RICH DAD POOR DAD

Best Seller
#1 Personal Finance Book of All Time!

WHAT THE RICH TEACH THEIR KIDS ABOUT MONEY –
THAT THE POOR AND MIDDLE CLASS DO NOT!

ROBERT T. KIYOSAKI

"*Rich Dad Poor Dad* is a starting point for anyone looking to gain control of their financial future."

– *USA TODAY*

RICH DAD POOR DAD

What The Rich Teach Their Kids About Money—

That The Poor And Middle Class Do Not!

By Robert T. Kiyosaki

Published by Plata Publishing, LLC

Plata Publishing, LLC
4330 N. Civic Center Plaza
Suite 100
Scottsdale, AZ 85251
(480) 998-6971
Visit our websites: PlataPublishing.com and RichDad.com
Printed in the United States of America

First Edition: 1997
First Plata Publishing Edition: March 2011
032014

ISBN: 978-1-61268-000-2
Cover photo credit: Seymour & Brody Studio

RICH DAD POOR DAD

What The Rich Teach Their Kids About Money—
That The Poor And Middle Class Do Not!

By Robert T. Kiyosaki

PLATA PUBLISHING

Best-selling Books
by Robert T. Kiyosaki

Rich Dad Poor Dad
What the Rich Teach Their Kids About Money –
That the Poor and Middle Class Do Not

Rich Dad's CASHFLOW Quadrant
Guide to Financial Freedom

Rich Dad's Guide to Investing
What the Rich Invest in That the Poor and Middle Class Do Not

Rich Dad's Rich Kid Smart Kid
Give Your Child a Financial Head Start

Rich Dad's Retire Young Retire Rich
How to Get Rich and Stay Rich

Rich Dad's Prophecy
Why the Biggest Stock Market Crash in History Is Still Coming…
And How You Can Prepare Yourself and Profit from It!

Rich Dad's Success Stories
Real-Life Success Stories from Real-Life People
Who Followed the Rich Dad Lessons

Rich Dad's Guide to Becoming Rich Without Cutting Up Your Credit Cards
Turn Bad Debt into Good Debt

Rich Dad's Who Took My Money?
Why Slow Investors Lose and Fast Money Wins!

Rich Dad Poor Dad for Teens
The Secrets About Money – That You Don't Learn In School!

Escape the Rat Race
Learn How Money Works and Become a Rich Kid

Rich Dad's Before You Quit Your Job
Ten Real-Life Lessons Every Entrepreneur Should Know
About Building a Multimillion-Dollar Business

Rich Dad's Increase Your Financial IQ
Get Smarter with Your Money

Robert Kiyosaki's Conspiracy of the Rich
The 8 New Rules of Money

Unfair Advantage
The Power of Financial Education

Why "A" Students Work for "C" Students
Rich Dad's Guide to Financial Education for Parents

To parents everywhere,
a child's first and most important teachers,
and to all those who educate, influence,
and lead by example

Acknowledgments

How does a person say "thank you" when there are so many people to thank? Obviously this book is a thank you to my two fathers, who were powerful role models, and to my mom, who taught me love and kindness.

The person most responsible for this book becoming a reality is my wife Kim—my partner in marriage, business, and in life. She makes my life complete.

Contents

Introduction

RICH DAD POOR DAD

Having two dads offered me the choice of contrasting points of view: one of a rich man and one of a poor man.

I had two fathers, a rich one and a poor one. One was highly educated and intelligent. He had a Ph.D. and completed four years of undergraduate work in less than two years. He then went on to Stanford University, the University of Chicago, and Northwestern University to do his advanced studies, all on full financial scholarships. The other father never finished the eighth grade.

Both men were successful in their careers, working hard all their lives. Both earned substantial incomes. Yet one always struggled financially. The other would become one of the richest men in Hawaii. One died leaving tens of millions of dollars to his family, charities, and his church. The other left bills to be paid.

Both men were strong, charismatic, and influential. Both men offered me advice, but they did not advise the same things. Both men believed strongly in education but did not recommend the same course of study.

If I had had only one dad, I would have had to accept or reject his advice. Having two dads offered me the choice of contrasting points of view: one of a rich man and one of a poor man.

Instead of simply accepting or rejecting one or the other, I found myself thinking more, comparing, and then choosing for myself. The problem was that the rich man was not rich yet, and the poor man was not yet poor. Both were just starting out on their careers, and both were struggling with money and families. But they had very different points of view about money.

For example, one dad would say, “The love of money is the root of all evil.” The other said, “The lack of money is the root of all evil.”

As a young boy, having two strong fathers both influencing me was difficult. I wanted to be a good son and listen, but the two fathers did not say the same things. The contrast in their points of view, particularly about money, was so extreme that I grew curious and intrigued. I began to start thinking for long periods of time about what each was saying.

Much of my private time was spent reflecting, asking myself questions such as, “Why does he say that?” and then asking the same question of the other dad’s statement. It would have been much easier to simply say, “Yeah, he’s right. I agree with that.” Or to simply reject the point of view by saying, “The old man doesn’t know what he’s talking about.” Instead, having two dads whom I loved forced me to think and ultimately choose a way of thinking for myself. As a process, choosing for myself turned out to be much more valuable in the long run than simply accepting or rejecting a single point of view.

One of the reasons the rich get richer, the poor get poorer, and the middle class struggles in debt is that the subject of money is taught at home, not in school. Most of us learn about money from our parents. So what can poor parents tell their child about money? They simply say, “Stay in school and study hard.” The child may graduate with excellent grades, but with a poor person’s financial programming and mindset.

Sadly, money is not taught in schools. Schools focus on scholastic and professional skills, but not on financial skills. This explains how smart bankers, doctors, and accountants who earned excellent grades may struggle financially all of their lives. Our staggering national debt is due in large part to highly educated politicians and government officials making financial decisions with little or no training in the subject of money.

Today I often wonder what will soon happen when we have millions of people who need financial and medical assistance. They will be dependent upon their families or the government for financial support. What will happen when Medicare and Social Security run out of money? How will a nation survive if teaching children about money continues to be left to parents—most of whom will be, or already are, poor?

Because I had two influential fathers, I learned from both of them. I had to think about each dad's advice, and in doing so, I gained valuable insight into the power and effect of one's thoughts on one's life. For example, one dad had a habit of saying, "I can't afford it." The other dad forbade those words to be used. He insisted I ask, "How can I afford it?" One is a statement, and the other is a question. One lets you off the hook, and the other forces you to think. My soon-to-be-rich dad would explain that by automatically saying the words "I can't afford it," your brain stops working. By asking the question "How can I afford it?" your brain is put to work. He did not mean that you should buy everything you want. He was fanatical about exercising your mind, the most powerful computer in the world. He'd say, "My brain gets stronger every day because I exercise it. The stronger it gets, the more money I can make." He believed that automatically saying "I can't afford it" was a sign of mental laziness.

Although both dads worked hard, I noticed that one dad had a habit of putting his brain to sleep when it came to finances, and the other had a habit of exercising his brain. The long-term result was that one dad grew stronger financially, and the other grew weaker. It is not much different from a person who goes to the gym to exercise on a regular basis versus someone who sits on the couch watching television. Proper physical exercise increases your chances for health, and proper mental exercise increases your chances for wealth.

My two dads had opposing attitudes and that affected the way they thought. One dad thought that the rich should pay more in taxes to take care of those less fortunate. The other said, "Taxes punish those who produce and reward those who don't produce."

One dad recommended, “Study hard so you can find a good company to work for.” The other recommended, “Study hard so you can find a good company to buy.”

One dad said, “The reason I’m not rich is because I have you kids.” The other said, “The reason I must be rich is because I have you kids.”

One encouraged talking about money and business at the dinner table, while the other forbade the subject of money to be discussed over a meal.

One said, “When it comes to money, play it safe. Don’t take risks.” The other said, “Learn to manage risk.”

One believed, “Our home is our largest investment and our greatest asset.” The other believed, “My house is a liability, and if your house is your largest investment, you’re in trouble.”

Both dads paid their bills on time, yet one paid his bills first while the other paid his bills last.

One dad believed in a company or the government taking care of you and your needs. He was always concerned about pay raises, retirement plans, medical benefits, sick leave, vacation days, and other perks. He was impressed with two of his uncles who joined the military and earned a retirement-and-entitlement package for life after twenty years of active service. He loved the idea of medical benefits and PX privileges the military provided its retirees. He also loved the tenure system available through the university. The idea of job protection for life and job benefits seemed more important, at times, than the job. He would often say, “I’ve worked hard for the government, and I’m entitled to these benefits.”

The other believed in total financial self-reliance. He spoke out against the entitlement mentality and how it created weak and financially needy people. He was emphatic about being financially competent.

One dad struggled to save a few dollars. The other created investments. One dad taught me how to write an impressive resumé so I could find a good job. The other taught me how to write strong business and financial plans so I could create jobs.

Being a product of two strong dads allowed me the luxury of observing the effects different thoughts have on one's life. I noticed that people really do shape their lives through their thoughts.

For example, my poor dad always said, "I'll never be rich." And that prophecy became reality. My rich dad, on the other hand, always referred to himself as rich. He would say things like, "I'm a rich man, and rich people don't do this." Even when he was flat broke after a major financial setback, he continued to refer to himself as a rich man. He would cover himself by saying, "There is a difference between being poor and being broke. Broke is temporary. Poor is eternal."

My poor dad would say, "I'm not interested in money," or "Money doesn't matter." My rich dad always said, "Money is power."

The power of our thoughts may never be measured or appreciated, but it became obvious to me as a young boy that it was important to be aware of my thoughts and how I expressed myself. I noticed that my poor dad was poor, not because of the amount of money he earned, which was significant, but because of his thoughts and actions. As a young boy having two fathers, I became acutely aware of being careful about which thoughts I chose to adopt as my own. Should I listen to my rich dad or to my poor dad?

There is a difference between being poor and being broke. Broke is temporary. Poor is eternal.

Although both men had tremendous respect for education and learning, they disagreed about what they thought was important to learn. One wanted me to study hard, earn a degree, and get a good job to earn money. He wanted me to study to become a professional, an attorney or an accountant, and to go to business school for my MBA. The other encouraged me to study to be rich, to understand how money works, and to learn how to have it work for me. "I don't work for money!" were words he would repeat over and over. "Money works for me!"

At the age of nine, I decided to listen to and learn from my rich dad about money. In doing so, I chose not to listen to my poor dad, even though he was the one with all the college degrees.

A Lesson from Robert Frost

Robert Frost is my favorite poet. Although I love many of his poems, my favorite is "The Road Not Taken." I use its lesson almost daily.

The Road Not Taken

Two roads diverged in a yellow wood,
And sorry I could not travel both
And be one traveler, long I stood
And looked down one as far as I could
To where it bent in the undergrowth;
Then took the other, as just as fair,
And having perhaps the better claim,
Because it was grassy and wanted wear
Though as for that the passing there
Had worn them really about the same,
And both that morning equally lay
In leaves no step had trodden black.
Oh, I kept the first for another day!
Yet knowing how way leads onto way,
I doubted if I should ever come back.
I shall be telling this with a sigh
Somewhere ages and ages hence;
Two roads diverged in a wood, and I—
I took the one less traveled by,
And that has made all the difference.

And that has made all the difference.

Over the years, I have often reflected upon Robert Frost's poem. Choosing not to listen to my highly educated dad's advice and attitude about money was a painful decision, but it was a decision that shaped the rest of my life.

Once I made up my mind about whom to listen to, my education about money began. My rich dad taught me over a period of 30 years until I was 39 years old. He stopped once he realized that I knew and fully understood what he had been trying to drum into my often-thick skull.

Money is one form of power. But what is more powerful is financial education. Money comes and goes, but if you have the education about how money works, you gain power over it and can begin building wealth. The reason positive thinking alone does not work is because most people went to school and never learned how money works, so they spend their lives working for money.

Because I was only nine years old when I started, the lessons my rich dad taught me were simple. And when it was all said and done, there were only six main lessons, repeated over 30 years. This book is about those six lessons, put as simply as possible, just as simply as my rich dad put forth those lessons to me. The lessons are meant not to be answers, but guideposts that will assist you and your children to grow wealthier no matter what happens in a world of increasing change and uncertainty.

Chapter One

LESSON 1: THE RICH DON'T WORK FOR MONEY

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

"Dad, can you tell me how to get rich?"

My dad put down the evening paper. "Why do you want to get rich, Son?"

"Because today Jimmy's mom drove up in their new Cadillac, and they were going to their beach house for the weekend. He took three of his friends, but Mike and I weren't invited. They told us we weren't invited because we were poor kids."

"They did?" my dad asked incredulously.

"Yeah, they did," I replied in a hurt tone.

My dad silently shook his head, pushed his glasses up the bridge of his nose, and went back to reading the paper. I stood waiting for an answer.

The year was 1956. I was nine years old. By some twist of fate, I attended the same public school where the rich people sent their kids. We were primarily a sugar-plantation town. The managers of the plantation and the other affluent people, such as doctors, business owners, and bankers, sent their children to this elementary school. After grade six, their children were generally sent off to private schools. Because my family lived on one side of the street, I went to this school. Had I lived on the other side of the street, I would have gone to a different school with kids from families more like mine. After grade six, these kids and I would go on to the public intermediate and high school. There was no private school for them or for me.

My dad finally put down the paper. I could tell he was thinking.

"Well, Son…," he began slowly. "If you want to be rich, you have to learn to make money."

"How do I make money?" I asked.

"Well, use your head, Son," he said, smiling. Even then I knew that really meant, "That's all I'm going to tell you," or "I don't know the answer, so don't embarrass me."

A Partnership Is Formed

The next morning, I told my best friend, Mike, what my dad had said. As best as I could tell, Mike and I were the only poor kids in this school. Mike was also in this school by a twist of fate. Someone had drawn a jog in the line for the school district, and we wound up in school with the rich kids. We weren't really poor, but we felt as if we were because all the other boys had new baseball gloves, new bicycles, new everything.

Mom and Dad provided us with the basics, like food, shelter, and clothes. But that was about it. My dad used to say, "If you want something, work for it." We wanted things, but there was not much work available for nine-year-old boys.

"So what do we do to make money?" Mike asked.

"I don't know," I said. "But do you want to be my partner?"

He agreed, and so on that Saturday morning, Mike became my first business partner. We spent all morning coming up with ideas on how to make money. Occasionally we talked about all the "cool guys" at Jimmy's beach house having fun. It hurt a little, but that hurt was good, because it inspired us to keep thinking of a way to make money. Finally, that afternoon, a bolt of lightning struck. It was an idea Mike got from a science book he had read. Excitedly, we shook hands, and the partnership now had a business.

For the next several weeks, Mike and I ran around our neighborhood, knocking on doors and asking our neighbors if they would save their toothpaste tubes for us. With puzzled looks, most adults consented with a smile. Some asked us what we were doing, to which we replied, "We can't tell you. It's a business secret."

My mom grew distressed as the weeks wore on. We had selected a site next to her washing machine as the place we would stockpile our raw materials. In a brown cardboard box that at one time held catsup bottles, our little pile of used toothpaste tubes began to grow.

Finally my mom put her foot down. The sight of her neighbors' messy, crumpled, used toothpaste tubes had gotten to her. "What are you boys doing?" she asked. "And I don't want to hear again that it's a business secret. Do something with this mess, or I'm going to throw it out."

Mike and I pleaded and begged, explaining that we would soon have enough and then we would begin production. We informed her that we were waiting on a couple of neighbors to finish their toothpaste so we could have their tubes. Mom granted us a one-week extension.

The date to begin production was moved up, and the pressure was on. My first partnership was already being threatened with an eviction notice by my own mom! It became Mike's job to tell the neighbors to quickly use up their toothpaste, saying their dentist wanted them to brush more often anyway. I began to put together the production line.

One day my dad drove up with a friend to see two nine-year-old boys in the driveway with a production line operating at full speed. There was fine white powder everywhere. On a long table were small milk cartons from school, and our family's hibachi grill was glowing with red-hot coals at maximum heat.

Dad walked up cautiously, having to park the car at the base of the driveway since the production line blocked the carport. As he and his friend got closer, they saw a steel pot sitting on top of the coals in which the toothpaste tubes were being melted down. In those days, toothpaste did not come in plastic tubes. The tubes were made of lead. So once the paint was burned off, the tubes were dropped in the small steel pot. They melted until they became liquid, and with my mom's pot holders, we poured the lead through a small hole in the top of the milk cartons.

The milk cartons were filled with plaster of paris. White powder was everywhere. In my haste, I had knocked the bag over, and the entire area looked like it had been hit by a snowstorm. The milk cartons were the outer containers for plaster of paris molds.

My dad and his friend watched as we carefully poured the molten lead through a small hole in the top of the plaster of paris cube.

"Careful," my dad said.

I nodded without looking up.

Finally, once the pouring was through, I put the steel pot down and smiled at my dad.

"What are you boys doing?" he asked with a cautious smile.

"We're doing what you told me to do. We're going to be rich," I said.

"Yup," said Mike, grinning and nodding his head. "We're partners."

"And what is in those plaster molds?" my dad asked.

"Watch," I said. "This should be a good batch."

With a small hammer, I tapped at the seal that divided the cube in half. Cautiously, I pulled up the top half of the plaster mold and a lead nickel fell out.

"Oh, no!" my dad exclaimed. "You're casting nickels out of lead!"

"That's right," Mike said. "We're doing as you told us to do. We're making money."

My dad's friend turned and burst into laughter. My dad smiled and shook his head. Along with a fire and a box of spent toothpaste tubes, in front of him were two little boys covered with white dust smiling from ear to ear.

He asked us to put everything down and sit with him on the front step of our house. With a smile, he gently explained what the word "counterfeiting" meant.

Our dreams were dashed. "You mean this is illegal?" asked Mike in a quivering voice.

"Let them go," my dad's friend said. "They might be developing a natural talent."

My dad glared at him.

"Yes, it is illegal," my dad said gently. "But you boys have shown great creativity and original thought. Keep going. I'm really proud of you!"

Disappointed, Mike and I sat in silence for about twenty minutes before we began cleaning up our mess. The business was over on opening day. Sweeping the powder up, I looked at Mike and said, "I guess Jimmy and his friends are right. We are poor."

My father was just leaving as I said that. "Boys," he said. "You're only poor if you give up. The most important thing is that you did something. Most people only talk and dream of getting rich. You've done something. I'm very proud of the two of you. I will say it again: Keep going. Don't quit."

Mike and I stood there in silence. They were nice words, but we still did not know what to do.

"So how come you're not rich, Dad?" I asked.

"Because I chose to be a schoolteacher. Schoolteachers really don't think about being rich. We just like to teach. I wish I could help you, but I really don't know how to make money."

Mike and I turned and continued our cleanup.

"I know," said my dad. "If you boys want to learn how to be rich, don't ask me. Talk to your dad, Mike."

"My dad?" asked Mike with a scrunched-up face.

"Yeah, your dad," repeated my dad with a smile. "Your dad and I have the same banker, and he raves about your father. He's told me several times that your father is brilliant when it comes to making money."

"My dad?" Mike asked again in disbelief. "Then how come we don't have a nice car and a nice house like the rich kids at school?"

"A nice car and a nice house don't necessarily mean you're rich or you know how to make money," my dad replied. "Jimmy's dad works for the sugar plantation. He's not much different from me. He works for a company, and I work for the government. The company buys the car for him. The sugar company is in financial trouble, and Jimmy's dad may soon have nothing. Your dad is different, Mike. He seems to be building an empire, and I suspect in a few years he will be a very rich man."

With that, Mike and I got excited again. With new vigor, we began cleaning up the mess caused by our now-defunct first business. As we were cleaning, we made plans for how and when to talk to Mike's dad. The problem was that Mike's dad worked long hours and often did not come home until late. His father owned warehouses, a construction company, a chain of stores, and three restaurants. It was the restaurants that kept him out late.

Mike caught the bus home after we had finished cleaning up. He was going to talk to his dad when he got home that night and ask him if he would teach us how to become rich. Mike promised to call as soon as he had talked to his dad, even if it was late.

The phone rang at 8:30 p.m.

"Okay," I said. "Next Saturday." I put the phone down. Mike's dad had agreed to meet with us.

On Saturday I caught the 7:30 a.m. bus to the poor side of town.

The Lessons Begin

Mike and I met with his dad that morning at eight o'clock. He was already busy, having been at work for more than an hour. His construction supervisor was just leaving in his pickup truck as I walked up to his simple, small, and tidy home. Mike met me at the door.

"Dad's on the phone, and he said to wait on the back porch," Mike said as he opened the door.

The old wooden floor creaked as I stepped across the threshold of the aging house. There was a cheap mat just inside the door. The mat was there to hide the years of wear from countless footsteps that the floor had supported. Although clean, it needed to be replaced.

I felt claustrophobic as I entered the narrow living room that was filled with old musty overstuffed furniture that today would be collectors' items. Sitting on the couch were two women, both a little older than my mom. Across from the women sat a man in workman's clothes. He wore khaki slacks and a khaki shirt, neatly pressed but without starch, and polished work boots. He was about 10 years older than my dad. They smiled as Mike and I walked past them toward the back porch. I smiled back shyly.

"Who are those people?" I asked.

"Oh, they work for my dad. The older man runs his warehouses, and the women are the managers of the restaurants. And as you arrived, you saw the construction supervisor who is working on a road project about 50 miles from here. His other supervisor, who is building a track of houses, left before you got here."

"Does this go on all the time?" I asked.

"Not always, but quite often," said Mike, smiling as he pulled up a chair to sit down next to me.

"I asked my dad if he would teach us to make money," Mike said.

"Oh, and what did he say to that?" I asked with cautious curiosity.

"Well, he had a funny look on his face at first, and then he said he would make us an offer."

"Oh," I said, rocking my chair back against the wall. I sat there perched on two rear legs of the chair.

Mike did the same thing.

"Do you know what the offer is?" I asked.

"No, but we'll soon find out."

Suddenly, Mike's dad burst through the rickety screen door and onto the porch. Mike and I jumped to our feet, not out of respect, but because we were startled.

"Ready, boys?" he asked as he pulled up a chair to sit down with us.

We nodded our heads as we pulled our chairs away from the wall to sit in front of him.

He was a big man, about six feet tall and 200 pounds. My dad was taller, about the same weight, and five years older than Mike's dad. They sort of looked alike, though not of the same ethnic makeup. Maybe their energy was similar.

"Mike says you want to learn to make money? Is that correct, Robert?"

I nodded my head quickly, but with a little trepidation. He had a lot of power behind his words and smile.

"Okay, here's my offer. I'll teach you, but I won't do it classroom-style. You work for me, I'll teach you. You don't work for me, I won't teach you. I can teach you faster if you work, and I'm wasting my time if you just want to sit and listen like you do in school. That's my offer. Take it or leave it."

"Ah, may I ask a question first?" I asked.

"No. Take it or leave it. I've got too much work to do to waste my time. If you can't make up your mind decisively, then you'll never learn to make money anyway. Opportunities come and go. Being able to know when to make quick decisions is an important skill. You have the opportunity that you asked for. School is beginning, or it's over in 10 seconds," Mike's dad said with a teasing smile.

"Take it," I said.

"Take it," said Mike.

"Good," said Mike's dad. "Mrs. Martin will be by in 10 minutes. After I'm through with her, you'll ride with her to my superette and you can begin working. I'll pay you 10 cents an hour, and you'll work three hours every Saturday."

"But I have a softball game today," I said.

Mike's dad lowered his voice to a stern tone. "Take it, or leave it," he said.

"I'll take it," I replied, choosing to work and learn instead of playing.

Thirty Cents Later

By 9:00 a.m. that day, Mike and I were working for Mrs. Martin. She was a kind and patient woman. She always said that Mike and I reminded her of her two grown sons. Although kind, she believed in hard work and kept us moving. We spent three hours taking canned goods off the shelves, brushing each can with a feather duster to get the dust off, and then re-stacking them neatly. It was excruciatingly boring work.

Mike's dad, whom I call my rich dad, owned nine of these little superettes, each with a large parking lot. They were the early version of the 7-Eleven convenience stores, little neighborhood grocery stores where people bought items such as milk, bread, butter, and cigarettes. The problem was that this was Hawaii before air-conditioning was widely used, and the stores could not close their doors because of the heat. On two sides of the store, the doors had to be wide open to the road and parking lot. Every time a car drove by or pulled into the parking lot, dust would swirl and settle in the store. We knew we had a job as long as there was no air-conditioning.

For three weeks, Mike and I reported to Mrs. Martin and worked our three hours. By noon, our work was over, and she dropped three little dimes in each of our hands. Now, even at the age of nine in the mid-1950s, 30 cents was not too exciting. Comic books cost 10 cents back then, so I usually spent my money on comic books and went home.

By Wednesday of the fourth week, I was ready to quit. I had agreed to work only because I wanted to learn to make money from Mike's dad, and now I was a slave for 10 cents an hour. On top of that, I had not seen Mike's dad since that first Saturday.

"I'm quitting," I told Mike at lunchtime. School was boring, and now I did not even have my Saturdays to look forward to. But it was the 30 cents that really got to me.

This time Mike smiled.

"What are you laughing at?" I asked with anger and frustration.

"Dad said this would happen. He said to meet with him when you were ready to quit."

"What?" I said indignantly. "He's been waiting for me to get fed up?"

"Sort of," Mike said. "Dad's kind of different. He doesn't teach like your dad. Your mom and dad lecture a lot. My dad is quiet and a man of few words. You just wait till this Saturday. I'll tell him you're ready."

"You mean I've been set up?"

"No, not really, but maybe. Dad will explain on Saturday."

Waiting in Line on Saturday

I was ready to face Mike's dad. Even my real dad was angry with him. My real dad, the one I call the poor one, thought that my rich dad was violating child labor laws and should be investigated.

My educated, poor dad told me to demand what I deserve—at least 25 cents an hour. My poor dad told me that if I did not get a raise, I was to quit immediately.

"You don't need that damned job anyway," said my poor dad with indignation.

At eight o'clock Saturday morning, I walked through the door of Mike's house when Mike's dad opened it.

"Take a seat and wait in line," he said as I entered. He turned and disappeared into his little office next to a bedroom.

I looked around the room and didn't see Mike anywhere. Feeling awkward, I cautiously sat down next to the same two women who were there four weeks earlier. They smiled and slid down the couch to make room for me.

Forty-five minutes went by, and I was steaming. The two women had met with him and left 30 minutes earlier. An older gentleman was in there for 20 minutes and was also gone.

The house was empty, and here I sat in a musty, dark living room on a beautiful sunny Hawaiian day, waiting to talk to a cheapskate who exploited children. I could hear him rustling around the office, talking on the phone, and ignoring me. I was ready to walk out, but for some reason I stayed.

Finally, 15 minutes later, at exactly nine o'clock, rich dad walked out of his office, said nothing, and signaled with his hand for me to enter.

"I understand you want a raise, or you're going to quit," rich dad said as he swiveled in his office chair.

"Well, you're not keeping your end of the bargain," I blurted out, nearly in tears. It was really frightening for me to confront a grown-up.

"You said that you would teach me if I worked for you. Well, I've worked for you. I've worked hard. I've given up my baseball games to work for you, but you haven't kept your word, and you haven't taught me anything. You are a crook like everyone in town thinks you are. You're greedy. You want all the money and don't take care of your employees. You made me wait and don't show me any respect. I'm only a little boy, but I deserve to be treated better."

Rich dad rocked back in his swivel chair, hands up to his chin, and stared at me.

"Not bad," he said. "In less than a month, you sound like most of my employees."

"What?" I asked. Not understanding what he was saying, I continued with my grievance. "I thought you were going to keep your end of the bargain and teach me. Instead you want to torture me? That's cruel. That's really cruel."

"I am teaching you," rich dad said quietly.

"What have you taught me? Nothing!" I said angrily. "You haven't even talked to me once since I agreed to work for peanuts. Ten cents an hour. Hah! I should notify the government about you. We have child labor laws, you know. My dad works for the government, you know."

"Wow!" said rich dad. "Now you sound just like most of the people who used to work for me—people I've either fired or who have quit."

"So what do you have to say?" I demanded, feeling pretty brave for a little kid. "You lied to me. I've worked for you, and you have not kept your word. You haven't taught me anything."

"How do you know that I've not taught you anything?" asked rich dad calmly.

"Well, you've never talked to me. I've worked for three weeks and you have not taught me anything," I said with a pout.

"Does teaching mean talking or a lecture?" rich dad asked.

"Well, yes," I replied.

"That's how they teach you in school," he said, smiling. "But that is not how life teaches you, and I would say that life is the best teacher of all. Most of the time, life does not talk to you. It just sort of pushes you around. Each push is life saying, 'Wake up. There's something I want you to learn.'"

"What is this man talking about?" I asked myself silently. "Life pushing me around was life talking to me?" Now I knew I had to quit my job. I was talking to someone who needed to be locked up.

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

I had no idea what he was talking about.

"Life pushes all of us around. Some people give up and others fight. A few learn the lesson and move on. They welcome life pushing them around. To these few people, it means they need and want to learn something. They learn and move on. Most quit, and a few like you fight."

Rich dad stood and shut the creaky old wooden window that needed repair. "If you learn this lesson, you will grow into a wise, wealthy, and happy young man. If you don't, you will spend your life blaming a job, low pay, or your boss for your problems. You'll live life always hoping for that big break that will solve all your money problems."

Rich dad looked over at me to see if I was still listening. His eyes met mine. We stared at each other, communicating through our eyes. Finally, I looked away once I had absorbed his message. I knew he was right. I was blaming him, and I did ask to learn. I was fighting.

Rich dad continued, "Or if you're the kind of person who has no guts, you just give up every time life pushes you. If you're that kind of person, you'll live all your life playing it safe, doing the right things, saving yourself for some event that never happens. Then you die a boring old man. You'll have lots of friends who really like you because you were such a nice hardworking guy. But the truth is that you let life push you into submission. Deep down you were terrified of taking risks. You really wanted to win, but the fear of losing was greater than the excitement of winning. Deep inside, you and only you will know you didn't go for it. You chose to play it safe."

Our eyes met again.

"You've been pushing me around?" I asked.

"Some people might say that," smiled rich dad. "I would say that I just gave you a taste of life."

"What taste of life?" I asked, still angry, but now curious and ready to learn.

"You boys are the first people who have ever asked me to teach them how to make money. I have more than 150 employees, and not one of them has asked me what I know about money. They ask me for a job and a paycheck, but never to teach them about money. So most will spend the best years of their lives working for money, not really understanding what it is they are working for."

I sat there listening intently.

"So when Mike told me you wanted to learn how to make money, I decided to design a course that mirrored real life. I could talk until I was blue in the face, but you wouldn't hear a thing. So I decided to let life push you around a bit so you could hear me. That's why I only paid you 10 cents."

"So what is the lesson I learned from working for only 10 cents an hour?" I asked. "That you're cheap and exploit your workers?"

Rich dad rocked back and laughed heartily. Finally he said, "You'd best change your point of view. Stop blaming me and thinking I'm the problem. If you think I'm the problem, then you have to change me. If you realize that you're the problem, then you can change yourself, learn something, and grow wiser. Most people want everyone else in the world to change but themselves. Let me tell you, it's easier to change yourself than everyone else."

"I don't understand," I said.

"Don't blame me for your problems," rich dad said, growing impatient.

"But you only pay me 10 cents."

"So what are you learning?" rich dad asked, smiling.

"That you're cheap," I said with a sly grin.

"See, you think I'm the problem," said rich dad.

"But you are."

"Well, keep that attitude and you'll learn nothing. Keep the attitude that I'm the problem and what choices do you have?"

"Well, if you don't pay me more or show me more respect and teach me, I'll quit."

"Well put," rich dad said. "And that's exactly what most people do. They quit and go looking for another job, a better opportunity, and higher pay, actually thinking that this will solve the problem. In most cases, it won't."

"So what should I do?" I asked. "Just take this measly 10 cents an hour and smile?"

Rich dad smiled. "That's what the other people do. But that's all they do, waiting for a raise thinking that more money will solve their problems. Most just accept it, and some take a second job working harder, but again accepting a small paycheck."

I sat staring at the floor, beginning to understand the lesson rich dad was presenting. I could sense it was a taste of life. Finally, I looked up and asked, "So what will solve the problem?"

"This," he said, leaning forward in his chair and tapping me gently on the head. "This stuff between your ears."

It was at that moment that rich dad shared the pivotal point of view that separated him from his employees and my poor dad—and led him to eventually become one of the richest men in Hawaii, while my highly educated but poor dad struggled financially all his life. It was a singular point of view that made all the difference over a lifetime.

Rich dad explained this point of view over and over, which I call lesson number one: *The poor and the middle class work for money. The rich have money work for them.*

On that bright Saturday morning, I learned a completely different point of view from what I had been taught by my poor dad. At the age of nine, I understood that both dads wanted me to learn. Both dads encouraged me to study, but not the same things.

My highly educated dad recommended that I do what he did. "Son, I want you to study hard, get good grades, so you can find a safe, secure job with a big company. And make sure it has excellent benefits." My rich dad wanted me to learn how money works so I could make it work for me.

These lessons I would learn through life with his guidance, not because of a classroom.

My rich dad continued my first lesson, "I'm glad you got angry about working for 10 cents an hour. If you hadn't got angry and had simply accepted it, I would have to tell you that I could not teach you. You see, true learning takes energy, passion, and a burning desire. Anger is a big part of that formula, for passion is anger and love combined. When it comes to money, most people want to play it safe and feel secure. So passion does not direct them. Fear does."

"So is that why they'll take jobs with low pay?" I asked.

"Yes," said rich dad. "Some people say I exploit people because I don't pay as much as the sugar plantation or the government. I say the people exploit themselves. It's their fear, not mine."

"But don't you feel you should pay them more?" I asked.

"I don't have to. And besides, more money will not solve their problems. Just look at your dad. He makes a lot of money, and he still can't pay his bills. Most people, given more money, only get into more debt."

"So that's why the 10 cents an hour," I said, smiling. "It's a part of the lesson."

"That's right," smiled rich dad. "You see, your dad went to school and got an excellent education, so he could get a high-paying job. But he still has money problems because he never learned anything about money in school. On top of that, he believes in working for money."

"And you don't?" I asked.

"No, not really," said rich dad. "If you want to learn to work for money, then stay in school. That is a great place to learn to do that. But if you want to learn how to have money work for you, then I will teach you that. But only if you want to learn."

"Wouldn't everyone want to learn that?" I asked.

"No," said rich dad, "simply because it's easier to learn to work for money, especially if fear is your primary emotion when the subject of money is discussed."

"I don't understand," I said with a frown.

"Don't worry about that for now. Just know that it's fear that keeps most people working at a job: the fear of not paying their bills, the fear of being fired, the fear of not having enough money, and the fear of starting over. That's the price of studying to learn a profession or trade, and then working for money. Most people become a slave to money—and then get angry at their boss."

"Learning to have money work for you is a completely different course of study?" I asked.

"Absolutely," rich dad answered. "Absolutely."

We sat in silence on that beautiful Hawaiian Saturday morning. My friends had just started their Little League baseball game, but for some reason I was now thankful I had decided to work for 10 cents an hour. I sensed that I was about to learn something my friends wouldn't learn in school.

"Ready to learn?" asked rich dad.

"Absolutely," I said with a grin.

"I have kept my promise. I've been teaching you from afar," my rich dad said. "At nine years old, you've gotten a taste of what it feels like to work for money. Just multiply your last month by fifty years and you will have an idea of what most people spend their life doing."

"I don't understand," I said.

"How did you feel waiting in line to see me, once to get hired and once to ask for more money?"

"Terrible," I said.

"If you choose to work for money, that is what life will be like," said rich dad.

"And how did you feel when Mrs. Martin dropped three dimes in your hand for three hours of work?"

"I felt like it wasn't enough. It seemed like nothing. I was disappointed," I said.

"And that is how most employees feel when they look at their paychecks—especially after all the tax and other deductions are taken out. At least you got 100 percent."

"You mean most workers don't get paid everything?" I asked with amazement.

"Heavens no!" said rich dad. "The government always takes its share first."

"How do they do that?" I asked.

"Taxes," said rich dad. "You're taxed when you earn. You're taxed when you spend. You're taxed when you save. You're taxed when you die."

"Why do people let the government do that to them?"

"The rich don't," said rich dad with a smile. "The poor and the middle class do. I'll bet you that I earn more than your dad, yet he pays more in taxes."

"How can that be?" I asked. At my age, that made no sense to me. "Why would someone let the government do that to them?"

Rich dad rocked slowly and silently in his chair, just looking at me.

"Ready to learn?" he asked.

I nodded my head slowly.

"As I said, there is a lot to learn. Learning how to have money work for you is a lifetime study. Most people go to college for four years, and their education ends. I already know that my study of money will continue over my lifetime, simply because the more I find out, the more I find out I need to know. Most people never study the subject. They go to work, get their paycheck, balance their checkbooks, and that's it. Then they wonder why they have money problems. They think that more money will solve the problem and don't realize that it's their lack of financial education that is the problem."

"So my dad has tax problems because he doesn't understand money?" I asked, confused.

"Look," said rich dad, "taxes are just one small section on learning how to have money work for you. Today, I just wanted to find out if you still have the passion to learn about money. Most people don't. They want to go to school, learn a profession, have fun at their work, and earn lots of money. One day they wake up with big money problems, and then they can't stop working. That's the price of only knowing how to work for money instead of studying how to have money work for you. So do you still have the passion to learn?" asked rich dad.

I nodded my head.

"Good," said rich dad. "Now get back to work. This time, I will pay you nothing."

"What?" I asked in amazement.

"You heard me. Nothing. You will work the same three hours every Saturday, but this time you will not be paid 10 cents per hour. You said you wanted to learn to not work for money, so I'm not going to pay you anything."

I couldn't believe what I was hearing.

"I've already had this conversation with Mike and he's already working, dusting and stacking canned goods for free. You'd better hurry and get back there."

"That's not fair," I shouted. "You've got to pay something!"

"You said you wanted to learn. If you don't learn this now, you'll grow up to be like the two women and the older man sitting in my living room, working for money and hoping I don't fire them. Or like your dad, earning lots of money only to be in debt up to his eyeballs, hoping more money will solve the problem. If that's what you want, I'll go back to our original deal of 10 cents an hour. Or you can do what most adults do: Complain that there is not enough pay, quit, and go looking for another job."

"But what do I do?" I asked.

Rich dad tapped me on the head. "Use this," he said. "If you use it well, you will soon thank me for giving you an opportunity and you will grow into a rich man."

I stood there, still not believing what a raw deal I was handed. I came to ask for a raise, and somehow I was instead working for nothing.

Rich dad tapped me on the head again and said, "Use this. Now get out of here and get back to work."

Lesson #1: The Rich Don't Work for Money

I didn't tell my poor dad I wasn't being paid. He wouldn't have understood, and I didn't want to try to explain something I didn't understand myself.

For three more weeks, Mike and I worked three hours every Saturday for nothing. The work didn't bother me, and the routine got easier, but it was the missed baseball games and not being able to afford to buy a few comic books that got to me.

Rich dad stopped by at noon on the third week. We heard his truck pull up in the parking lot and sputter when the engine was turned off. He entered the store and greeted Mrs. Martin with a hug. After finding out how things were going in the store, he reached into the ice-cream freezer, pulled out two bars, paid for them, and signaled to Mike and me.

"Let's go for a walk, boys."

We crossed the street, dodging a few cars, and walked across a large grassy field where a few adults were playing softball. Sitting down at a lone picnic table, he handed Mike and me the treats.

"How's it going, boys?"

"Okay," Mike said.

I nodded in agreement.

"Learn anything yet?" rich dad asked.

Mike and I looked at each other, shrugged our shoulders, and shook our heads in unison.

Avoiding One of Life's Biggest Traps

"Well, you boys had better start thinking. You're staring at one of life's biggest lessons. If you learn it, you'll enjoy a life of great freedom and security. If you don't, you'll wind up like Mrs. Martin and most of the people playing softball in this park. They work very hard for little money, clinging to the illusion of job security and looking forward to a three-week vacation each year and maybe a skimpy pension after forty-five years of service. If that excites you, I'll give you a raise to 25 cents an hour."

"But these are good hardworking people. Are you making fun of them?" I demanded.

A smile came over rich dad's face.

"Mrs. Martin is like a mother to me. I would never be that cruel. I may sound unkind because I'm doing my best to point something out to the two of you. I want to expand your point of view so you can see something most people never have the benefit of seeing because their vision is too narrow. Most people never see the trap they are in."

Mike and I sat there, uncertain of his message. He sounded cruel, yet we could sense he was trying to drive home a point.

With a smile, rich dad said, "Doesn't that 25 cents an hour sound good? Doesn't it make your heart beat a little faster?"

I shook my head no, but it really did. Twenty-five cents an hour would be big bucks to me.

"Okay, I'll pay you a dollar an hour," rich dad said, with a sly grin.

Now my heart started to race. My brain was screaming, "Take it. Take it." I could not believe what I was hearing. Still, I said nothing.

"Okay, two dollars an hour."

My little brain and heart nearly exploded. After all, it was 1956 and being paid $2 an hour would have made me the richest kid in the world. I couldn't imagine earning that kind of money. I wanted to say yes. I wanted the deal. I could picture a new bicycle, new baseball glove, and the adoration of my friends when I flashed some cash. On top of that, Jimmy and his rich friends could never call me poor again. But somehow my mouth stayed shut.

The ice cream had melted and was running down my hand. Rich dad was looking at two boys staring back at him, eyes wide open and brains empty. He was testing us, and he knew there was a part of our emotions that wanted to take the deal. He understood that every person has a weak and needy part of their soul that can be bought, and he knew that every individual also had a part of their soul that was resilient and could never be bought. It was only a question of which one was stronger.

"Okay, five dollars an hour."

Suddenly I was silent. Something had changed. The offer was too big and ridiculous. Not many grown-ups in 1956 made more than that, but quickly my temptation disappeared, and calm set in. Slowly, I turned to my left to look at Mike. He looked back at me. The part of my soul that was weak and needy was silenced. The part of me that had no price took over. I knew Mike had gotten to that point too.

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

People's lives are forever controlled by two emotions: fear and greed.

"What pattern?" I asked.

"The pattern of get up, go to work, pay bills; get up, go to work, pay bills. People's lives are forever controlled by two emotions: fear and greed. Offer them more money and they continue the cycle by increasing their spending. This is what I call the Rat Race."

"There is another way?" Mike asked.

"Yes," said rich dad slowly. "But only a few people find it."

"And what is that way?" Mike asked.

"That's what I hope you boys will learn as you work and study with me. That is why I took away all forms of pay."

"Any hints?" Mike asked. "We're kind of tired of working hard, especially for nothing."

"Well, the first step is telling the truth," said rich dad.

"We haven't been lying," I said.

"I did not say you were lying. I said to tell the truth," rich dad retorted.

"The truth about what?" I asked.

"How you're feeling," rich dad said. "You don't have to say it to anyone else. Just admit it to yourself."

"You mean the people in this park, the people who work for you, Mrs. Martin, they don't do that?" I asked.

"I doubt it," said rich dad. "Instead, they feel the fear of not having money. They don't confront it logically. They react emotionally instead of using their heads," rich dad said. "Then, they get a few bucks in their hands and again, the emotions of joy, desire, and greed take over. And again they react, instead of think."

"So their emotions control their brain," Mike said.

"That's correct," said rich dad. "Instead of admitting the truth about how they feel, they react to their feelings and fail to think. They feel the fear so they go to work, hoping that money will soothe the fear, but it doesn't. It continues to haunt them and they return to work, hoping again that money will calm their fears, and again it doesn't. Fear keeps them in this trap of working, earning money, working, earning money, hoping the fear will go away. But every day they get up, and that old fear wakes up with them. For millions of people that old fear keeps them awake all night, causing a night of turmoil and worry. So they get up and go to work, hoping that a paycheck will kill that fear gnawing at their soul. Money is running their lives, and they refuse to tell the truth about that. Money is in control of their emotions and their souls."

Rich dad sat quietly, letting his words sink in. Mike and I heard what he said but didn't understand fully what he was talking about. I just knew that I often wondered why grown-ups hurried off to work. It did not seem like much fun, and they never looked that happy, but something kept them going.

Realizing we had absorbed as much as possible of what he was talking about, rich dad said, "I want you boys to avoid that trap. That is really what I want to teach you. Not just to be rich, because being rich does not solve the problem."

"It doesn't?" I asked, surprised.

"No, it doesn't. Let me explain the other emotion: desire. Some call it greed, but I prefer desire. It's perfectly normal to desire something better, prettier, more fun, or exciting. So people also work for money because of desire. They desire money for the joy they think it can buy. But the joy that money brings is often short-lived, and they soon need more money for more joy, more pleasure, more comfort, and more security. So they keep working, thinking money will soothe their souls that are troubled by fear and desire. But money can't do that."

"Even rich people do this?" Mike asked.

"Rich people included," said rich dad. "In fact, the reason many rich people are rich isn't because of desire, but because of fear. They believe that money can eliminate the fear of being poor, so they amass tons of it, only to find the fear gets worse. Now they fear losing the money. I have friends who keep working even though they have plenty. I know people who have millions who are more afraid now than when they were poor. They're terrified of losing it all. The fears that drove them to get rich got worse. That weak and needy part of their soul is actually screaming louder. They don't want to lose the big houses, the cars and the high life money has bought them. They worry about what their friends would say if they lost all their money. Many are emotionally desperate and neurotic, although they look rich and have more money."

"So is a poor man happier?" I asked.

"No, I don't think so," replied rich dad. "The avoidance of money is just as psychotic as being attached to money."

As if on cue, the town derelict went past our table, stopping by the large rubbish can and rummaging around in it. The three of us watched him with great interest, when before we probably would have just ignored him.

Rich dad pulled a dollar out of his wallet and gestured to the older man. Seeing the money, the derelict came over immediately, took the bill, thanked rich dad profusely, and hurried off, ecstatic with his good fortune.

"He's not much different from most of my employees," said rich dad. "I've met so many people who say, 'Oh, I'm not interested in money.' Yet they'll work at a job for eight hours a day. That's a denial of truth. If they weren't interested in money, then why are they working? That kind of thinking is probably more psychotic than a person who hoards money."

As I sat there listening to my rich dad, my mind flashed back to the countless times my own dad said, "I'm not interested in money." He said those words often. He also covered himself by always saying, "I work because I love my job."

> ***So many people say, "Oh, I'm not interested in money." Yet they'll work at a job for eight hours a day.***

"So what do we do?" I asked. "Not work for money until all traces of fear and greed are gone?"

"No, that would be a waste of time," said rich dad. "Emotions are what make us human. The word 'emotion' stands for 'energy in motion.' Be truthful about your emotions and use your mind and emotions in your favor, not against yourself."

"Whoa!" said Mike.

"Don't worry about what I just said. It will make more sense in years to come. Just be an observer, not a reactor, to your emotions. Most people do not know that it's their emotions that are doing the thinking. Your emotions are your emotions, but you have got to learn to do your own thinking."

"Can you give me an example?" I asked.

"Sure," replied rich dad. "When a person says, 'I need to find a job,' it's most likely an emotion doing the thinking. Fear of not having money generates that thought."

"But people do need money if they have bills to pay," I said.

"Sure they do," smiled rich dad. "All I'm saying is that it's fear that is all too often doing the thinking."

"I don't understand," said Mike.

"For example," said rich dad. "If the fear of not having enough money arises, instead of immediately running out to get a job, they instead might ask themselves this question: 'Will a job be the best solution to this fear over the long run?' In my opinion, the answer is no. A job is really a short-term solution to a long-term problem."

"But my dad is always saying, 'Stay in school and get good grades, so you can find a safe, secure job,'" I interjected, somewhat confused.

"Yes, I understand he says that," said rich dad, smiling. "Most people recommend that, and it's a good path for most people. But people make that recommendation primarily out of fear."

"You mean my dad says that because he's afraid?"

"Yes," said rich dad. "He's terrified that you won't earn enough money and won't fit into society. Don't get me wrong. He loves you and wants the best for you. I too believe an education and a job are important, but it won't handle the fear. You see, that same fear that makes him get up in the morning to earn a few bucks is the fear that is causing him to be so fanatical about your going to school."

"So what do you recommend?" I asked.

"I want to teach you to master the power of money, instead of being afraid of it. They don't teach that in school and, if you don't learn it, you become a slave to money."

It was finally making sense. He wanted us to widen our views and to see what the Mrs. Martins of this world couldn't see. He used examples that sounded cruel at the time, but I've never forgotten them. My vision widened that day, and I began to see the trap that lay ahead for most people.

"You see, we're all employees ultimately. We just work at different levels," said rich dad. "I just want you boys to have a chance to avoid the trap caused by those two emotions, fear and desire. Use them in your favor, not against you. That's what I want to teach you. I'm not interested in just teaching you to make a pile of money. That won't handle the fear or desire. If you don't first handle fear and desire, and you get rich, you'll only be a highly paid slave."

"So how do we avoid the trap?" I asked.

"The main cause of poverty or financial struggle is fear and ignorance, not the economy or the government or the rich. It's self-inflicted fear and ignorance that keep people trapped. So you boys go to school and get your college degrees, and I'll teach you how to stay out of the trap."

The pieces of the puzzle were appearing. My highly educated dad had a great education and a great career, but school never told him how to handle money or his fear of it. It became clear that I could learn different and important things from two fathers.

"So you've been talking about the fear of not having money. How does the desire for money affect our thinking?" Mike asked.

"How did you feel when I tempted you with a pay raise? Did you notice your desires rising?"

We nodded our heads.

"By not giving in to your emotions, you were able to delay your reactions and think. That is important. We will always have emotions of fear and greed. From here on in, it's imperative for you to use those emotions to your advantage, and for the long term to not let your emotions control your thinking. Most people use fear and greed against themselves. That's the start of ignorance. Most people live their lives chasing paychecks, pay raises and job security because of the emotions of desire and fear, not really questioning where those emotion-driven thoughts are leading them. It's just like the picture of a donkey dragging a cart with its owner dangling a carrot just in front of its nose. The donkey's owner may be going where he wants to, but the donkey is chasing an illusion. Tomorrow there will only be another carrot for the donkey."

"You mean the moment I picture a new baseball glove, candy and toys, that's like a carrot to a donkey?" Mike asked.

"Yes, and as you get older, your toys get more expensive—a new car, a boat, and a big house to impress your friends," said rich dad with a smile. "Fear pushes you out the door, and desire calls to you. That's the trap."

"So what's the answer," Mike asked.

"What intensifies fear and desire is ignorance. That is why rich people with lots of money often have more fear the richer they get. Money is the carrot, the illusion. If the donkey could see the whole picture, it might rethink its choice to chase the carrot."

Rich dad went on to explain that a human's life is a struggle between ignorance and illumination.

He explained that once a person stops searching for information and self-knowledge, ignorance sets in. That struggle is a moment-to-moment decision—to learn to open or close one's mind.

"Look, school is very important. You go to school to learn a skill or profession to become a contributing member of society. Every culture needs teachers, doctors, mechanics, artists, cooks, businesspeople, police officers, firefighters, and soldiers. Schools train them so society can thrive and flourish," said rich dad. "Unfortunately, for many people school is the end, not the beginning."

There was a long silence. Rich dad was smiling. I didn't comprehend everything he said that day. But as with most great teachers, his words continued to teach for years.

"I've been a little cruel today," said rich dad. "But I want you to always remember this talk. I want you to always think of Mrs. Martin. And I want you always to remember that donkey. Never forget that fear and desire can lead you into life's biggest trap if you're not aware of them controlling your thinking. To spend your life living in fear, never exploring your dreams, is cruel. To work hard for money, thinking that it will buy you things that will make you happy is also cruel. To wake up in the middle of the night terrified about paying bills is a horrible way to live. To live a life dictated by the size of a paycheck is not really living a life. Thinking that a job makes you secure is lying to yourself. That's cruel, and that's the trap I want you to avoid. I've seen how money runs people's lives. Don't let that happen to you. Please don't let money run your life."

A softball rolled under our table. Rich dad picked it up and threw it back.

"So what does ignorance have to do with greed and fear?" I asked.

"Because it is ignorance about money that causes so much greed and fear," said rich dad. "Let me give you some examples. A doctor, wanting more money to better provide for his family, raises his fees. By raising his fees, it makes health care more expensive for everyone.

It hurts the poor people the most, so they have worse health than those with money. Because the doctors raise their fees, the attorneys raise their fees. Because the attorneys' fees have gone up, schoolteachers want a raise, which raises our taxes, and on and on and on. Soon there will be such a horrifying gap between the rich and the poor that chaos will break out and another great civilization will collapse. History proves that great civilizations collapse when the gap between the haves and have-nots is too great. Sadly, America is on that same course because we haven't learned from history. We only memorize historical dates and names, not the lesson."

"Aren't prices supposed to go up?" I asked.

"In an educated society with a well-run government, prices should actually come down. Of course, that is often only true in theory. Prices go up because of greed and fear caused by ignorance. If schools taught people about money, there would be more money and lower prices. But schools focus only on teaching people to work for money, not how to harness money's power."

"But don't we have business schools?" Mike asked. "And haven't you encouraged me to go for my MBA?"

"Yes," said rich dad. "But all too often business schools train employees to become sophisticated bean-counters. Heaven forbid a bean-counter takes over a business. All they do is look at the numbers, fire people, and kill the business. I know this because I hire bean-counters. All they think about is cutting costs and raising prices, which cause more problems. Bean-counting is important. I wish more people knew it, but it, too, is not the whole picture," added rich dad angrily.

"So is there an answer?" asked Mike.

"Yes," said rich dad. "Learn to use your emotions to think, not think with your emotions. When you boys mastered your emotions by agreeing to work for free, I knew there was hope. When you again resisted your emotions when I tempted you with more money, you were again learning to think in spite of being emotionally charged. That's the first step."

"Why is that step so important?" I asked.

"Well, that's up to you to find out. If you want to learn, I'll take you boys into the briar patch, a place almost everyone else avoids. If you go with me, you'll let go of the idea of working for money and instead learn to have money work for you."

"And what will we get if we go with you. What if we agree to learn from you? What will we get?" I asked.

"The same thing Brer Rabbit got," said rich dad, referring to the classic children's story.

"Is there a briar patch?" I asked.

"Yes," said rich dad. "The briar patch is our fear and greed. Confronting fear, weaknesses, and neediness by choosing our own thoughts is the way out."

"Choosing our thoughts?" Mike asked, puzzled.

"Yes. Choosing what we think rather than reacting to our emotions. Instead of just getting up and going to work because not having the money to pay your bills is scaring you, ask yourself, 'Is working harder at this the best solution to this problem?' Most people are too afraid to rationally think things through and instead run out the door to a job they hate. The Tar Baby is in control. That's what I mean by choosing your thoughts."

"And how do we do that?" Mike asked.

"That's what I will teach you. I'll teach you to have a choice of thoughts rather than a knee-jerk reaction, like gulping down your morning coffee and running out the door.

"Remember what I said before: A job is only a short-term solution to a long-term problem. Most people have only one problem in mind, and it's short-term. It's the bills at the end of the month, the Tar Baby. Money controls their lives, or should I say the fear and ignorance about money controls it. So they do as their parents did. They get up every day and go work for money, not taking the time to ask the question, 'Is there another way?' Their emotions now control their thinking, not their heads."

"Can you tell the difference between emotions thinking and the head thinking?" Mike asked.

"Oh, yes. I hear it all the time," said rich dad. "I hear things like, 'Well, everyone has to work.' Or 'The rich are crooks.' Or 'I'll get another job. I deserve this raise. You can't push me around.' Or 'I like this job because it's secure.' No one asks, 'Is there something I'm missing here?' which would break through the emotional thought and give you time to think clearly."

As we headed back to the store, rich dad explained that the rich really did "make money." They did not work for it. He went on to explain that when Mike and I were casting five-cent pieces out of lead, thinking we were making money, we were very close to thinking the way the rich think. The problem was that creating money is legal for the government and banks to do, but illegal for us to do. There are legal ways to create money from nothing, he told us.

Rich dad went on to explain that the rich know that money is an illusion, truly like the carrot for the donkey. It's only out of fear and greed that the illusion of money is held together by billions of people who believe that money is real. It's not. Money is really made up. It is only because of the illusion of confidence and the ignorance of the masses that this house of cards stands.

He talked about the gold standard that America was on, and that each dollar bill was actually a silver certificate. What concerned him was the rumor that we would someday go off the gold standard and our dollars would no longer be backed by something tangible.

"If that happens, boys, all hell will break loose. The poor, the middle class, and the ignorant will have their lives ruined simply because they will continue to believe that money is real and that the company they work for, or the government, will look after them."

We really did not understand what he was saying that day, but over the years, it made more and more sense.

Seeing What Others Miss

As he climbed into his pickup truck outside his convenience store, rich dad said, "Keep working boys, but the sooner you forget about needing a paycheck, the easier your adult life will be. Keep using your brain, work for free, and soon your mind will show you ways of making money far beyond what I could ever pay you. You will see things that other people never see. Most people never see these opportunities because they're looking for money and security, so that's all they get. The moment you see one opportunity, you'll see them for the rest of your life. The moment you do that, I'll teach you something else. Learn this, and you'll avoid one of life's biggest traps.

Mike and I picked up our things from the store and waved goodbye to Mrs. Martin. We went back to the park, to the same picnic bench, and spent several more hours thinking and talking.

We spent the next week at school thinking and talking, too. For two more weeks, we kept thinking, talking, and working for free.

At the end of the second Saturday, I was again saying goodbye to Mrs. Martin and looking at the comic-book stand with a longing gaze. The hard thing about not even getting 30 cents every Saturday was that I didn't have any money to buy comic books. Suddenly, as Mrs. Martin said goodbye to Mike and me, I saw her do something I'd never seen her do before.

Mrs. Martin was cutting the front page of the comic book in half. She kept the top half of the comic book cover and threw the rest of the book into a large cardboard box. When I asked her what she did with the comic books, she said, "I throw them away. I give the top half of the cover back to the comic-book distributor for credit when he brings in the new comics. He's coming in an hour."

Mike and I waited for an hour. Soon the distributor arrived, and I asked him if we could have the comic books. To my delight, he said, "You can have them if you work for this store and do not resell them."

Remember our old business partnership? Well, Mike and I revived it. Using a spare room in Mike's basement, we began piling hundreds of comic books in that room. Soon our comic-book library was open to the public. We hired Mike's younger sister, who loved to study, to be head librarian. She charged each child 10 cents admission to the library, which was open from 2:30 p.m. to 4:30 p.m. every day after school. The customers, the children of the neighborhood, could read as many comics as they wanted in two hours. It was a bargain for them since a comic cost 10 cents each, and they could read five or six in two hours.

Mike's sister would check the kids as they left to make sure they weren't borrowing any comic books. She also kept the books, logging in how many kids showed up each day, who they were, and any comments they might have. Mike and I averaged $9.50 per week over a three-month period. We paid his sister one dollar a week and allowed her to read the comics for free, which she rarely did since she was always studying.

Mike and I kept our agreement by working in the store every Saturday and collecting all the comic books from the different stores. We kept our agreement to the distributor by not selling any comic books. We burned them once they got too tattered. We tried opening a branch office, but we could never quite find someone as trustworthy and dedicated as Mike's sister. At an early age, we found out how hard it was to find good staff.

Three months after the library first opened, a fight broke out in the room. Some bullies from another neighborhood pushed their way in, and Mike's dad suggested we shut down the business. So our comic-book business shut down, and we stopped working on Saturdays at the convenience store. But rich dad was excited because he had new things he wanted to teach us. He was happy because we had learned our first lesson so well: We learned to make money work for us. By not getting paid for our work at the store, we were forced to use our imaginations to identify an opportunity to make money. By starting our own business, the comic-book library, we were in control of our own finances, not dependent on an employer. The best part was that our business generated money for us, even when we weren't physically there. Our money worked for us.

Instead of paying us money, rich dad had given us so much more.

Chapter Two

LESSON 2: WHY TEACH FINANCIAL LITERACY?

It's not how much money you make. It's how much money you keep.

In 1990, Mike took over his father's empire and is, in fact, doing a better job than his dad did. We see each other once or twice a year on the golf course. He and his wife are wealthier than you could imagine. Rich dad's empire is in great hands, and Mike is now grooming his son to take his place, as his dad had groomed us.

In 1994, I retired at the age of 47, and my wife Kim was 37. Retirement does not mean not working. For us, it means that, barring unforeseen cataclysmic changes, we can work or not work, and our wealth grows automatically, staying ahead of inflation. Our assets are large enough to grow by themselves. It's like planting a tree. You water it for years, and then one day it doesn't need you anymore. Its roots are implanted deep enough. Then the tree provides shade for your enjoyment.

Mike chose to run the empire, and I chose to retire.

Whenever I speak to groups of people, they often ask what I would recommend that they do. "How do I get started?" "Is there a book you would recommend?" "What should I do to prepare my children?" "What is your secret to success?" "How do I make millions?"

Whenever I hear one of these questions, I'm reminded of the following story:

The Richest Businessmen

In 1923 a group of our greatest leaders and richest businessmen held a meeting at the Edgewater Beach hotel in Chicago. Among them were Charles Schwab, head of the largest independent steel company; Samuel Insull, president of the world's largest utility; Howard Hopson, head of the largest gas company; Ivar Kreuger, president of International Match Co., one of the world's largest companies at that time; Leon Frazier, president of the Bank of International Settlements; Richard Whitney, president of the New York Stock Exchange; Arthur Cotton and Jesse Livermore, two of the biggest stock speculators; and Albert Fall, a member of President Harding's cabinet. Twenty-five years later, nine of these titans ended their lives as follows: Schwab died penniless after living for five years on borrowed money. Insull died broke in a foreign land, and Kreuger and Cotton also died broke. Hopson went insane. Whitney and Albert Fall were released from prison, and Fraser and Livermore committed suicide.

I doubt if anyone can say what really happened to these men. If you look at the date, 1923, it was just before the 1929 market crash and the Great Depression, which I suspect had a great impact on these men and their lives. The point is this: Today we live in times of greater and faster change than these men did. I suspect there will be many booms and busts in the coming years that will parallel the ups and downs these men faced. I am concerned that too many people are too focused on money and not on their greatest wealth, their education. If people are prepared to be flexible, keep an open mind and learn, they will grow richer and richer despite tough changes. If they think money will solve problems, they will have a rough ride. Intelligence solves problems and produces money. Money without financial intelligence is money soon gone.

Most people fail to realize that in life, it's not how much money you make. It's how much money you keep. We've all heard stories of lottery winners who are poor, then suddenly rich, and then poor again. They win millions, yet are soon back where they started. Or stories of professional athletes, who at the age of 24 are earning millions, but are sleeping under a bridge 10 years later.

I remember a story of a young basketball player who a year ago had millions. Today, at just 29, he claims his friends, attorney, and accountant took his money, and he was forced to work at a car wash for minimum wage. He was fired from the car wash because he refused to take off his championship ring as he was wiping off the cars. His story made national news and he is appealing his termination, claiming hardship and discrimination. He claims that the ring is all he has left and if it was stripped away, he'll crumble.

I know so many people who became instant millionaires. And while I am glad some people have become richer and richer, I caution them that in the long run, it's not how much money you make. It's how much you keep, and how many generations you keep it.

So when people ask, "Where do I get started?" or "Tell me how to get rich quick," they often are greatly disappointed with my answer. I simply say to them what my rich dad said to me when I was a little kid. "If you want to be rich, you need to be financially literate."

That idea was drummed into my head every time we were together. As I said, my educated dad stressed the importance of reading books, while my rich dad stressed the need to master financial literacy.

If you are going to build the Empire State Building, the first thing you need to do is dig a deep hole and pour a strong foundation. If you are going to build a home in the suburbs, all you need to do is pour a six-inch slab of concrete. Most people, in their drive to get rich, are trying to build an Empire State Building on a six-inch slab.

Our school system, created in the Agrarian Age, still believes in homes with no foundation. Dirt floors are still the rage. So kids graduate from school with virtually no financial foundation. One day, sleepless and deep in debt in suburbia, living the American Dream, they decide that the answer to their financial problems is to find a way to get rich quick.

Construction on the skyscraper begins. It goes up quickly, and soon, instead of the Empire State Building, we have the Leaning Tower of Suburbia. The sleepless nights return.

As for Mike and me in our adult years, both of our choices were possible because we were taught to pour a strong financial foundation when we were just kids.

Accounting is possibly the most confusing, boring subject in the world, but if you want to be rich long-term, it could be the most important subject. For rich dad, the question was how to take a boring and confusing subject and teach it to kids. The answer he found was to make it simple by teaching it in pictures.

My rich dad poured a strong financial foundation for Mike and me. Since we were just kids, he created a simple way to teach us.

For years he only drew pictures and used few words. Mike and I understood the simple drawings, the jargon, the movement of money, and then in later years, rich dad began adding numbers. Today, Mike has gone on to master much more complex and sophisticated accounting analysis because he had to in order to run his empire. I am not as sophisticated because my empire is smaller, yet we come from the same simple foundation. Over the following pages, I offer to you the same simple line drawings Mike's dad created for us. Though basic, those drawings helped guide two little boys in building great sums of wealth on a solid and deep foundation.

Rich people acquire assets. The poor and middle class acquire liabilities that they think are assets.

Rule #1: You must know the difference between an asset and a liability, and buy assets.

If you want to be rich, this is all you need to know. It is rule number one. It is the only rule. This may sound absurdly simple, but most people have no idea how profound this rule is. Most people struggle financially because they do not know the difference between an asset and a liability.

"Rich people acquire assets. The poor and middle class acquire liabilities that they think are assets," said rich dad.

When rich dad explained this to Mike and me, we thought he was kidding. Here we were, nearly teenagers and waiting for the secret to getting rich, and this was his answer. It was so simple that we stopped for a long time to think about it.

"What is an asset?" asked Mike.

"Don't worry right now," said rich dad. "Just let the idea sink in. If you can comprehend the simplicity, your life will have a plan and be financially easy. It is simple. That is why the idea is missed."

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

Rich dad nodded his head. "It's that simple."

"If it's that simple, how come everyone is not rich?" I asked.

Rich dad smiled. "Because people do not know the difference between an asset and a liability."

I remember asking, "How could adults be so misguided? If it is that simple, if it is that important, why would everyone not want to find out?"

It took rich dad only a few minutes to explain what assets and liabilities were.

As an adult, I have difficulty explaining it to other adults. The simplicity of the idea escapes them because they have been educated differently. They were taught by other educated professionals, such as bankers, accountants, real estate agents, financial planners, and so forth. The difficulty comes in asking adults to unlearn, or become children again. An intelligent adult often feels it is demeaning to pay attention to simplistic definitions.

Rich dad believed in the KISS principle—Keep It Simple, Stupid (or Keep It Super Simple)—so he kept it simple for us, and that made our financial foundation strong.

So what causes the confusion? How could something so simple be so screwed up? Why would someone buy an asset that was really a liability? The answer is found in basic education.

We focus on the word "literacy" and not "financial literacy." What defines something to be an asset or a liability are not words. In fact, if you really want to be confused, look up the words "asset" and "liability" in the dictionary. I know the definition may sound good to a trained accountant, but for the average person, it makes no sense. But we adults are often too proud to admit that something does not make sense.

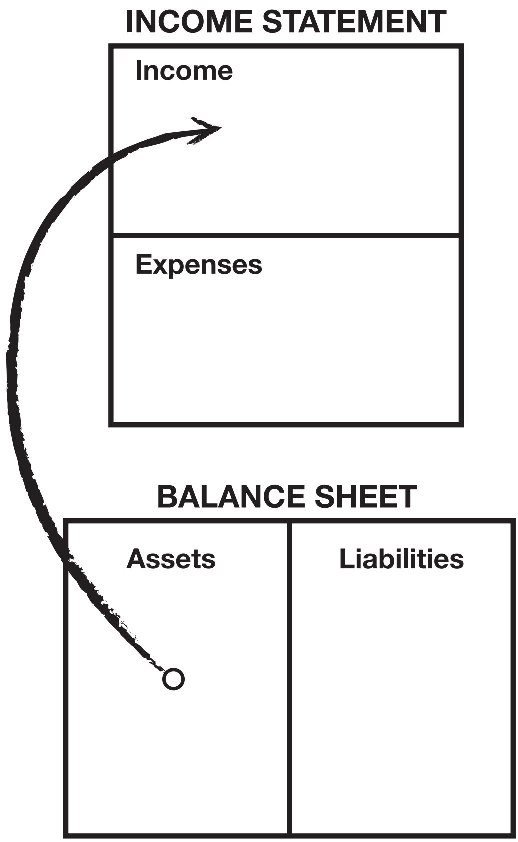
An asset puts money in my pocket. A liability takes money out of my pocket.

To us young boys, rich dad said, "What defines an asset are not words, but numbers. And if you can't read the numbers, you can't tell an asset from a hole in the ground." "In accounting," rich dad would say, "it's not the numbers, but what the numbers are telling you. It's just like words. It's not the words, but the story the words are telling you."

"If you want to be rich, you've got to read and understand numbers." If I heard that once, I heard it a thousand times from my rich dad. And I also heard, "The rich acquire assets, and the poor and middle class acquire liabilities."

Here is how to tell the difference between an asset and a liability. Most accountants and financial professionals do not agree with the definitions, but these simple drawings were the start of strong financial foundations for two young boys.

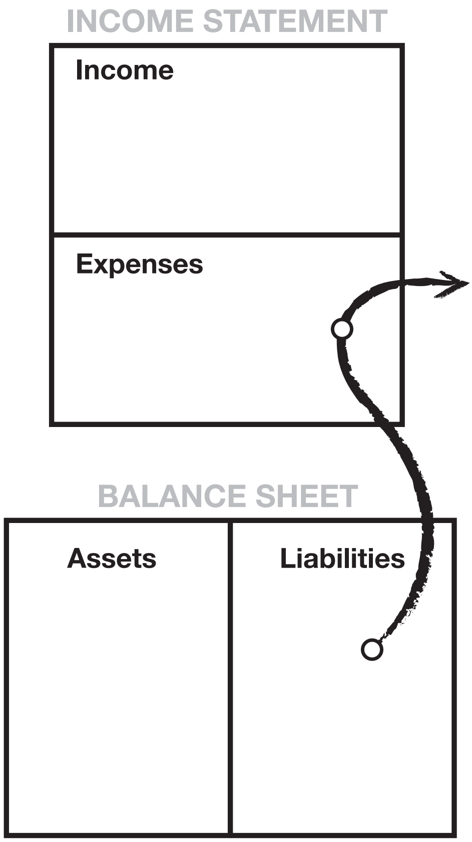
This is the cash-flow pattern of an asset:



The top part of the diagram is an Income Statement, often called a Profit-and-Loss Statement. It measures income and expenses: money in and money out. The lower part of the diagram is a Balance Sheet. It's called that because it's supposed to balance assets against liabilities. Many financial novices do not know the relationship between the Income Statement and the Balance Sheet, and it is vital to understand that relationship.

So as I said earlier, my rich dad simply told two young boys that "assets put money in your pocket." Nice, simple, and usable.

This is the cash-flow pattern of a liability:

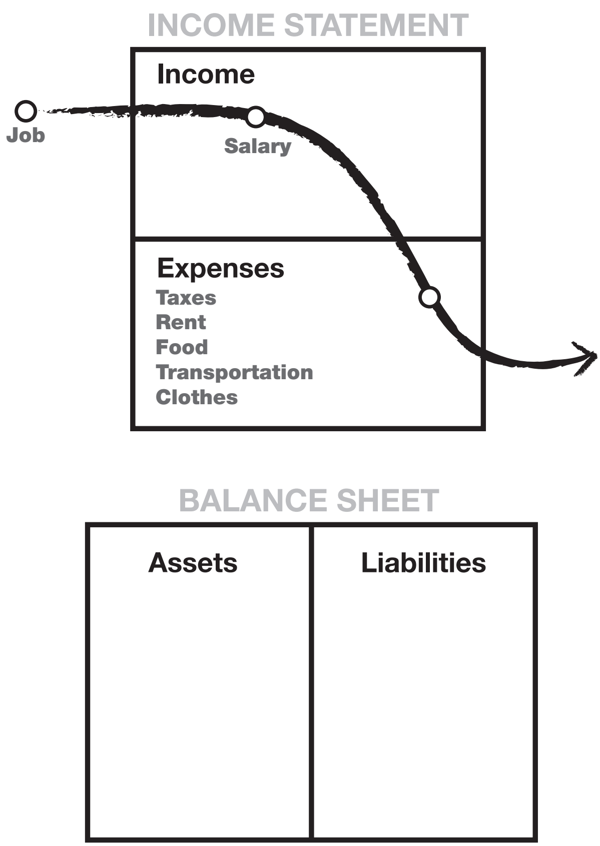


Now that assets and liabilities have been defined through pictures, it may be easier to understand my definitions in words. An asset is something that puts money in my pocket. A liability is something that takes money out of my pocket. This is really all you need to know. If you want to be rich, simply spend your life buying assets. If you want to be poor or middle class, spend your life buying liabilities.

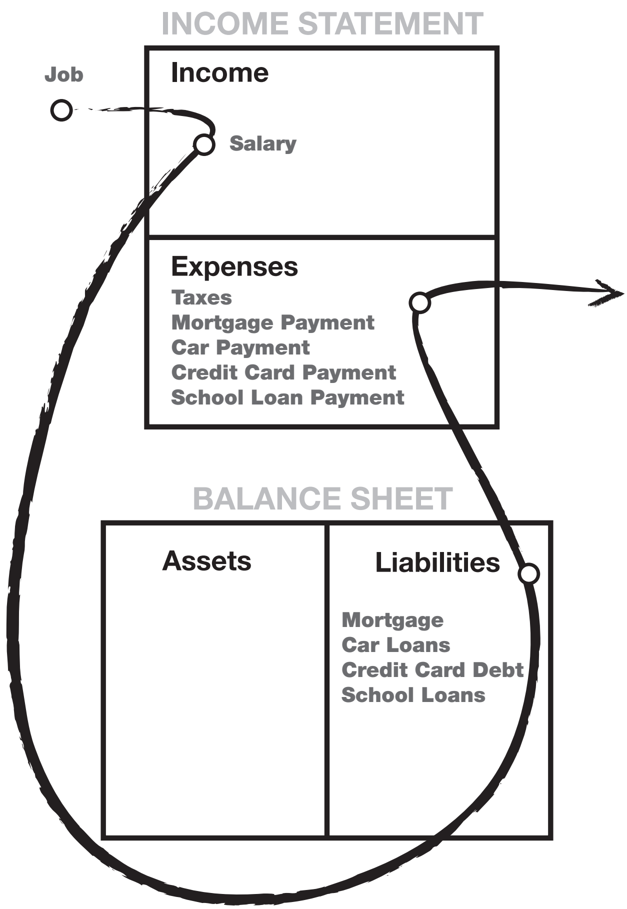
Illiteracy, both in words and numbers, is the foundation of financial struggle. If people are having difficulties financially, there is something that they don't understand, either in words or numbers. The rich are rich because they are more literate in different areas than people who struggle financially. So if you want to be rich and maintain your wealth, it's important to be financially literate, in words as well as numbers.

The arrows in the diagrams represent the flow of cash, or "cash flow." Numbers alone mean little, just as words out of context mean little. It's the story that counts. In financial reporting, reading numbers is looking for the plot, the story of where the cash is flowing. In 80 percent of most families, the financial story paints a picture of hard work to get ahead. However, this effort is for naught because they spend their lives buying liabilities instead of assets.

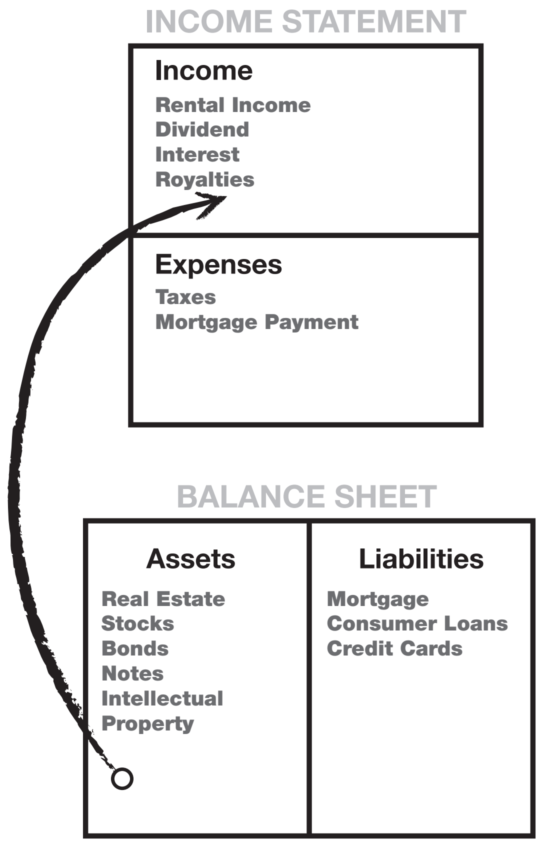
This is the cash-flow pattern of a poor person:



This is the cash-flow pattern of a person in the middle class:



This is the cash-flow pattern of a rich person:



All of these diagrams are obviously oversimplified. Everyone has living expenses, the need for food, shelter, and clothing. The diagrams show the flow of cash through a poor, middle-class, and wealthy person's life. It is the cash flow that tells the story of how a person handles their money.

The reason I started with the story of the richest men in America is to illustrate the flaw in believing that money will solve all problems. That is why I cringe whenever I hear people ask me how to get rich quicker, or where they should start. I often hear, "I'm in debt, so I need to make more money."

But more money will often not solve the problem. In fact, it may compound the problem. Money often makes obvious our tragic human flaws, putting a spotlight on what we don't know. That is why, all too often, a person who comes into a sudden windfall of cash—let's say an inheritance, a pay raise, or lottery winnings—soon returns to the same financial mess, if not worse, than the mess they were in before. Money only accentuates the cash-flow pattern running in your head. If your pattern is to spend everything you get, most likely an increase in cash will just result in an increase in spending. Thus, the saying, "A fool and his money is one big party."

Cash flow tells the story of how a person handles money.

I have said many times that we go to school to gain scholastic and professional skills, both of which are important. We learn to make money with our professional skills. In the 1960s when I was in high school, if someone did well academically, people assumed this bright student would go on to be a medical doctor because it was the profession with the promise of the greatest financial reward.

Today, doctors face financial challenges I wouldn't wish on my worst enemy: insurance companies taking control of the business, managed health care, government intervention, and malpractice suits. Today, kids want to be famous athletes, movie stars, rock stars, beauty queens, or CEOs because that is where the fame, money, and prestige are. That is the reason it is so hard to motivate kids in school today.

They know that professional success is no longer solely linked to academic success, as it once was.

Because students leave school without financial skills, millions of educated people pursue their profession successfully, but later find themselves struggling financially. They work harder but don't get ahead. What is missing from their education is not how to make money, but how to manage money. It's called financial aptitude—what you do with the money once you make it, how to keep people from taking it from you, how to keep it longer, and how to make that money work hard for you. Most people don't understand why they struggle financially because they don't understand cash flow. A person can be highly educated, professionally successful, and financially illiterate. These people often work harder than they need to because they learned how to work hard, but not how to have their money work hard for them.

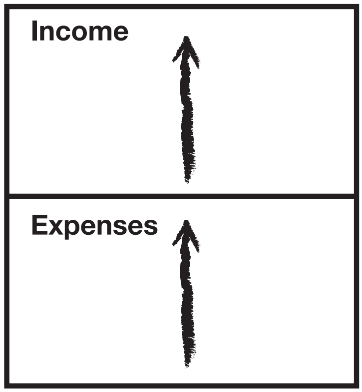
How the Quest for a Financial Dream Turns into a Financial Nightmare

The classic story of hardworking people has a set pattern. Recently married, the happy, highly educated young couple moves into one of their cramped rented apartments. Immediately, they realize that they are saving money because two can live as cheaply as one.

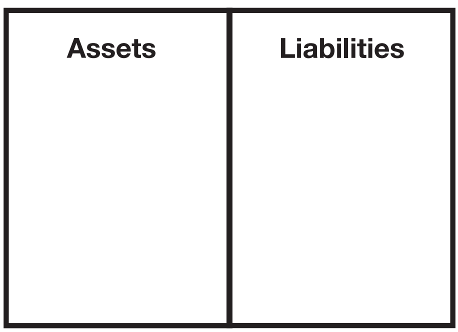
The problem is the apartment is cramped. They decide to save money to buy their dream home so they can have kids. They now have two incomes, and they begin to focus on their careers. Their incomes begin to increase.

As their incomes go up, their expenses go up as well.

INCOME STATEMENT

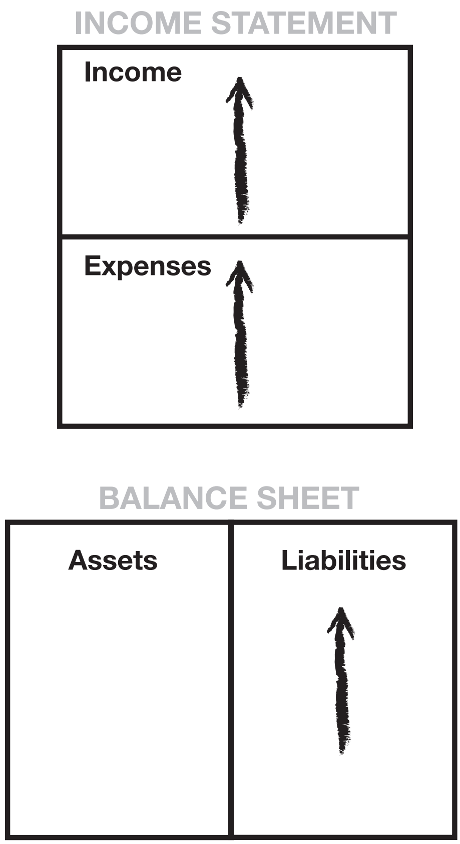


BALANCE SHEET



The number-one expense for most people is taxes. Many people think it's income tax, but for most Americans, their highest tax is Social Security. As an employee, it appears as if the Social Security tax combined with the Medicare tax rate is roughly 7.5 percent, but it's really 15 percent since the employer must match the Social Security amount. In essence, it is money the employer can't pay you. On top of that, you still have to pay income tax on the amount deducted from your wages for Social Security tax, income you never received because it went directly to Social Security through withholding.

Going back to the young couple, as a result of their incomes increasing, they decide to buy the house of their dreams. Once in their house, they have a new tax, called property tax. Then they buy a new car, new furniture, and new appliances to match their new house. All of a sudden, they wake up and their liabilities column is full of mortgage and credit-card debt. Their liabilities go up.



They're now trapped in the Rat Race. Pretty soon a baby comes along and they work harder. The process repeats itself: Higher incomes cause higher taxes, also called "bracket creep." A credit card comes in the mail. They use it and max it out. A loan company calls and says their greatest "asset," their home, has appreciated in value. Because their credit is so good, the company offers a bill-consolidation loan and tells them the intelligent thing to do is clear off the high-interest consumer debt by paying off their credit card. And besides, interest on their home is a tax deduction. They go for it, and pay off those high-interest credit cards. They breathe a sigh of relief. Their credit cards are paid off. They've now folded their consumer debt into their home mortgage. Their payments go down because they extend their debt over 30 years. It is the smart thing to do.

Their neighbor calls to invite them to go shopping. The Memorial Day sale is on. They promise themselves they'll just window shop, but they take a credit card, just in case.

I run into this young couple all the time. Their names change, but their financial dilemma is the same. They come to one of my talks to hear what I have to say. They ask me, "Can you tell us how to make more money?"

They don't understand that their trouble is really how they choose to spend the money they do have. It is caused by financial illiteracy and not understanding the difference between an asset and a liability.

More money seldom solves someone's money problems. Intelligence solves problems. There is a saying a friend of mine says over and over to people in debt: "If you find you have dug yourself into a hole... stop digging."

As a child, my dad often told us that the Japanese were aware of three powers: the power of the sword, the jewel, and the mirror.

The sword symbolizes the power of weapons. America has spent trillions of dollars on weapons and, because of this, is a powerful military presence in the world.

The jewel symbolizes the power of money. There is some degree of truth to the saying, "Remember the golden rule. He who has the gold makes the rules."

The mirror symbolizes the power of self-knowledge. This self-knowledge, according to Japanese legend, was the most treasured of the three.

All too often, the poor and middle class allow the power of money to control them. By simply getting up and working harder, failing to ask themselves if what they do makes sense, they shoot themselves in the foot as they leave for work every morning. By not fully understanding money, the vast majority of people allow its awesome power to control them.

If they used the power of the mirror, they would have asked themselves, “Does this make sense?” All too often, instead of trusting their inner wisdom, that genius inside, most people follow the crowd. They do things because everybody else does them. They conform, rather than question. Often, they mindlessly repeat what they have been told: “Diversify.” “Your home is an asset.” “Your home is your biggest investment.” “You get a tax break for going into greater debt.” “Get a safe job.” “Don’t make mistakes.” “Don’t take risks.”

A person can be highly educated, professionally successful, and financially illiterate.

It is said that the fear of public speaking is a fear greater than death for most people. According to psychiatrists, the fear of public speaking is caused by the fear of ostracism, the fear of standing out, the fear of criticism, the fear of ridicule, and the fear of being an outcast. The fear of being different prevents most people from seeking new ways to solve their problems.

That is why my educated dad said the Japanese valued the power of the mirror the most, for it is only when we look into it that we find truth. Fear is the main reason that people say, “Play it safe.” That goes for anything, be it sports, relationships, careers, or money.

It is that same fear, the fear of ostracism, that causes people to conform to, and not question, commonly accepted opinions or popular trends: “Your home is an asset.” “Get a bill-consolidation loan, and get out of debt.” “Work harder.” “It’s a promotion.” “Someday I’ll be a vice president.” “Save money.” “When I get a raise, I’ll buy us a bigger house.” “Mutual funds are safe.”

Many financial problems are caused by trying to keep up with the Joneses. Occasionally, we all need to look in the mirror and be true to our inner wisdom rather than our fears.

By the time Mike and I were 16 years old, we began to have problems in school. We were not bad kids. We just began to separate from the crowd. We worked for Mike's dad after school and on weekends. Mike and I often spent hours after work just sitting at a table with his dad while he held meetings with his bankers, attorneys, accountants, brokers, investors, managers, and employees. Here was a man who had left school at 13 who was now directing, instructing, ordering, and asking questions of educated people. They came at his beck and call, and cringed when he didn't approve of them.

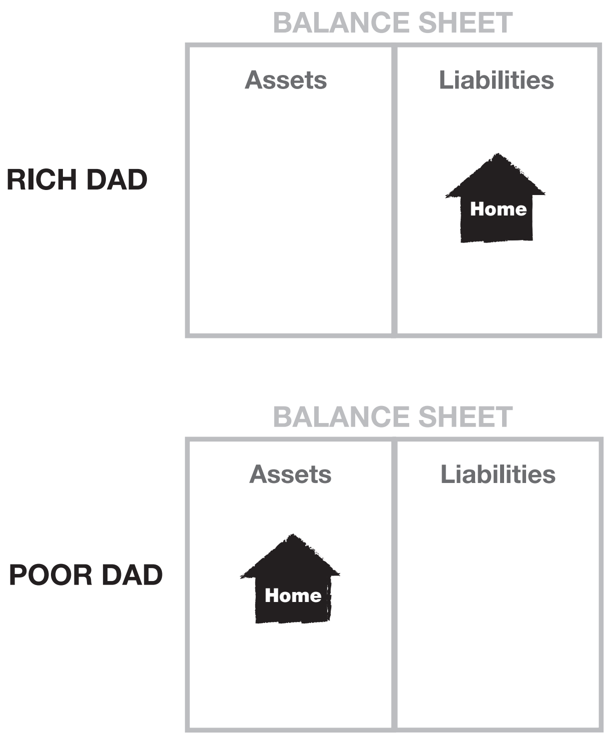
Here was a man who had not gone along with the crowd. He was a man who did his own thinking and detested the words, "We have to do it this way because that's the way everyone else does it." He also hated the word "can't." If you wanted him to do something, just say, "I don't think you can do it."

Mike and I learned more sitting in on his meetings than we did in all our years of school, college included. Mike's dad was not book-smart, but he was financially educated and successful as a result. He told us over and over again, "An intelligent person hires people who are more intelligent than he is." So Mike and I had the benefit of spending hours listening to and learning from intelligent people.

But because of this, Mike and I couldn't go along with the standard dogma our teachers preached, and that caused problems. Whenever the teacher said, "If you don't get good grades, you won't do well in the real world," Mike and I just raised our eyebrows. When we were told to follow set procedures and not deviate from the rules, we could see how school discouraged creativity. We started to understand why our rich dad told us that schools were designed to produce good employees, instead of employers. Occasionally, Mike or I would ask our teachers how what we studied was applicable in the real world, or why we never studied money and how it worked. To the latter question, we often got the answer that money was not important, that if we excelled in our education, the money would follow. The more we knew about the power of money, the more distant we grew from the teachers and our classmates.

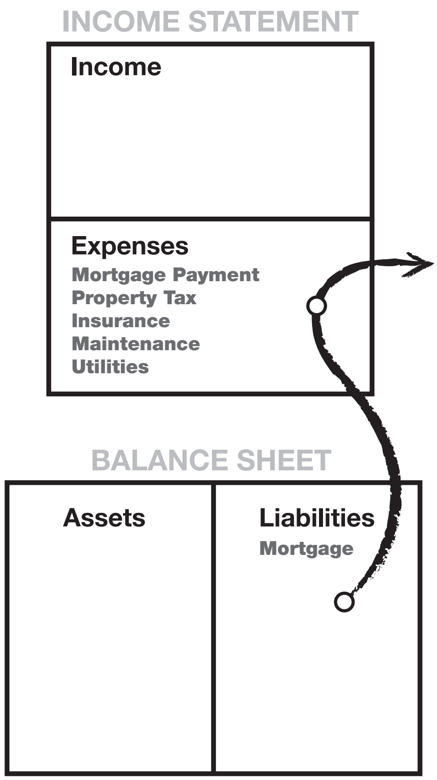
My highly educated dad never pressured me about my grades, but we did begin to argue about money. By the time I was 16, I probably had a far better foundation with money than both my parents. I could keep books, I listened to tax accountants, corporate attorneys, bankers, real estate brokers, investors, and so forth. By contrast, my dad talked to other teachers.

One day my dad told me that our home was his greatest investment. A not-too-pleasant argument took place when I showed him why I thought a house was not a good investment.



The above diagram illustrates the difference in perception between my rich dad and my poor dad when it came to their homes. One dad thought his house was an asset, and the other dad thought it was a liability.

I remember when I drew the following diagram for my dad showing him the direction of cash flow. I also showed him the ancillary expenses that went along with owning the home. A bigger home meant bigger expenses, and the cash flow kept going out through the expense column.



Today, people still challenge me on the idea of a house not being an asset. I know that for many people, it is their dream as well as their largest investment. And owning your own home is better than nothing. I simply offer an alternate way of looking at this popular dogma. If my wife and I were to buy a bigger, flashier house, we realize it wouldn't be an asset. It would be a liability since it would take money out of our pocket.

So here is the argument I put forth. I really don't expect most people to agree with it because your home is an emotional thing and when it comes to money, high emotions tend to lower financial intelligence. I know from personal experience that money has a way of making every decision emotional.

- When it comes to houses, most people work all their lives paying for a home they never own. In other words, most people buy a new house every few years, each time incurring a new 30-year loan to pay off the previous one.
- Even though people receive a tax deduction for interest on mortgage payments, they pay for all their other expenses with after-tax dollars, even after they pay off their mortgage.
- My wife's parents were shocked when the property taxes on their home increased to $1,000 a month. This was after they had retired, so the increase put a strain on their retirement budget, and they felt forced to move.
- Houses do not always go up in value. I have friends who owe a million dollars for a home that today would sell for far less.
- The greatest losses of all are those from missed opportunities. If all your money is tied up in your house, you may be forced to work harder because your money continues blowing out of the expense column, instead of adding to the asset column—the classic middle-class cash-flow pattern. If a young couple would put more money into their asset column early on, their later years would be easier. Their assets would have grown and would be available to help cover expenses. All too often, a house only serves as a vehicle for incurring a home-equity loan to pay for mounting expenses.

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

1. *Loss of time,* during which other assets could have grown in value.
2. *Loss of additional capital,* which could have been invested instead of paying for high-maintenance expenses related directly to the home.
3. *Loss of education.* Too often, people count their house and savings and retirement plans as all they have in their asset column. Because they have no money to invest, they simply don't invest. This costs them investment experience. Most never become what the investment world calls "a sophisticated investor." And the best investments are usually first sold to sophisticated investors, who then turn around and sell them to the people playing it safe.

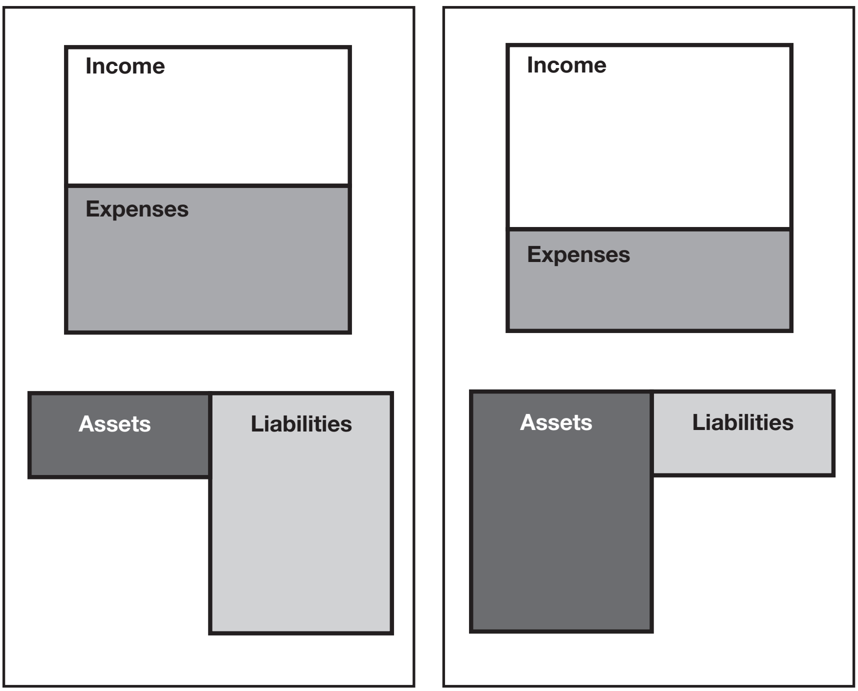
I am not saying don't buy a house. What I am saying is that you should understand the difference between an asset and a liability. When I want a bigger house, I first buy assets that will generate the cash flow to pay for the house.

My educated dad's personal financial statement best demonstrates the life of someone caught in the Rat Race. His expenses match his income, never allowing him enough left over to invest in assets. As a result, his liabilities are larger than his assets.

The following diagram on the left shows my poor dad's income statement. It is worth a thousand words. It shows that his income and expenses are equal while his liabilities are larger than his assets.

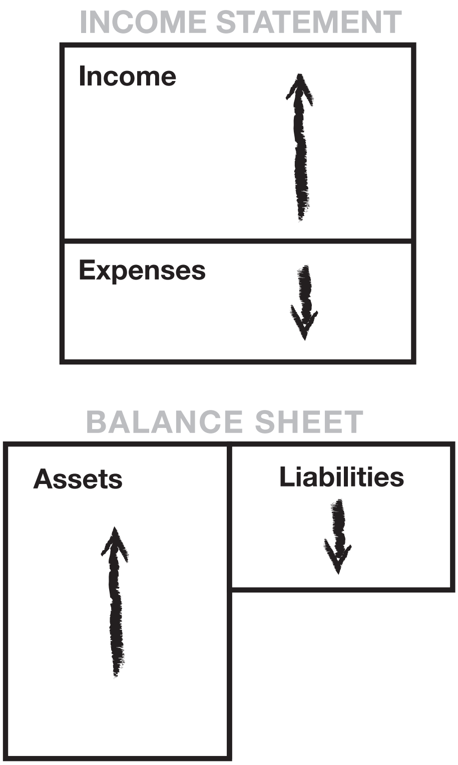
My rich dad's personal financial statement on the right reflects the results of a life dedicated to investing and minimizing liabilities.

Poor Dad's Financial Statement ***Rich Dad's Financial Statement***



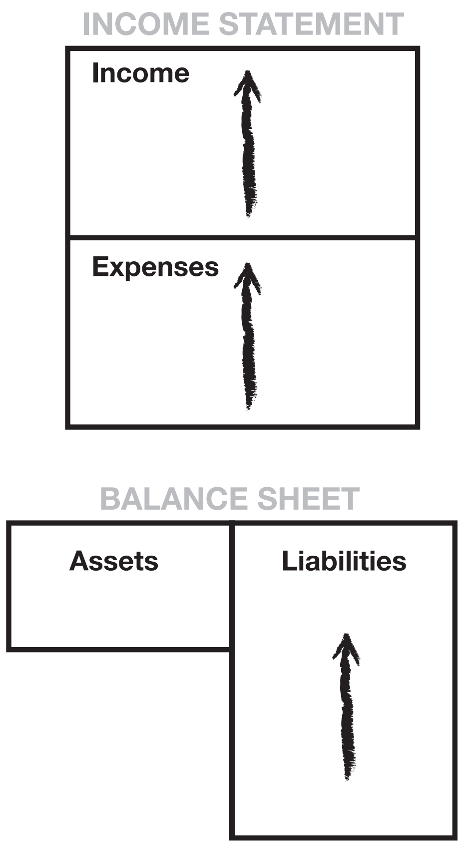
Why the Rich Get Richer

A review of my rich dad's financial statement shows why the rich get richer. The asset column generates more than enough income to cover expenses, with the balance reinvested into the asset column. The asset column continues to grow and, therefore, the income it produces grows with it. The result is that the rich get richer!



Why the Middle Class Struggle

The middle class finds itself in a constant state of financial struggle. Their primary income is through their salary. As their wages increase, so do their taxes. Their expenses tend to increase in proportion to their salary increase: hence, the phrase "the Rat Race." They treat their home as their primary asset, instead of investing in income-producing assets.



This pattern of treating your home as an investment, and the philosophy that a pay raise means you can buy a larger home or spend more, is the foundation of today's debt-ridden society. Increased spending throws families into greater debt and into more financial uncertainty, even though they may be advancing in their jobs and receiving raises on a regular basis. This is high-risk living caused by weak financial education.

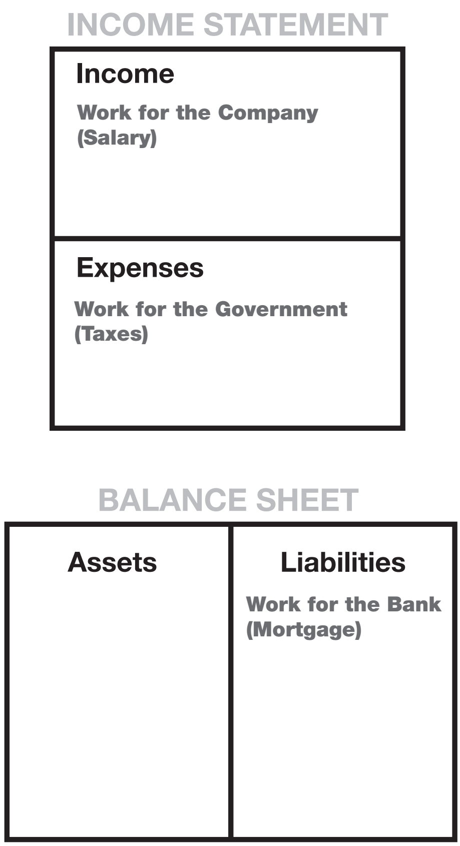
The massive loss of jobs in recent times proves how shaky the middle class really is financially. Company pension plans are being replaced by 401(k) plans. Social Security is obviously in trouble and can't be relied upon as a source for retirement. Panic has set in for the middle class.

Today, mutual funds are popular because they supposedly represent safety. Average mutual-fund buyers are too busy working to pay taxes and mortgages, save for their children's college, and pay off credit cards. They do not have time to study investing, so they rely on the expertise of the manager of a mutual fund. Also, because the mutual fund includes many different types of investments, they feel their money is safer because it is "diversified." This educated middle class subscribes to the dogma put out by mutual-fund brokers and financial planners: "Play it safe. Avoid risk."

The real tragedy is that the lack of early financial education is what creates the risk faced by average middle-class people. The reason they have to play it safe is because their financial positions are tenuous at best. Their balance sheets are not balanced. Instead, they are loaded with liabilities and have no real assets that generate income. Typically, their only source of income is their paycheck. Their livelihood becomes entirely dependent on their employer. So when genuine "deals of a lifetime" come along, these people can't take advantage of them because they are working so hard, are taxed to the max, and are loaded with debt.

As I said at the start of this section, the most important rule is to know the difference between an asset and a liability. Once you understand the difference, concentrate your efforts on buying income-generating assets. That's the best way to get started on a path to becoming rich. Keep doing that, and your asset column will grow. Keep liabilities and expenses down so more money is available to continue pouring into the asset column. Soon the asset base will be so deep that you can afford to look at more speculative investments: investments that may have returns of 100 percent to infinity; $5,000 investments that are soon turned into $1 million or more; investments that the middle class calls "too risky." The investment is not risky for the financially literate.

If you do what the masses do, you get the following picture:



As an employee who is also a homeowner, your working efforts are generally as follows:

1. ***You work for the company.***
   Employees make their business owner or the shareholders rich, not themselves. Your efforts and success will help provide for the owner's success and retirement.

2. ***You work for the government.***
   The government takes its share from your paycheck before you even see it. By working harder, you simply increase the amount of taxes taken by the government. Most people work from January to May just for the government.

3. ***You work for the bank.***
   After taxes, your next largest expense is usually your mortgage and credit-card debt.

The problem with simply working harder is that each of these three levels takes a greater share of your increased efforts. You need to learn how to have your increased efforts benefit you and your family directly.

Once you have decided to concentrate on minding your own business—focusing your efforts on acquiring assets instead of a bigger paycheck—how do you set your goals? Most people must keep their job and rely on their wages to fund their acquisition of assets.

As their assets grow, how do they measure the extent of their success? When does someone know that they are rich, that they have wealth?

As well as having my own definitions for assets and liabilities, I also have my own definition for wealth. Actually, I borrowed it from a man named R. Buckminster Fuller. Some call him a quack, and others call him a genius. Years ago he got architects buzzing because he applied for a patent for something called a geodesic dome. But in the application, Fuller also said something about wealth.

It was pretty confusing at first, but after reading it, it began to make some sense:

> *Wealth is a person's ability to survive so many number of days forward—or, if I stopped working today, how long could I survive?*

Unlike net worth—the difference between your assets and liabilities, which is often filled with a person's expensive junk and opinions of what things are worth—this definition creates the possibility for developing a truly accurate measurement. I could now measure and know where I was in terms of my goal to become financially independent.

Although net worth often includes non-cash-producing assets, like stuff you bought that now sits in your garage, wealth measures how much money your money is making and, therefore, your financial survivability.

Wealth is the measure of the cash flow from the asset column compared with the expense column.

Let's use an example. Let's say I have cash flow from my asset column of $1,000 a month. And I have monthly expenses of $2,000. What is my wealth?

Let's go back to Buckminster Fuller's definition. Using his definition, how many days forward can I survive? Assuming a 30-day month, I have enough cash flow for half a month.

When I achieve $2,000 a month cash flow from my assets, then I will be wealthy.

So while I'm not yet rich, I am wealthy. I now have income generated from assets each month that fully cover my monthly expenses. If I want to increase my expenses, I first must increase my cash flow to maintain this level of wealth. Also note that it is at this point that I'm no longer dependent on my wages. I have focused on, and been successful in, building an asset column that has made me financially independent. If I quit my job today, I would be able to cover my monthly expenses with the cash flow from my assets.

My next goal would be to have the excess cash flow from my assets reinvested into the asset column. The more money that goes into my asset column, the more my asset column grows. The more my assets grow, the more my cash flow grows. And as long as I keep my expenses less than the cash flow from these assets, I grow richer with more and more income from sources other than my physical labor.

As this reinvestment process continues, I am well on my way to becoming rich. Just remember this simple observation:

- **The rich buy assets.**
- **The poor only have expenses.**
- **The middle class buy liabilities they think are assets.**

So how do I start minding my own business? What is the answer? Listen to the founder of McDonald's in the next chapter.

Chapter Three

LESSON 3: MIND YOUR OWN BUSINESS

The rich focus on their asset columns while everyone else focuses on their income statements.

In 1974, Ray Kroc, the founder of McDonald's, was asked to speak to the MBA class at the University of Texas at Austin. A friend of mine was a student in that MBA class. After a powerful and inspiring talk, the class adjourned and the students asked Ray if he would join them at their favorite hangout to have a few beers. Ray graciously accepted.

"What business am I in?" Ray asked, once the group had all their beers in hand.

"Everyone laughed," my friend said. "Most of the MBA students thought Ray was just fooling around."

No one answered, so Ray asked again, "What business do you think I'm in?"

The students laughed again, and finally one brave soul yelled out, "Ray, who in the world doesn't know that you're in the hamburger business?"

Ray chuckled. "That's what I thought you would say." He paused and then quickly added, "Ladies and gentlemen, I'm not in the hamburger business. My business is real estate."

As my friend tells the story, Ray spent a good amount of time explaining his viewpoint. In his business plan, Ray knew that the primary business focus was to sell hamburger franchises, but what he never lost sight of was the location of each franchise. He knew that the land and its location were the most significant factors in the success of each franchise. Basically, the person who bought the franchise was also buying the real estate under the franchise for Ray Kroc's organization.

Today, McDonald's is the largest single owner of real estate in the world, owning even more than the Catholic church. McDonald's owns some of the most valuable intersections and street corners in America and around the globe.

My friend considers this as one of the most important lessons in his life. Today he owns car washes, but his business is the real estate under those car washes.

The previous chapter presented diagrams illustrating that most people work for everyone but themselves. They work first for the owners of the company, then for the government through taxes, and finally for the bank that owns their mortgage.

When I was a young boy, we did not have a McDonald's nearby. Yet my rich dad was responsible for teaching Mike and me the same lesson that Ray Kroc talked about at the University of Texas. It is secret number three of the rich. That secret is: Mind your own business. Financial struggle is often directly the result of people working all their lives for someone else. Many people will simply have nothing at the end of their working days to show for their efforts.

Our current educational system focuses on preparing today's youth to get good jobs by developing scholastic skills. Their lives will revolve around their wages or, as described earlier, their income column. Many will study further to become engineers, scientists, cooks, police officers, artists, writers, and so on. These professional skills allow them to enter the workforce and work for money.

But there is a big difference between your profession and your business. Often I ask people, "What is your business?" And they will say, “Oh, I’m a banker.” Then I ask them if they own the bank. And they usually respond, “No, I work there.” In that instance, they have confused their profession with their business. Their profession may be a banker, but they still need their own business.

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

To become financially secure, a person needs to mind their own business. Your business revolves around your asset column, not your income column. As stated earlier, the number-one rule is to know the difference between an asset and a liability, and to buy assets. The rich focus on their asset columns, while everyone else focuses on their income statements.

That is why we hear so often: “I need a raise.” “If only I had a promotion.” “I am going back to school to get more training so I can get a better job.” “I am going to work overtime.” “Maybe I can get a second job.”

Financial struggle is often the result of people working all their lives for someone else.

In some circles, these are sensible ideas. But you are still not minding your own business. These ideas all still focus on the income column and will only help a person become more financially secure if the additional money is used to purchase income-generating assets.

The primary reason the majority of the poor and middle class are fiscally conservative—which means, “I can’t afford to take risks”— is that they have no financial foundation. They have to cling to their jobs and play it safe.

When downsizing became the “in” thing to do, millions of workers found out their largest so-called asset, their home, was eating them alive. Their “asset” was costing them money every month. Their car, another "asset," was eating them alive. The golf clubs in the garage that cost $1,000 were not worth $1,000 anymore. Without job security, they had nothing to fall back on. What they thought were assets could not help them survive in a time of financial crisis.

I assume most of us have filled out a credit application to buy a house or a car. It's always interesting to look at the "net-worth" section because of what accepted banking and accounting practices allow a person to count as assets.

One day when I wanted a loan, my financial position did not look too good. So I added my new golf clubs, my art collection, books, electronics, Armani suits, wristwatches, shoes, and other personal effects to boost the number in the asset column.

But I was turned down because I had too much investment real estate. The loan committee didn't like that I made so much money from rent. They wanted to know why I did not have a normal job with a salary. They did not question the Armani suits, golf clubs, or art collection. Life is sometimes tough when you do not fit the standard profile.

I cringe every time I hear someone say to me that their net worth is a million dollars or $100,000 dollars or whatever. One of the main reasons net worth is not accurate is simply because, the moment you begin selling your assets, you are taxed for any gains.

So many people have put themselves in deep financial trouble when they run short of income. To raise cash, they sell their assets. But their personal assets can generally be sold for only a fraction of the value that is listed on their personal balance sheet. Or if there is a gain on the sale of the assets, they are taxed on the gain. So again, the government takes its share, thus reducing the amount available to help them out of debt. That is why I say someone's net worth is often "worth less" than they think.

Start minding your own business. Keep your daytime job, but start buying real assets, not liabilities or personal effects that have no real value once you get them home. A new car loses nearly 25 percent of the price you pay for it the moment you drive it off the lot. It is not a true asset even if your banker lets you list it as one. My $400 new titanium driver was worth $150 the moment I teed off.

Keep expenses low, reduce liabilities, and diligently build a base of solid assets. For young people who have not yet left home, it is important for parents to teach them the difference between an asset and a liability. Get them to start building a solid asset column before they leave home, get married, buy a house, have kids, and get stuck in a risky financial position, clinging to a job, and buying everything on credit. I see so many young couples who get married and trap themselves into a lifestyle that will not let them get out of debt for most of their working years.

For many people, just as the last child leaves home, the parents realize they have not adequately prepared for retirement and they begin to scramble to put some money away. Then their own parents become ill and they find themselves with new responsibilities.

So what kind of assets am I suggesting that you or your children acquire? In my world, real assets fall into the following categories:

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

As a young boy, my educated dad encouraged me to find a safe job. But my rich dad encouraged me to begin acquiring assets that I loved. "If you don't love it, you won't take care of it." I collect real estate simply because I love buildings and land. I love shopping for them, and I could look at them all day long. When problems arise, the problems aren't so bad that it changes my love for real estate. For people who hate real estate, they shouldn't buy it.

I also love stocks of small companies, especially start-ups, because I am an entrepreneur, not a corporate person. In my early years, I worked in large organizations, such as Standard Oil of California, the U.S. Marine Corps, and Xerox Corp. I enjoyed my time with those organizations and have fond memories, but I know deep down I am not a company man. I like starting companies, not running them. So my stock buys are usually of small companies. Sometimes I even start the company and take it public. Fortunes are made in new stock issues, and I love the game. Many people are afraid of small-cap companies and call them risky, and they are. But that risk is diminished if you love what the investment is, understand it, and know the game. With small companies, my investment strategy is to be out of the stock in a year. On the other hand, my real estate strategy is to start small and keep trading up for bigger properties and, therefore, delay paying taxes on the gain. This allows the value to increase dramatically. I generally hold real estate less than seven years.

Start minding your own business. Keep your daytime job, but start buying real assets, not liabilities.

For years, even while I was with the Marine Corps and Xerox, I did what my rich dad recommended. I kept my day job, but I still minded my own business. I was active in my asset column trading real estate and small stocks. Rich dad always stressed the importance of financial literacy. The better I was at understanding the accounting and cash management, the better I would be at analyzing investments and eventually starting and building my own company.

I don't encourage anyone to start a company unless they really want to. Knowing what I know about running a company, I wouldn't wish that task on anyone. There are times when people can't find employment and starting a company seems like the best solution. But the odds are against success: Nine out of ten companies fail in five years. Of those that survive the first five years, nine out of every ten of those eventually fail as well. So only if you really have the desire to own your own company do I recommend it. Otherwise, keep your day job and mind your own business.

When I say mind your own business, I mean to build and keep your asset column strong. Once a dollar goes into it, never let it come out. Think of it this way: Once a dollar goes into your asset column, it becomes your employee. The best thing about money is that it works 24 hours a day and can work for generations. Keep your day job, be a great hardworking employee, but keep building that asset column.

As your cash flow grows, you can indulge in some luxuries. An important distinction is that rich people buy luxuries last, while the poor and middle class tend to buy luxuries first. The poor and the middle class often buy luxury items like big houses, diamonds, furs, jewelry, or boats because they want to look rich. They look rich, but in reality they just get deeper in debt on credit. The old-money people, the long-term rich, build their asset column first. Then the income generated from the asset column buys their luxuries. The poor and middle class buy luxuries with their own sweat, blood, and children's inheritance.

A true luxury is a reward for investing in and developing a real asset. For example, when my wife Kim and I had extra money coming from our apartment houses, she went out and bought her Mercedes. It didn't take any extra work or risk on her part because the apartment house bought the car. She did, however, have to wait four years while the real estate investment portfolio grew and began generating enough extra cash flow to pay for the car. But the luxury, the Mercedes, was a true reward because she proved she knew how to grow her asset column. That car now means a lot more to her than simply another pretty car. It means she used her financial intelligence to afford it.

Instead, most people impulsively go out and buy a new car, or some other luxury, on credit. They may feel bored and just want a new toy. Buying a luxury on credit often causes a person to eventually resent that luxury because the debt becomes a financial burden.

After you've taken the time and invested in and built your own business, you are now ready to learn the biggest secret of the rich—the secret that puts the rich way ahead of the pack.

Chapter Four

LESSON 4: THE HISTORY OF TAXES AND THE POWER OF CORPORATIONS

My rich dad just played the game smart, and he did it through corporations—the biggest secret of the rich.

I remember in school being told the story of Robin Hood and his Merry Men. My teacher thought it was a wonderful story of a romantic hero who robbed from the rich and gave to the poor. My rich dad did not see Robin Hood as a hero. He called Robin Hood a crook.

Robin Hood may be long gone, but his followers live on. I often still hear people say, "Why don't the rich pay for it?" or "The rich should pay more in taxes and give it to the poor."

It is this Robin Hood fantasy, or taking from the rich to give to the poor, that has caused the most pain for the poor and the middle class. The reason the middle class is so heavily taxed is because of the Robin Hood ideal. The reality is that the rich are not taxed. It's the middle class, especially the educated upper-income middle class, who pays for the poor.

Again, to understand fully how things happen, we need to look at the history of taxes. Although my highly educated dad was an expert on the history of education, my rich dad fashioned himself as an expert on the history of taxes.

Rich dad explained to Mike and me that originally, in England and America, there were no taxes. Occasionally, there were temporary taxes levied in order to pay for wars. The king or the president would put the word out and ask everyone to "chip in." Taxes were levied in Britain for the fight against Napoleon from 1799 to 1816, and in America to pay for the Civil War from 1861 to 1865.

In 1874, England made income tax a permanent levy on its citizens. In 1913, an income tax became permanent in the United States with the adoption of the 16th Amendment to the U.S. Constitution. At one time, Americans were anti-tax. It had been the tax on tea that led to the famous Tea Party in Boston Harbor, an incident that helped ignite the Revolutionary War. It took approximately 50 years in both England and the United States to sell the idea of a regular income tax.

What these historical dates fail to reveal is that both of these taxes were initially levied against only the rich. It was this point that rich dad wanted Mike and me to understand. He explained that the idea of taxes was made popular, and accepted by the majority, by telling the poor and the middle class that taxes were created only to punish the rich. This is how the masses voted for the law, and it became constitutionally legal. Although it was intended to punish the rich, in reality it wound up punishing the very people who voted for it, the poor and middle class.

"Once government got a taste of money, its appetite grew," said rich dad. "Your dad and I are exactly opposite. He's a government bureaucrat, and I am a capitalist. We get paid, and our success is measured on opposite behaviors. He gets paid to spend money and hire people. The more he spends and the more people he hires, the larger his organization becomes. In the government, a large organization is a respected organization. On the other hand, within my organization, the fewer people I hire and the less money I spend, the more I am respected by my investors. That's why I don't like government people. They have different objectives than most business people. As the government grows, more and more tax dollars are needed to support it."

My educated dad sincerely believed that government should help people. He loved John F. Kennedy and especially the idea of the Peace

Corps. He loved the idea so much that both he and my mom worked for the Peace Corps, training volunteers to go to Malaysia, Thailand, and the Philippines. He always strived for additional grants and budget increases so he could hire more people, both in his job with the Education Department and in the Peace Corps.

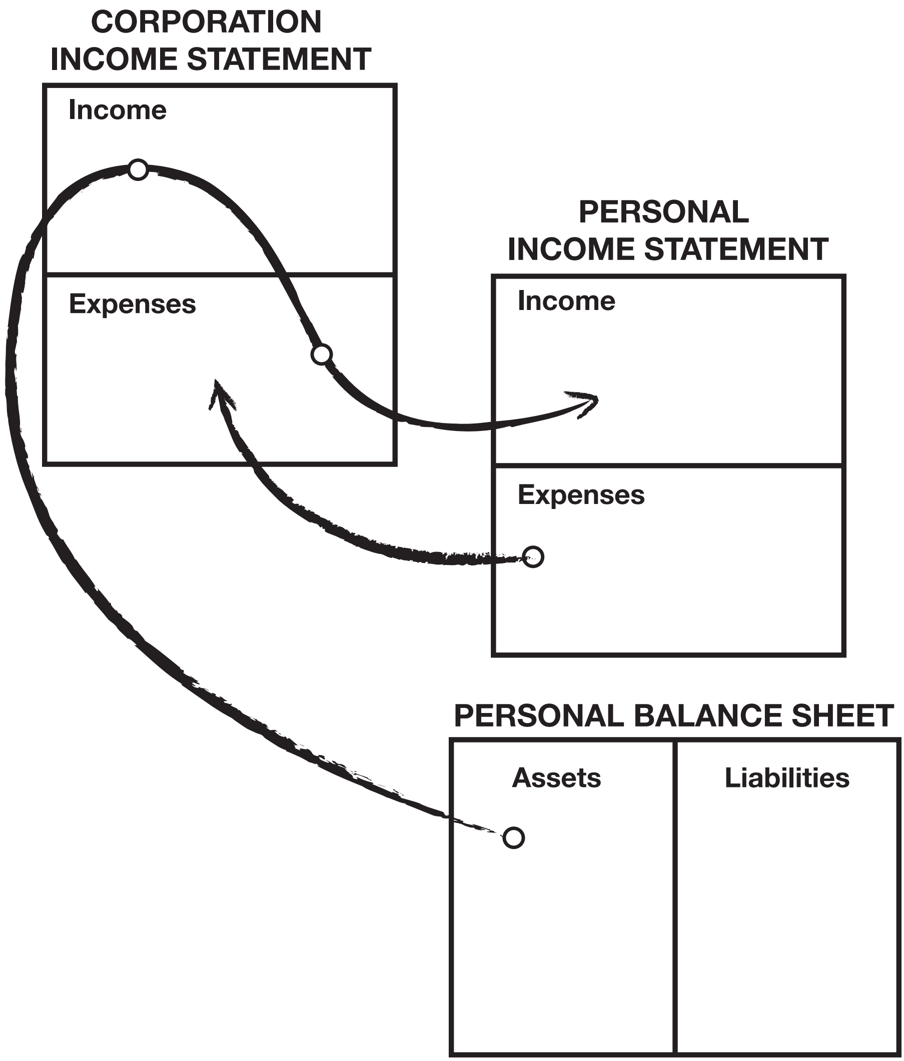
From the time I was about 10 years old, I would hear from my rich dad that government workers were a pack of lazy thieves, and from my poor dad I would hear how the rich were greedy crooks who should be made to pay more taxes. Both sides had valid points. It was difficult to go to work for one of the biggest capitalists in town and come home to a father who was a prominent government leader. It was not easy to know which dad to believe.

My rich dad did not see Robin Hood as a hero. He called Robin Hood a crook.

Yet when you study the history of taxes, an interesting perspective emerges. As I said, the passage of taxes was only possible because the masses believed in the Robin Hood theory of economics: Take from the rich, and give to everyone else. The problem was that the government's appetite for money was so great that taxes soon needed to be levied on the middle class, and from there it kept trickling down.

However, the rich saw an opportunity because they don't play by the same set of rules. The rich knew about corporations, which became popular in the days of sailing ships. The rich created the corporation as a vehicle to limit their risk to the assets of each voyage. The rich put their money into a corporation to finance the voyage. The corporation would then hire a crew to sail to the New World to look for treasure. If the ship was lost, the crew lost their lives, but the loss to the rich would be limited only to the money they invested for that particular voyage.

The diagram that follows shows how the corporate structure sits outside your personal income statement and balance sheet.



It is the knowledge of the legal corporate structure that really gives the rich a vast advantage over the poor and the middle class. Having two fathers teaching me, one a socialist and the other a capitalist, I quickly began to realize that the philosophy of the capitalist made more financial sense to me. It seemed to me that the socialists ultimately penalized themselves due to their lack of financial education. No matter what the "take-from-the-rich" crowd came up with, the rich always found a way to outsmart them. That is how taxes were eventually levied on the middle class. The rich outsmarted the intellectuals solely because they understood the power of money, a subject not taught in schools.

How did the rich outsmart the intellectuals? Once the "take-from-the-rich" tax was passed, cash started flowing into government coffers. Initially, people were happy. Money was handed out to government workers and the rich. It went to government workers in the form of jobs and pensions, and it went to the rich via their factories receiving government contracts. The government received a large pool of money, but the problem was the fiscal management of that money. The government ideal is to avoid having excess money. If you fail to spend your allotted funds, you risk losing it in the next budget. You would certainly not be recognized for being efficient. Business people, on the other hand, are rewarded for having excess money and are applauded for their efficiency. As this cycle of growing government spending continued, the demand for money increased, and the "tax-the-rich" idea was adjusted to include lower-income levels, down to the very people who voted it in, the poor and the middle class.

True capitalists used their financial knowledge to simply find an escape. They headed back to the protection of a corporation. But what many people who have never formed a corporation don't know is that a corporation is not really a thing. A corporation is merely a file folder with some legal documents in it, sitting in some attorney's office and registered with a state government agency. It's not a big building or a factory or a group of people. A corporation is merely a legal document that creates a legal body without a soul. Using it, the wealth of the rich was once again protected. It was popular because the income-tax rate of a corporation is less than the individual income-tax rates. In addition, certain expenses could be paid by a corporation with pre-tax dollars.

This war between the haves and have-nots has raged for hundreds of years. The battle is waged whenever and wherever laws are made, and it will go on forever. The problem is that the people who lose are the uninformed: the ones who get up every day and diligently go to work and pay taxes. If they only understood the way the rich play the game, they could play it too. Then they would be on their way to their own financial independence. This is why I cringe every time I hear a parent advise their children to go to school so they can find a safe, secure job. An employee with a safe, secure job, without financial aptitude, has no escape.

Average Americans today work four to five months for the government just to cover their taxes. In my opinion, that is simply too long. The harder you work, the more you pay the government. That is why I believe that the idea of "take-from-the-rich" backfired on the very people who voted it in.

Every time people try to punish the rich, the rich don't simply comply. They react. They have the money, power, and intent to change things. They don't just sit there and voluntarily pay more taxes. Instead, they search for ways to minimize their tax burden. They hire smart attorneys and accountants, and persuade politicians to change laws or create legal loopholes. They use their resources to effect change.

The Tax Code of the United States also allows other ways to reduce taxes. Most of these vehicles are available to anyone, but it is the rich who find them because they are minding their own business. For example, "1031" is jargon for Section 1031 of the Internal Revenue Code which allows a seller to delay paying taxes on a piece of real estate that is sold for a capital gain through an exchange for a more expensive piece of real estate. Real estate is one investment vehicle that has a great tax advantage. As long as you keep trading up in value, you will not be taxed on the gains until you liquidate. People who don't take advantage of these legal tax savings are missing a great opportunity to build their asset columns.

The poor and middle class don't have the same resources. They sit there and let the government's needles enter their arm and allow the blood donation to begin. Today, I am constantly shocked at the number of people who pay more taxes, or take fewer deductions, simply because they are afraid of the government. I have friends who have had their businesses shut down and destroyed, only to find out it was a mistake on the part of the government. I realize all that. But the price of working from January to May is a high price to pay for that intimidation. My poor dad never fought back. My rich dad didn't either. He just played the game smarter, and he did it through corporations—the biggest secret of the rich.

You may remember the first lesson I learned from my rich dad. I was a little boy of 9 who had to sit and wait for him to choose to talk to me. I sat in his office waiting for him to get to me. He was ignoring me on purpose. He wanted me to recognize his power and to desire to have that power for myself one day. During all the years I studied and learned from him, he always reminded me that knowledge is power. And with money comes great power that requires the right knowledge to keep it and make it multiply. Without that knowledge, the world pushes you around. Rich dad constantly reminded Mike and me that the biggest bully was not the boss or the supervisor, but the tax man. The tax man will always take more if you let him. The first lesson of having money work for you, as opposed to you working for money, is all about power. If you work for money, you give the power to your employer. If money works for you, you keep the power and control it.

If you work for money, you give the power to you employer. If money works for you, you keep the power and control it.

Once we had this knowledge of the power of money working for us, he wanted us to be financially smart and not let anyone or anything push us around. If you're ignorant, it's easy to be bullied. If you know what you're talking about, you have a fighting chance. That is why he paid so much for smart tax accountants and attorneys. It was less expensive to pay them than to pay the government. His