; four green houses, one red hotel.

Changing Jobs Is Not Changing Quadrants

Now let me explain why it's so important to understand these different quadrants. How often have you heard someone complain about their job, then decide to make a change, only to end up a few years later with the same old complaints?

> *I keep working harder and harder, but I'm just not getting ahead.*
>
> *Every time I get a raise, it gets eaten up by taxes and higher expenses.*
>
> *I'd rather be doing [fill in the blank], but I can't afford to go back to school and learn a whole-new profession at this stage of my life.*
>
> *This job stinks! My boss stinks! Life stinks! (etc.)*

These and dozens of others like them are all statements that reveal a person who is trapped—trapped not in a certain job, but in an entire quadrant. The problem is, most of the time when people do get up the initiative to actually make a change in their lives, all they do is change jobs. What they need to do is change *quadrants*.

Breaking away from those typical job structures and creating your own stream of income puts you in the best position to weather an economic storm, simply because you are no longer dependent on a boss or on the economy to determine your annual income. Now *you* determine it.

The left-hand side—the E and S quadrants—is where most people live. That's where we are brought up and trained to live. "Get good grades, so you can get a good job," we're told. But your grades don't matter in the B quadrant. Your banker doesn't ask to see your report card; he wants to see your financial statement.

Breaking away from those typical job structures and creating your own stream of income puts you in the best position to weather an economic storm, simply because you are no longer dependent on a boss or on the economy to determine your annual income. Now *you* determine it.

At least 80 percent of the population lives in the left-hand side of this picture. The E quadrant, especially, is where we are taught we will find safety and security. On the other hand, the right-hand side—the B and I quadrants—is where freedom resides. If you want to live on that side, then you can make it happen. But if you want the relative safety of the left-hand side, then maybe what I have to share here is not for you. That's a decision only you can make.

Which quadrant do you live in?

Which quadrant do you *want* to live in?

Chapter 4

Your Core Financial Values

The four quadrants are not just four different business structures. It's even more about four different *mindsets*. Which quadrant you choose to earn your primary income from has less to do with external circumstances—your education, training, the economy, what appear to be the available opportunities around you—and much more to do with who you are at your core: your strengths, weaknesses, and central interests.

It is a matter of your *core financial values*. It is these core differences that attract us to or repel us from the different quadrants.

This is important to grasp because it means that shifting from the E or S quadrant over to the B quadrant isn't as simple as filling out a change-of-address form at the post office. You not only change what you do, but in a very real way, you also change *who you are*. Or at least, *how you think.*

Some people may love being employees, while others hate it. Some people love owning companies, but do not want to run them. Certain people love investing, while others see only the risk of losing money. Most of us are a little of each of these characters. It is also important to note that you can be rich or poor in all of the four quadrants. There are people who earn millions and people who go bankrupt in each of the quadrants. Living in any one quadrant does not in itself necessarily guarantee financial success.

You can tell which quadrant people are living in by listening to their words. When I was 9 years old, I began sitting in with my rich dad when he interviewed people for possible hiring. From these interviews, I learned to listen for people's core values—values that my rich dad said came from their souls.

Here are some key phrases that emerge from each quadrant, along with a snapshot of the core values of each.

E Quadrant Values

"I am looking for a safe, secure job with good pay and excellent benefits."

For someone living in the E quadrant, the core value is *security*.

You might be the top-earning vice president of a company yet still share the same core values as the company's janitor, who earns a tenth of your salary. A person in the E quadrant, regardless if he is the janitor or the president, often thinks or says words such as, "I am looking for a safe, secure job with benefits." Or, "How much do we get for overtime?" Or, "How many paid holidays do we have?"

When I'm having a conversation with someone in the E quadrant and I talk about how much I love starting my own businesses, he may say, "Yeah, but isn't that risky?" We each see life from our own core values. What is exciting for me is frightening to someone else. This is why, when I'm in the company of people who live in the E and S quadrants, I usually talk about the weather, sports, or what is on television.

S Quadrant Values

"If you want something done right, do it yourself."

For people in the S quadrant, the core value is *independence*. They want the freedom to do what they want. When a person says, "I'm going to quit my job and go out on my own," the path taken is from the E quadrant to the S quadrant.

People found in the S quadrant are small-business owners, mom and pop businesses, specialists, and consultants. For example, I have a friend who installs big-screen televisions, phone systems, and security systems in rich people's homes. He has a staff of three and is happy to be the boss of just three people. He is a hard-core, hardworking S. Commissioned salespeople, such as real estate agents and insurance brokers, are in the S quadrant. The S quadrant is also filled with professional people, such as doctors, lawyers, and accountants who do not belong to a large medical, legal, or accounting firm.

People living in the S quadrant often take great pride in the work of their own hands or brains. If they had a theme song, it would be either, "Nobody Does It Better" or "My Way." Yet, behind the façade of independence, you will often find a lack of trust at the core of this person's approach to business—which also means his approach to life, because how we view our business tends to be how we view *everything*.

An S is often paid by commission or by the amount of time spent on a job. For example, an S may be heard saying words such as, "My commission is 6 percent of the total purchase price." Or, "I charge $100 an hour." Or, "My fee is cost plus 10 percent."

Whenever I meet someone from the E or S quadrant who is having difficulty making the transition to the B quadrant, I usually see a person with great technical or management skills but little leadership ability. My rich dad used to say, "If you're the leader of the team and you're also the smartest person on the team, your team is in trouble." People in the S quadrant often don't work too well with teams; they may even have a bit of an ego problem.

To make the jump from S to B quadrant, what is needed is a quantum jump not in technical skills, but in leadership skills. As I've said many times before, in the real world, the A students often go to work for the C students—and the B students work for the government.

If you've ever heard yourself saying, "If you want something done right, do it yourself," or if you tend to think that way, it might be a good time to take a good long look at that philosophy.

B Quadrant Values

"I'm looking for the best people to join my team."

For people in the B quadrant, the core value is *wealth-building*.

People who start from nothing and build great B quadrant businesses are often people with powerful life missions, who value a great team and efficient teamwork and want to serve and work with as many people as possible.

While a person in the S quadrant wants to be the best in his or her field, a B quadrant person wants to build a team out of other people who are the best in *their* fields. Henry Ford surrounded himself with people smarter than he was. While an S quadrant businessperson is often the smartest or most talented person in the room, this is often not true for a B quadrant businessperson.

When you own a B quadrant business, you will often deal with people who are much smarter, more experienced, and more capable than you are. My rich dad had no formal education, but I watched him deal with bankers, lawyers, accountants, investment advisors, and experts, many of whom had advanced degrees. In raising money for his businesses, he often dealt with people who were far richer than he was. If he had lived by the motto, "If you want something done right, do it yourself," he would have ended up a complete failure.

When it comes to being paid, a true B quadrant person can leave his or her business and still get paid. In most cases, if someone in the S quadrant stops working, the income stops also. Therefore, a question you may want to ask yourself now is, "If I stop working today, how much income continues to come in?" If your income stops in six months or less, then, chances are, you are in the E or S quadrants. A person in the B or I quadrants can stop working for years and the money will continue to come in.

I Quadrant Values

"What's my return on investment?"

What people in the I quadrant value most is *financial freedom*. The investor loves the idea of his money working instead of him working.

Investors invest in many things. They may invest in gold coins, real estate, businesses, or paper assets such as stocks, bonds, and mutual funds.

If your income comes from company or government retirement plans, rather than your own personal investing knowledge, then that is income from the E quadrant. In other words, your boss or the business is still paying its bill for your years of service.

Words an investor might be heard saying are, "I'm receiving a 20 percent return on my assets," or, "Show me the company's financials," or, "How much deferred maintenance is on the property?"

Different Quadrants, Different Investors

In today's world, we all need to be investors. However, our school systems do not teach us much about investing. Oh, I know that some schools teach stock picking, but to me, that is not investing; that's gambling.

Years ago, my rich dad pointed out to me that most employees invest in mutual funds or savings. He also said, "Just because you're successful in one quadrant, such as the E, S, or B, does not mean you will be successful in the I quadrant. Doctors are often the worst investors."

My rich dad also pointed out to me that different quadrants invest in different ways. For example, a person in the S quadrant might be heard saying, "I don't invest in real estate because I don't want to fix toilets." A person in the B quadrant addressing the same investment challenge might say, "I want to hire a good property-management company to fix my toilets at night." In other words, an S quadrant investor will think he has to do the property maintenance on his own, and a B quadrant investor will hire another company to do the property maintenance for him. Different people, different mindsets; different quadrants, different values.

If you want to get rich, *you're going to have to move*. You don't need a new job; you need a *new address*.

By now, you've probably figured out where I'm going with this. It comes down to a pretty simple thing: If you want to get rich, *you're going to have to move*. You don't need a new job; you need a *new address*.

If you want control over your life and destiny, if you want real freedom—the freedom to call your shots, set your schedule, spend time with your family and with yourself, doing the things you love to do—if you want to live the life you were designed to live—no holds barred, a life of passion and excitement and fulfillment—in short, if you want to *be rich* and *live rich*, then it's time to pack up your stuff and move.

It's time to leave the left side of the chart and move over to the B and I quadrants.

Chapter 5

The Mindset of an Entrepreneur

After finishing college, I enrolled in a traditional business school to pursue my MBA so I could be a trained and educated entrepreneur. I lasted nine months before dropping out. Needless to say, I did not receive my MBA upon leaving.

These days, business schools often invite me to come speak to their students in classes on entrepreneurship. I probably don't need to point out that I sometimes find this ironic.

Common questions these students ask me are, "How do I find investors?" and "How do I raise capital?" I understand the questions, because they haunted me when I left the security of a traditional job and became an entrepreneur myself. I had no money, and no one wanted to invest with me. The big venture-capital firms were not knocking on my door.

So what do I tell these business-school students? I tell them, "You just do it. You do it because you *have* to do it. If you don't, you are out of business.

You do *not* have to raise the capital to create your business, because that has already been done for you. But you do have to build your business!

"Today, even though I have enough money, all I do is raise capital. For an entrepreneur, that is Job No. 1. We raise capital from three groups of people: customers, investors, and employees. Your job as an entrepreneur is to get your customers to buy your products. If you can get customers to give you money by buying your products, your investors will give you lots of money. And if you have employees, your job is to get them to produce and make you at least ten times more money than you pay them. If you can't get your employees to produce at least ten times more than you pay them, you're out of business, and if you're out of business, you don't need to raise any more money."

This is *not* the answer most MBA students are looking for. Most are looking for the magic formula, the secret recipe, the quick business plan to riches. This doesn't seem to be the answer their instructors are hoping I'll give, either, because I notice them squirming when I say this stuff. Why? Because while they *teach* entrepreneurship, most of them are not themselves entrepreneurs, which is why they have a steady teaching job with a steady paycheck and are hoping for tenure.

My point is not that you have to raise money. In fact, in the business model I'm going to share with you in this book, you do *not* have to raise the capital to create your business, because that has already been done for you. But you do have to build your business!

My point is that this is what defines an entrepreneur: *You make things happen.* You pull yourself out of the rows of passenger seats, walk to the head of the bus, and get behind the wheel of your life.

What Does It Take to Be an Entrepreneur?

Entrepreneurs are the richest people on earth. We know the names of the famous entrepreneurs: Richard Branson and Donald Trump, Oprah Winfrey and Steve Jobs, Rupert Murdoch and Ted Turner. But most wealthy entrepreneurs are people you and I will never hear of, because they don't command media attention; they just quietly live rich lives.

I often hear people debate the question, "Are entrepreneurs born or can they be developed?" Some think it takes a special person or a certain magic to be an entrepreneur. To me, being an entrepreneur is not that big a deal; you just do it.

Let me give you an example. There's a teenager in my neighborhood who has a thriving baby-sitting business and hires her junior-high classmates to work for her. She is an entrepreneur. Another young boy has a handyman business after school. He is an entrepreneur. Most kids have no fear, while for most adults, that's all they *do* have.

It takes courage to discover, develop and donate your genius to the world.

Today, there are millions of people who dream of quitting their jobs and becoming entrepreneurs, running their own businesses. The problem is, for most people, their dream is just a dream. So the question is, why do so many fail to go for their dream of becoming an entrepreneur?

I have a friend who is a brilliant hairstylist. When it comes to making women look beautiful, he is a magician. For years, he's talked about opening his own salon. He has big plans, but sadly, he still remains small, running a single chair in a large salon, constantly at odds with the owner.

Another friend has a wife who became tired of being a flight attendant. Two years ago, she quit her job and went to school to become a hairstylist. A month ago, she had a grand opening for her salon. It is a spectacular environment and she has attracted some of the best hairstylists to work there.

When the first friend heard about her salon, he said, "How can she open a salon? She has no talent. She is not gifted. She wasn't trained in New York like I was. And besides, she doesn't have any experience. I give her a year and she's going to fail."

Maybe she will fail: Statistics show that 90 percent of all businesses fail in the first five years. On the other hand, maybe she won't. The point is that she's doing it. She has grasped the impact that courage has in shaping our lives. *It takes courage to discover, develop and donate your genius to the world.*

Of U.S. lottery winners who win in excess of $3 million each, 80 percent are bankrupt within three years. Why? Because money alone does not make you rich. These people may add numbers to their checking accounts, but the mere numbers do not make them rich, because they do not change how they think.

Your mind is *infinite*. It's your doubts that are limiting. Ayn Rand, the author of *Atlas Shrugged*, said, "Wealth is the product of man's capacity to think." So if you are ready to change your life, I'm going to introduce you to an environment that will allow your brain to think—and you to grow richer.

What Do You Want to Be When You Grow Up?

When I was a kid, my real dad often told me go to school and get good grades so I could get a safe, secure job. He was programming me for the E quadrant. My mother would urge me to consider becoming a doctor or lawyer. "That way you'll always have a profession to fall back on." She was programming me for the S quadrant. My rich dad told me that if I wanted to grow up to become rich, I should become a business owner and an investor. He was programming me for the B and I quadrants.

When I returned from Vietnam, I had to make up my mind which advice I would listen to. You are faced with the same choice.

One reason you want to create your own business is to get your dignity back.

Don't underestimate the importance of this reason. The world is full of bullies and small-minded people, and whether they are your boss, your manager, your neighbor, or even your friend, you don't want them pushing you around anymore. You want to take control of your life. You want to have the courage not to care when other people bully you around; you want to have the freedom to think and act for yourself.

A Maserati Mind

Now let's ask that question again: *Where do you live?* Now you can appreciate what shifting from one cashflow quadrant to another means. It's not just a different structure. It's a different approach to life.

Yes, it's about the business, but at the same time, it's not really about the business—that's only the external form. Putting a horse farmer behind the wheel of a Maserati doesn't make him a racing car driver. He needs the skills, the training, and, most important, the *mindset* of a racing car driver.

The same is true of your financial life. You need to adopt the mindset of an entrepreneur. That mindset comes down to this: An entrepreneur is self-determining.

One of the beauties of the *business of the 21st century* is that all the groundwork of the business is already done for you.

You make things happen, which means you don't get to blame *anyone* or *anything* outside yourself.

Not that you're going to have to do it all yourself from the ground up, like I did with my businesses. No, one of the beauties of *the business of the 21st century* is that all the groundwork of the business is already done for you—and you get to have experienced leaders committed to your success to guide you.

But make no mistake: If it's going to happen for you, you are going to be the one who makes it happen. And for *that* to happen, you need to have the mindset of an entrepreneur. If you don't, then no matter how good the business is or how great your teachers are, the business is going to have a tough time getting results.

The business model we'll explore in Part Two of this book is a Maserati, but you are the one behind the wheel. First and foremost, *it's about you*. Are you prepared to take the wheel? Do you have what it takes?

Chapter 6

It's Time to Take Control!

It was 1985 and my wife, Kim, and I were homeless. We were unemployed and had little money left from savings; our credit cards were exhausted and we lived in an old brown Toyota with reclining seats that served as beds. At the end of a week of sleeping in our car, the harsh reality of who we were, what we were doing, and where we were headed began to sink in.

After a friend realized our desperate situation, she offered us a room in her basement. When friends and family were informed of our plight, the first question was always, "Why don't you just get a job?" At first we attempted to explain, but we had a hard time clarifying our reasons to our well-meaning inquisitors. When you're talking to someone who values having a job, it is difficult to explain why you might not want a job.

We occasionally earned a few dollars doing a few odd jobs here and there. But we did that only to keep food in our stomachs and gas in our house—I mean, our car.

I must admit that during moments of deep personal doubt, the idea of a safe, secure job with a paycheck was appealing. But because job security was not what we were looking for, we kept pushing on, living day to day on the brink of the financial abyss. We knew we could always find a safe, secure, high-paying job. Both of us were college graduates with good job skills and a solid work ethic. But we weren't going for job security. We were going for financial freedom.

By 1989, we were millionaires.

I often hear people say, "It takes money to make money." That's B.S.—and I don't mean a Bachelor of Science degree! Our journey from homelessness to being millionaires in four years, and then on to genuine financial freedom in another five years, did *not* take money. We *had* no money when we started—in fact, we were in debt—and nobody gave us anything along the way, either.

It also does not take a good formal education. A college education is important for traditional professions, but not for people looking to build wealth.

If it doesn't take money to make money, and it doesn't take a formal education to learn how to become financially free, then what does it take? It takes a dream, a lot of determination, a willingness to learn quickly, and an understanding of which sector of the cashflow quadrant you're operating in.

Hard Work Will Not Make You Rich

There is this strange idea in our culture that says, "If you work really hard, you'll be okay." What a pile of baloney! And what's so tragic about it is that most people have been brainwashed to believe it, and they *do* believe it, even though we're all surrounded by tons of evidence to the contrary.

What evidence? Just look around you. Do you know anyone who has worked really hard his entire life, only to end up living a life that hovers just above—or just below—the indignity and heartbreak called "subsistence level"?

Of course you do. We all do. The world is full of people who work hard and are most definitely *not* okay. And perhaps the worst part about it is that many of these unfortunates come to the conclusion that it was their fault, their personal failing. They did all the right things, right? But it still didn't work. Maybe they just didn't try hard enough, or didn't get the lucky breaks. Maybe they were just not cut out for success.

Nonsense. The problem is that the hard-work myth is just that: a myth.

Now, don't get me wrong. I'm not saying that building wealth and financial freedom doesn't take hard work; it does, and lots of it. I hope you're not naïve enough to believe the idiots who will tell you they can show a way to wealth that's easy, that's quick, or that's painless. Because if you are, I know a bridge you can buy real cheap—and an entire system of subprime mortgages and credit-default swaps that might be just right for you.

No, it takes hard work, all right. The question is, hard work doing what?

I can already hear you thinking, "Doing what?! Making money, of course!" But not so fast, because here's the cold, hard truth lurking behind that sad error of our culture's thinking:

> *Working hard at making money will never create wealth.*

People who work for income work harder and harder, only to be taxed more and more. Forget working hard at making money: All you'll do is spend it, and then have to work hard all over again.

You might be asking, "Okay, so what do I do?" You *take* control.

Take control of what? After all, most things in life you *cannot* control, no matter how hard you try. You can't control the market. You can't control employees. You can't control the economy. What *can* you control? You can control the source of your income.

The Problem

Building a business is the way most of the very rich became rich. Bill Gates built Microsoft; Michael Dell created Dell Computers in his dormitory room. Still, historically, there have been very, very few people who have truly lived in the B quadrant. The B quadrant is the best place to begin generating genuine wealth, but at the same, there are some barriers to entry that have kept most people out.

For one thing, most people don't have the cash it takes to start their own business. Today it costs an average of $5 million to start your own business. And for another thing, building your own business from scratch remains the riskiest of all ways to become rich. The failure rate for new businesses is about 90 percent in the first five years—and if your new venture fails, guess who just lost $5 million? In my early years of starting businesses, I failed twice, and while it never pushed me into bankruptcy (and I never got any government bailouts!), it did cost me millions of dollars.

Typically when you start your own business, you have to make sure your rent, utilities, and the rest of your overhead are paid, your employees are paid, and your suppliers are paid, or you're out of business. So guess who doesn't get paid? You. In the course of starting a new business—and I'm talking here about a *successful* business—you can easily go five to ten years without taking a paycheck.

Remember Kim and me, sleeping in our beat-up Toyota? It wasn't fun. We could have taken jobs that would have immediately put a roof over our heads, but as miserable as it was (and believe me, it was), we chose homelessness over employment because we believed in our dream of being business owners and living in the B quadrant.

Most people do not have the mental, emotional, physical, or financial stamina to handle these conditions. It can be brutal, and usually is.

What About a Franchise?

A franchise takes a great part of the risk out of it. With an established franchise like McDonald's or Subway, your odds of success improve significantly, and a lot of the groundwork is done for you. But you're still stuck with problem No. 1: You have to come up with the cash. The cost of purchasing one of the better-known franchises can range from $100,000 to $1.5 million or even more, and that's just for the rights to the franchise. Then there are monthly payments to headquarters for training, advertising, and support.

And even all this support is still no guarantee of great wealth. Many times a person must continue to pay money to the franchisor or headquarters, even when his or her personal franchise is losing money. Even if you are one of those who succeeds at a franchise, chances are very good that you still won't make any money yourself for the first few years. And one in three franchises eventually go broke.

When my poor dad was 50 years old, he had the temerity to run for governor of Hawaii—and the incumbent he was running against happened to be his boss. Not only did he lose the election, but his boss fired him and told him he'd never work in

Hawaii again. He took all his savings and used it to buy a popular franchise, one that was billed as a "never-lose franchise."

The franchise that couldn't lose lost, and so did my dad. In fact, he lost everything.

In theory, a franchise is a great idea, but in reality, it's a gamble—and it's a gamble where you have to pony up a fortune just to sidle up to the table and play.

The Power of Passive Income

Have you ever used one of those spring-loaded water faucets that some public restrooms install to save water? When you turn the water on, you have to hold the faucet there, because when you let go, it bounces back to the off position.

Most people's income source works just like that faucet: You get a little money flowing, and then when you let go, it bounces back to off. You can never build freedom that way. What you want is a money faucet that you can let go of once you've turned it on, *because it stays on by itself.*

It's not just about having income today, tomorrow, and next week; it's about securing your income in perpetuity. This is *passive income*, also known as *residual income*: income that continues coming in, over and over, long after you finished expending the effort and capital it took to create the source of the income.

Shifting yourself into the B quadrant is a strong step in that direction, but not all businesses will create passive income. If you own a restaurant, you earn income only when you prepare and sell a meal. If your business fixes air conditioners, you earn income only when you provide that service. Even high-salaried doctors and lawyers earn money only when they see patients or clients. If no patients or clients require their knowledge and services in a particular week, the income faucet springs shut again and there's no money coming in that week.

What most people need is an avenue to create passive income. Knowing this, Donald Trump and I teamed up to evaluate the many kinds of business structures that can create passive income, and published our results in a book, *We Want You to Be Rich.*

And by the way, that's not just a book title. We do want you to be rich. Wealth is not a zero-sum game; it's not like if you become rich, then you're taking it away from me, or Donald, or anyone else. This is an astonishing and abundant world we live in, and there is way more than enough energy, material, ingenuity, creativity, and ambition to allow *every human being* on the planet to be wealthy.

So what did we discover? We found that one business model stood out from the rest. This particular business model creates passive income, but requires relatively little cash investment to start up. It has very low overhead, and can be operated on a flexible part-time basis until it generates enough cash flow for the entrepreneur to transition out of his current full-time job.