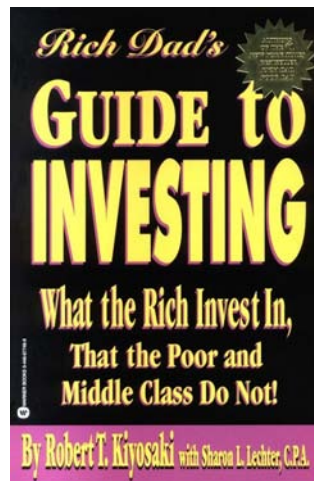


# Rich Dad's Guide to Investing

What the Rich Invest In, That The Poor And Middle Class Do Not!



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## The big idea

Free yourself from financial hardship, have your money work hard for you, and retire at an earlier age so you can enjoy life and do the things that really matter!

Rich Dad's Guide to Investing is a long-term guide for anyone who wants to become a rich investor and learn how to invest in what only rich people can invest in. This is not a guarantee. It is simply part of your education as a business investor. You cannot just get rich quick, because that would be a guarantee you will lose your fortune as soon as you get it. Real long-term riches, the kind that keeps your children and grandchildren free from worries about money – this is the financial freedom that can be yours -but only if you do your homework and allow yourself to learn.

## Phase 1: Are you mentally prepared to be an investor?

Investor control # 1: Control over yourself

### Chapter 1: What should I invest in?

"It's the first million that is the hardest."

In 1930, Joseph Kennedy pushed for the creation of the SEC or Security and Exchange Commission after the stock market crash of 1929. This government body was formed in order to protect the public from unscrupulous dealers. Ironically, this same Commission that was formed to protect the public from bad deals also keeps them from the best investment deals.

What are the types of investors?

Only the rich can invest in certain types of investments. An accredited investor is someone who is qualified to invest because:

- He or she has a net worth of \$1 million or more.
- He or she has an annual income of \$200,000 (or \$300,000 jointly with a spouse) who has a reasonable expectation of reaching the same income level in the current year.
- He or she can put up the minimum investment unit for accredited investors, \$35,000.

A Sophisticated investor has the 3 E's:

- Education
- Experience
- Excessive Cash

An investor may be "qualified" in terms of annual income, but may not be considered "Sophisticated" because he or she lacks the knowledge and experience in investments.

Here are some of the investments of accredited and sophisticated investors:

- Private placements
- Real estate syndication and limited partnerships
- Pre-initial public offerings (IPO's)
- IPO's (While available to all investors, IPO's are not usually easily accessible)
- Sub-prime financing
- Mergers and acquisitions
- Loans for start-ups

- Hedge funds

The Five Phases Rich Dad sets for becoming a Sophisticated Investor:

1. Are you mentally prepared to be an investor?
2. What type of investor do you want to become?
3. How do you build a strong business?
4. Who is a sophisticated investor?
5. Giving it back.

## Chapter 2: Pouring a foundation of wealth

### The Cashflow quadrant

A person who wants job security falls into the E or Employee Quadrant. A self-employed person falls into the S or solo and smart, the B stands for small business owner, and I stands for big business Investor. Rich Dad encouraged "Learn to build businesses and invest through businesses".

The Tax Laws are different for all quadrants. The employed get taxed first then they get their income. The businesses are taxed after they spend, so they are taxed on the small amount left after expenditures are paid.

It took Rich Dad 20 years to pour a foundation of wealth by steadily growing businesses, from restaurant chains to stores and real estate. By the time his son Mike, the author's best friend, was old enough to take on the job of running the family empire, they had cash in billions in several banks, and investments in a better part of Hawaii.

It takes a Choice to go down the path of the rich. It is a very personal decision to decide to forever be poor, middle class, or learn to grow businesses and become rich. The Choice is yours.

## Chapter 3: The Choice

Priorities of poor and middle class:

- To be secure
- To be comfortable
- To be rich

Priorities of the rich

- To be rich
- To be comfortable
- To be secure

There is a mistake in the myth that the rich are unhappy. Since when did having money ever cause a person to be sad?

You have to change your mental attitude about the rich and gaining wealth. What are the most important things to you in order of priority? One of the reasons 10% of the people own 90% of the wealth is because 90% of the people choose comfort and security over being rich.

## Chapter 4: What kind of world do you see?

Money is basically an idea. If you think you will never be rich, most likely that is what will happen to you. If you think it is good to have too much money, then you will end up with too much money.

If you come from a family that saw the world as a world of not enough money, you have to understand there can be another world out there for you.

Are you willing to see the possibility of living in a world of too much money?

## **Chapter 5: Why investing is confusing**

Investing means different things to different people.

Some people invest in large families to ensure care in their old age.

Some people invest in a good education, job security, and benefits.

Some people invest in external assets. In America, about 45% of the population owns shares in companies. There are a growing number of people who know they cannot depend on lifetime employment.

Here are some types of investment products:

Stocks, bonds, mutual funds, real estate, insurance, commodities, savings, collectibles, precious metals, hedge funds. Each one of these groups can be further broken down into subgroups.

Stocks can be broken down into:

Common stock, preferred stock, stocks with warrants, small cap stock, blue chip stock, convertible stock, technical stock, industrial stock, etc.

Real estate can be subdivided into single family, commercial office, commercial retail, multi-family, warehouse, industrial, raw land, raw land to the curb, etc.

Mutual funds can be subdivided into Index fund, Aggressive growth fund, Sector fund, Income fund, Closed end fund, Balanced fund, Municipal bond fund, Country fund, etc.

Insurance can be subdivided into:

Whole, Term, Variable Life

Universal, Variable Universal

Blended (whole and term in one policy)

First, second, or last to die

Used for funding buy-sell agreement

Used for executive bonus and deferred compensation

Used for funding estate taxes

Used for non qualified retirement benefits

Etc.

There are many different types of investment products, each designed to do something different.

There are also many different types of investment procedures, Rich Dad's term for a technique, formula, or method for buying, selling, trading, or holding these investment products. Here are some of the different types of investment procedures:

Buy, hold, and pray (long)

Buy and sell (trade)

Sell then buy (short)

Option buying and selling (trade)

Dollar cost averaging (long)

Brokering (trade no position)

Saving (collecting)

Many investors are classified by their procedures and products:

I am a stock trader.  
I am a day trader.  
I speculate in real estate.  
I collect rare coins.  
I trade commodity future options.  
I believe in money in the bank.

Some will say diversify. Warren Buffet, America's greatest investor, says "Put all your eggs in one basket and watch it closely". Investing is a vast subject with many different people having as many different opinions. No one person can know everything there is to know about investing. Two people can have different opinions on an investment and both have valid points. One investor's product may be another's pitfall. So keep an open mind and listen to different points of view.

## **Chapter 6: Investing is a plan, not a product or a procedure**

Investing is a very personal plan.  
Investments are often called "investment vehicles" because they take you from point A to point B, but there are many different ways to achieve this. It takes you from here to where you want to go, so every plan is different according to the investor's needs or preferences.

A true investor does not become attached to just one product or procedure.  
A true investor has multiple options as to investment vehicles and procedures.

Mental Attitude Quiz:

Are you willing to invest time to find out where you are financially today and where you want to be financially? Are you willing to spell out a plan to get there?

Remember, a plan is not a plan until it is in writing and you can show it to someone else.

Are you willing to meet with different professional financial advisors and find out how his or her services may help you with your long-term investment plans?

## **Chapter 7: Are you planning to be rich or are you planning to be poor?**

It does not take money to make money.

The words you use reflect your mental attitude towards money. Saying "I'll never be rich because I've chosen to be a schoolteacher" or statements like that prepare you for a lifetime of financial hardship. You need to change your mental attitude and increase your financial literacy/vocabulary. You need to know what is the difference between an asset and a liability.

Mortgage, for instance, comes from the French word for death, "mort". Thus we are "engaged until death" when we are forever paying off a mortgage.

Real estate is a term that comes from the English "Royal estate" and best explains why we are taxed on property.

Why do I need a financial plan?

A financial plan is important because it takes into consideration different financial needs – from a college education, retirement, to medical costs and long-term health care.

Planning for old age

Planning up to retirement is not enough. You need to plan for beyond retirement age. In fact, if you intend to be rich, you should plan for at least three generations after you're gone. Most people don't even have enough to live on for three months if you take away their paychecks.

Pay more attention to your deep, silent, thoughts – the things you do not say out loud. This inner voice telling you to become an investor so you can gain financial freedom by your forties. The worst thing you can do to yourself is run out of both time and money.

Mental attitude quiz:

Are you willing to invest time so you can increase your financial vocabulary? Learn a new investment term every week. Use it in a sentence. Remember, your words form your thoughts. Your thoughts become your reality. Your realities become your entire life.

The difference between a rich person and a poor person is the words he or she uses. Remember words and thoughts are free. Use them wisely.

## **Chapter 8: Getting rich is automatic if you have a good plan and stick to it.**

Rich Dad once said investing is actually a simple, boring, mechanical recipe or formula for getting rich. A purely mechanical or actuarial method of picking stocks outperforms 80% of professional stock-pickers.

Points from James P. O'Shaughnessy's "What Works on Wall Street: A Guide to the Best Performing Investment Strategies of All Time":

Most investors prefer personal experience/intuitive strategy over simple basic facts or base rates. They listen to intuition rather than reality. This is why many investors fail to make money.

Most investors prefer complex formulas over simple ones.

Keeping it simple is the best rule for investing.

Professional institutional investors make the same mistakes as the average investors.

"While institutional investors' desks are cluttered with in-depth analytical reports, the majority of pension executives select outside managers based on gut feelings and keep managers with consistently poor performance simply because they have good personal relationships with them".  
-Fortune and Folly

"The path to achieving investment success is to study long-term results and find a strategy or group of strategies that make sense. Then stay on the path. We must look at how well strategies, and not stocks, perform."

Markets may be computerized, block traders dominate, but history repeats itself. Over the past 46 years of data, it was actually small cap stocks, or companies of less than \$25 million in capitalization, that made the investor the most money.

Find a simple formula that works and follow it.

## **Chapter 9: How can you find the plan that is right for you?**

Take your time to think about it. Ask yourself what do you want out of life the most? Don't ask too many people for their opinion. The biggest killers of inner dreams are family and friends who say you are crazy.

Call a financial advisor. Choose one equipped to assist you in developing a written financial plan.

Set realistic goals. Take action by calling advisors and gather your financial team. You will need your own:

- Financial planner
- Banker
- Accountant
- Lawyer
- Broker
- Bookkeeper
- Insurance Agent
- Successful Mentor

## **Chapter 10: Decide now what you want to be when you grow up.**

### Step 1

A written financial plan for lifelong financial security is a must. Continually planning for your future keeps you young. Never limit your possibilities and options.

To be rich, you need a plan for security, comfort, and wealth. To be comfortable, you just need two plans. To be secure, you need only one plan.

Remember that only three out of every hundred Americans are rich. Most fail to have more than one plan. Many don't have any type of plan. One out of the three rich Americans inherited his or her wealth. So write down your financial plan for all three possibilities, if you want to be rich.

## **Chapter 11: Each plan has a price**

Of all assets, Time is the most precious. The rich measure the price of each plan in terms of time. The poor and middle class measure the price of each plan in terms of money. Poor people ride buses, which takes them a longer time to get from point a to point b. The rich pay more to ride planes and buy more Time to enjoy life. It may be an oversimplified example of how the rich value Time over money, but it is very true.

Nothing in life is risk-free. The more secure an investment, the more Time it takes for it to make money. So decide how fast you want to get to where you want to be on the financial map.

## **Chapter 12: Why investing isn't risky.**

Most people go to school to be trained for Employment or Self-employment. The rich train their children to become investors and business owners by guiding them through their own investment portfolios at a very young age. They are trained to be investors first, before they choose a profession.

Ask any kid what he wants to be when he grows up, and chances are he'll say "doctor" or "pilot" or something that belongs in the E quadrant of employment. Hardly any will answer "I want to be a business investor".

In today's Information Age, its best to train yourself and your children to sit on the other side of the quadrant, where business leaders sit.

Most people who have not received the investor training will think it is risky. Most investors lack self-control. Most people do not know how it is to be on the Inside, where the real big investment deals are made. Investing is risky only if you don't know how.

### **Chapter 13: On which side of the table do you want to sit?**

Do you want to pay rent or collect the rent? Do you want to be the one who interviews people and hires them for jobs, or be the person who goes to job interviews?

The rules have changed. In the Information Age of today, we need greater financial sophistication. We are living much longer and need more money for our old age. Freedom comes from belonging to the I quadrant, the quadrant of the investor.

### **Chapter 14: The basic rules of investing**

- Always know what kind of income you are working for.

Earned income is the kind of income you get from a regular paycheck. This is the kind of income that is taxed the highest.

Portfolio income is the kind of income you get from paper assets such as stocks, bonds, mutual funds, etc.

Passive income is the kind of income you get from real estate, royalties, patents, or license agreements. Eighty per cent of passive income is from real estate. There are many tax advantages for real estate.

Work hard for portfolio and passive income if you want to be rich.

- Convert earned income into portfolio and passive income as efficiently as possible.

PEOPLE WHO ARE TOO NEGATIVE AVOID RISK AND MISS OUT ON ALL THE INCOME-EARNING OPPORTUNITIES BECAUSE OF THEIR FEAR OF RISK.

- Keep your earned income secure by purchasing a security. (This could be a stock or piece of real estate)
- It is the investor that is really the asset or the liability. A good investor knows how to turn a liability into an asset.
- A true investor is prepared for whatever happens.
- If you have done your homework, have experience and a track record, finding money for an investment is not hard.
- A good investor has the ability to evaluate risk and reward.

### **Chapter 15: Reduce risk through financial literacy**

In an age where there is really no job security, you need to beef up your basic assets or securities. This means turning your earned income into paper assets or portfolio assets and passive (perhaps real estate) assets. These will earn income for you long after your job is gone.

So in essence, investing is not risky. Clinging to a job without any paper or passive assets to back you up is riskier business in the long-term.

Learn how to read financial statements and keep an updated personal financial statement on a regular basis.

### **Chapter 16: Financial literacy made simple.**

Your income statement and balance sheet are two related documents that will tell you exactly how you are faring in your business investments.

It is the direction of cash flowing that determines whether something is an asset or a liability. An asset puts money in your pocket. A liability takes money out.

You can change a liability into an income-earning asset by renting out a house for instance, so the rental income pays for the expenses such as mortgage, maintenance and utilities.

Remember that the government can change tax laws. Real estate prices do go down. Do not look for sloppy investments just because the government may give you a tax break.

Learn financial analysis by playing the game CASHFLOW! This board game teaches you in just a few hours what Rich Dad took 30 years trying to teach the author. You will learn how to read financials in a fun and entertaining way, just like riding a bicycle!

### **Chapter 17: The magic of mistakes**

When people make mistakes, they may lie or cover up, blame others, justify their mistake, quit, or go into denial. The art of making a mistake in business is that you learn to take a risk, and pick yourself up and start a whole new venture, keeping in mind what went wrong during your first try.

You need to overcome your fear of failure, taking risks, and making mistakes, or else you cannot be an investor.

"Success is the ability to go from one failure to another with no loss of enthusiasm".  
-Winston Churchill

Learn how to deal with your fear of failing with the audiotape "Rich Dad Secrets to Money, Business, and Investing"!

### **Chapter 18: What is the price of becoming rich?**

There are many quick ways to becoming rich, through marriage, inheritance, illegal means, winning the lottery, being a rock or sports star, and being a Scrooge. But the best way is to become rich through financial street-smarts. You know you are financially smarter when you can tell the difference between good debt and bad debt, good losses and bad losses, good expenses and bad expenses, tax payments and tax incentives, corporations you work for versus corporations you own, how to build a business, fix it up, and take it public.

### **Chapter 19: The 90/10 riddle**

Your brain is the most powerful asset in today's Information Age. The reason people like Bill Gates rule in this world is because they took a great idea and built a business to serve millions, then took the company public. Ninety per cent of the wealth is owned by ten per cent of the population, and this 10% knows how to use its brains to create assets.

## **Phase 2: What type of investor do you want to become?**

## Chapter 20: Solving the 90/10 riddle

Do not listen to people who say, "You can't do that". Imagine where Bill Gates would be if he listened to people who told him it was not a good idea to buy software developed by computer programmers and sell it to millions of people.

## Chapter 21: Rich dad's categories of investors

The accredited investor earns a lot of money and has a high net worth.

The qualified investor knows fundamental and technical investing.

The sophisticated investor understands investing and the law.

The inside investor creates the investment.

The ultimate investor becomes the selling shareholder.

The best way to start is by building a business.

## Chapter 22: The accredited investor

The SEC defined the accredited investor as a person who has earned at least \$200,000 or more as an individual (or \$300,000 as a couple) in each of the last two years and expects to earn the same amount in the current year. The individual or couple may also qualify with a net worth of at least \$1 million. The accredited investor may have a lot of money but usually doesn't know what to do with it.

## Chapter 23: The qualified investor

Fundamental investing means you assess risk by reviewing the financials of a company. Warren Buffet is an example of the best fundamental investors.

Technical investing means studying the emotions of the market based on supply and demand.

George Soros is often recognized as one of the best technical investors.

Fundamental investing requires skills as financial literacy, economic forecasting

Technical investing requires skills as stock price and sales history, put/call option techniques and short selling.

What does p/e mean?

The qualified investor understands the price earnings or p/e ratio of a stock, or the market multiplier. The p/e ratio is calculated by dividing the current market price of a stock by the previous year's earnings per share. A low p/e means a stock is selling at a relatively low price compared to its earnings. A high p/e indicates a stock's price is high and may not be much of a bargain.

The current p/e is not as important as the future p/e.

Get your free audio report at [www.richdadbook3.com](http://www.richdadbook3.com) and learn to keep a cool head and invest wisely during a crash.

## Chapter 24: The sophisticated investor

The sophisticated investor knows his tax law, corporate law, and securities law. He or she is also able to use the advantage of E-T-C which stand for entity or business structure control, timing, and characteristic.

Legal entities for businesses come in the form of sole proprietorships, general and limited partnerships, liability companies, and corporations.

Sophisticated investors have multiple financial statements, use corporate entities and want nothing in their name, use insurance and precious metals as hedge against risk. They study future indicators and trends, and call their broker last, after consulting with a team of financial and legal experts.

### **Chapter 25: The inside investor**

An inside investor must possess control over himself, over income/expense and asset/liability ratios, over the management of the investment, over taxes, buying and selling, brokerage transactions, E-T-C, terms and conditions of agreements, and access to information.

### **Chapter 26: The ultimate investor**

The ultimate investor possesses the same controls as the inside investor plus control over giving it back or philanthropy.

The ultimate investor takes his company to market, and it goes public. You must disclose information that has been previously been kept private. There are advantages and disadvantages to going public, it may raise your company's net worth, but you may also risk losing control of your company.

### **Chapter 27: How to get rich quick**

If you want long-term, generations-old wealth, you need to invest the time and effort into building a strong business. Invest for the highest returns, the least risk, and learn your tax laws.

The answer is the faster you learn your financial vocabulary and master the controls over yourself and other things, then you can and will become very rich.

### **Chapter 28: Keep your day job and still become rich**

The reality for most of us is we need to keep our day jobs. All we need to do for ourselves is start a home-based business, part-time. Work on building your business after office hours, at night, and on weekends. Starting a business part-time will teach you priceless business skills such as communication, leadership, team-building, tax law, corporate law, and securities law.

### **Chapter 29: The entrepreneurial spirit**

There has to be a deeper reason for your wanting to build your own business than simply making a lot of money. It has to be deeper than just wanting an early retirement and more free time.

You build a business based on your dreams and new ideas. You build a business because you believe in something and think your business serves a lot of people. The entrepreneurial spirit is not one of greed, but of excitement, challenge, service, and creativity.

## **Phase 3: How do you build a strong business?**

### **Chapter 30: Why build a business?**

To provide you with excessive cash flow, free time, and extra money to keep investing.  
To sell it as an asset  
To take it public and become the ultimate investor

Remember you're never too young or too old. All you need is the vision, courage, creativity, and ability to withstand criticism, and delay gratification.

## **Chapter 31: The B-I Triangle**

The key to great wealth is the Business-owner and Investor triangle. This was Rich Dad's structure or guide to taking an idea and turning it into an asset. The triangle represents the knowledge it takes to be successful on the B and I side of the Cash flow Quadrant, where S is self-employed, E means employee, and I means investor and B means business-owner.

You need both a spiritual and business mission to be successful. Henry Ford wanted to bring the automobile to the masses.

Remember also that business is a team sport. You need to gather the best accountants, legal advisors, attorneys, brokers, and bankers. As leader, you are the visionary, cheerleader, and boss. You need to inspire others to follow your entrepreneurial spirit. You have to have boundless energy and a positive outlook. Surround yourself with team members who are experts in their field, are trustworthy and will work only for you and no one else.

## **Chapter 32: Cash flow management**

When starting up a business, it is normal for the owner to delay taking a salary until the business generates enough cash flow from sales.

Invoice customers quickly upon delivery. Require payment up front and always check credit references. Establish a minimum dollar amount for orders before granting credit. Establish late payment penalties, and let customers pay directly to your bank or lockboxes.

Pay your own bills promptly. Keep your overhead at a minimum. Before purchasing something new, set a goal for increasing sales to justify the expense.

Have an investment plan for your cash on hand to increase its earning potential.

Make sure you have checks and controls where different people handle the cash receipts and bank deposits, those authorized to sign checks must not prepare the vouchers, etc.

Cash management advice from your accountant, banker, and personal financial advisor will come in handy in managing of an efficient and safe system.

## **Chapter 33: Communications management**

Learn how to communicate effectively in sales, marketing, advertising and copy writing, negotiations, public speaking, direct-mail, seminar handling, and capital fund-raising. Your communication skills are very important when it comes to becoming an investor. You cannot be a successful business investor if you don't know how to sell!

Internal communications are important too. Team or group communications, meetings with employees, advisors, and disseminating human resources policies are things you need to know how to handle in order to get maximum performance from your people.

## Chapter 34: Systems management

Systems required for every business:

Daily operations:

- Telephone answering system with 800 line
- Mail receiving and opening
- Purchasing and maintenance of office supplies and equipment
- Fax and e-mail systems
- Incoming and outgoing deliveries
- Back-up and archiving systems

Product Development

- Legal protection
- Packaging and collateral design
- Manufacturing method and process
- Costing and bidding

Manufacturing and inventory

- Selecting vendors
- Product or service warranties
- Product or service pricing
- Reorder processing, receiving, storage, accounting

Billing and accounts receivables

- Billing customers for orders
- Receiving payments in cash, check or credit card
- Collection process

Customer service

- Returns procedure
- Customer complaint handling
- Replacement of defective product or performing warranty service

Account payable

- Purchasing procedures
- Payment process for supply and inventory
- Petty cash

Marketing

- Creating overall marketing plan
- Designing promotional material
- Developing leads and prospects
- Creating advertising plan
- Creating a direct mail plan
- Developing and maintaining customer database
- Developing and maintaining a web site
- Analyzing and tracking sales statistics

Human resources

- Hiring procedures and employee agreements
- Training employees
- Payroll and benefits

Other important systems are for accounting, corporate contracts, intellectual property contracts, state taxes, record-keeping, maintaining shareholder relations, ensuring legal security, and Physical space management systems like permits, fees, security, phone and electrical.

## Chapter 35: Legal Management

A business begins with a simple piece of paper. Hire a good intellectual property lawyer if you have a new idea, invention, book, software program, product, etc. You need legal counsel regarding your corporate licenses and agreements, contracts, leases, labor laws, loans, IPOs, truth in advertising, environmental laws, mergers and acquisitions, copyrights, patents, and trademarks...basically these fall under consumer, labor, corporate, securities, shareholder, intellectual property and contracts.

### **Chapter 36: Product management**

- Today all you need is a computer, a phone line, and some brainpower to get your business started.
- A sound business operates with integrity, a defined mission, a determined leader, a unified team and a strong system where good management equals money.

## **Phase 4: Who is a sophisticated investor?**

### **Chapter 37: How a sophisticated investor thinks**

A sophisticated investor buys assets and not liabilities. He turns personal expenses into business expenses. He has control over management and taxes, buying and selling, brokerage transactions, E-T-C, terms and conditions of agreements, and access to information. He also gives some money back through charity, and creates jobs that help expand the economy.

### **Chapter 38: Analyzing investments**

The sophisticated investor chooses investments for their financial plan by checking on their financial ratios, natural resources, and understands what is good debt and bad debt.

### **Chapter 39: The ultimate investor**

Michael Dell, Jeff Bezos, Ted Waitt, Pierre Omidyar, David Filo, David Yang, Henry Nicholas, and Rob Glaser. These are the young and rich Americans under 40 according to a 1999 issue of Fortune magazine. Aside from those who made their fortunes in computer and Internet companies, sports stars like Michael Jordan and rap musicians as well as pizza business owners were among the richest Americans listed.

Taking a company public is a rite of passage for any entrepreneur. Rich Dad said the person who builds a company from scratch, and takes it public, is the ultimate investor.

## **Conclusion**

Remember to give back some of your wealth when you attain it.

In today's Information Age, all you need is your brain and a brilliant new idea, or a better way to improve on a relatively new idea.

Rich Dad's most important lesson is "Don't be average", with the world changing so fast around us, it is this vital lesson that stays constant and rings true.