



Rich Dad Poor Dad

Author: Robert Kiyosaki and Sharon Lechter

Rich Dad Poor Dad was first published in 1997, and has racked up sales of 32 million copies in more than 51 languages. Endorsed by many celebrities including Oprah Winfrey, this book stayed on the New York Times best-sellers list for six years. This handcrafted summary of Rich Dad Poor Dad summarises the six rules that the authors believe will help your money work for you, rather than the other way around. The summary captures a few of the fables that the authors recount as part of explaining the six rules.

Poor Dad versus Rich Dad

'The love of money is the root of all' versus 'The lack of money is the root of all evil'

'I cannot afford it' versus 'How can I afford it?'

'Money does not matter' versus 'Money is power'

'Study hard so you can find a good company to work for' versus 'Study hard so you can find a good company to buy'

One was my Poor Dad while the other was my Rich Dad.

How did I end up with two dads? One, obviously, was my biological father, who had worked hard all his life, given me a comfortable life and did not take much to the bank after paying his bills.

The other dad, my friend Mike's dad, did not have as many degrees as my biological dad but made a lot more money. One was my Poor Dad, while the other was my Rich Dad.

As a kid, when someone suggested that I should 'make money', I roped in my friend Mike and we decided to melt down empty toothpaste tubes and make 'nickels' out of it. We took 'making money' way too literally. That is when we reached out to Mike's dad, who declared that **he would teach us how to make money, but not in the classroom style.**

Rule 1: The rich do not work for money

On Mike's dad's suggestion, we started helping him at his office, running some errands. The pay was not much, just about enough to help us 9-year-olds buy some comic books. Soon, I was disillusioned enough to stand up and declare that I was 'quitting my job'.

When Mike's dad met me, I told him how he was exploiting 9-year-olds. This is where Mike's dad, my Rich Dad, offered me his first lesson:



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The poor work for money. The rich have money work for them

Most of us work for a monthly salary. We work hard and look forward to a pay hike. We pay our bills and grumble about how everyone around us needs to change, including our boss.

We do not have 'enough' money and we believe that our problems are because of others around us. The reality, however, might be that we ourselves are the problem, and we are the ones who need to change first, not the people around us.

The salary becomes the focal point of our lives and we begin working for money, rather than make money. Understanding that we all have the choice - to work for money or to have money work for us.

People who work for money are caught in a trap that they are unaware of. This trap is the cycle of working very hard, earning a salary, looking forward to vacations, balancing bill payments, holding on to the illusion of job security and ultimately, looking forward to retirement.

Fear and greed lead us to the trap

We get into this trap because of fear and greed. The fear of losing our jobs gets us into the rat race and the greed to buy more and more things, keeps us running in the rat race. The trap now becomes a never-ending reality.

The fear of losing our jobs and therefore losing our source of money, makes us insecure, thereby letting money (or the fear of lack of it) control our emotions and our souls.

What is important is to look deep and evaluate if a job is the best way to make money in the long run and the answer, more often than not, is that **any job is just a short-term solution to a long-term problem.**

The only way out of this fear-greed trap is to choose our thoughts. When we choose our thoughts, we are thinking rather than just responding to our emotions. Choosing our thoughts is asking '**Is there something that I am missing here?**' instead of '*I deserve this raise.*'

I took this lesson to heart and Mike and I began a comic-book library. Though it lasted just three months, we were masters of our finances and not employees. More importantly, the comic book lending library generated money for Mike and me, even when we were not physically present in our library.

Our money was working for us.



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Rule 2: Financial literacy is necessary

In 1994, I retired at the age of 47. My money was working for me. By this time, Mike had taken over his dad's business and grown it exponentially. Both of us were able to reach where we were, thanks to Mike's dad (my Rich Dad) lessons in financial literacy.

The fundamentals of financial literacy, as Mike's dad taught us, is captured in just one rule: ***Understand the difference between an asset and a liability.***

You may want to believe that you know the difference between assets and liabilities. **However, the truth is that a lot of us assume liabilities to be assets.** Buying assets are about buying stuff that puts money in our pockets. Liabilities, on the other hand, take away money from our pockets.

A lot of us might be hugely successful in our professional domains, but we may still be financially illiterate.

Is your house an asset or a liability?

Being financially literate is not just about making money, but more importantly, about how to spend money. A lot of us see our homes as 'assets'. However, if we dig a little deeper, we will realise that a house is a liability. Buying a house offers tax breaks, but it also entails additional cash expenses. Most of us buy our homes on 20-30 years mortgage. In a true accounting sense, **the house, then, is a liability and not an asset, until you repay the entire mortgage.**

Buying a house and believing it to be an asset is delaying your financial education. There is no denying the emotional benefit of having your own house, but it is essential to building assets that generate the money with which you buy a house. Any hike in salary needs to be invested in assets that generate income, rather than in expenditure such as a bigger house.

The mantra to remember is **that the rich buy assets, the poor have expenses, and the middle class buys liabilities, thinking they are assets.**

Rule 3: Mind your own business

If you are asked what the business of McDonald's is, your answer, instinctively, would be 'fast food' or 'burger'. However, the founder of McDonald's, Ray Kroc, believed that McDonald's is in the business of real estate.

The primary success factor for a McDonald's restaurant is its location, the land it is built on. This Ray Kroc



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story, recounted by Mike's dad, became our third lesson: **Mind your own business**

It is important here to understand the difference between profession and business. A lot of us use these words interchangeably. For Ray Kroc, his profession was to sell franchises for making burgers; but his business was to build assets regarding the income-generating real estate.

As a professional, we are 'minding' someone else's business. Instead, we should be 'minding' our own business. As a professional, you are working for a salary that becomes your 'income'. As a business person, you are looking at spending your income to buy revenue-generating assets.

The 'usual assets' like a mortgage-bought home or a loan-bought car, become liabilities when we lose our jobs due to downsizing or restructuring.

Minding your business is about buying revenue generating assets instead of liabilities or vanity goods. Revenue generating assets include stocks, bonds, mutual funds, real estate that generates net positive income after factoring mortgage and anything that produces income.

Rule 4: Use the cover of a corporation

The genesis of levying taxes emerged from Britain, and the US, unlike most things British, adopted permanent taxation with the 16th Amendment.

Taxes today have split us into two camps - the haves and the have-nots. The have-nots believe in the Robinhood philosophy of 'take from the rich'. Ironically, it is the have-nots who lose the battle on taxation. Being in a job and working hard only enables the government to tax you more.

The haves, on the other hand, plays the tax game very differently. The haves mind their own business, which generates tax benefits for them, unlike the have-nots who have a job and therefore get taxed even before their salary reaches their banks.

What is financial IQ?

In order to manage taxes, it is important to build financial IQ. Financial IQ consists of the following four actions:

1. Understand what accounting all is about: If you are minding your own business or intend to do so, it is essential to understand the basics of accounting so that you can read and understand financial statements.



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2. Understand the science of making money or investing.
3. Understand the demand and supply aspects of the financial markets
4. Understand the law, especially regarding how the law interprets the income of an individual versus the income of a corporation.

When you work for someone, you earn, pay taxes and spend whatever remains after that. But when you mind your own business, you earn, then you spend and only then do you pay taxes.

Rule 5: The rich invent money

When Alexander Graham Bell had just patented his invention, the telephone, he went to the biggest corporation of that time. Bell offered Western Union his patent and his company for \$100,000. Western Union refused and Bell went on to create a billion dollars communication industry, with AT&T at the helm.

Just like Alexander Graham Bell, we too have our 'inner critic' which makes us doubt ourselves and possibly beg with others like Bell did with Western Union. It is equally true that there is a 'brave hero' inside us who dares to build something.

It was possibly the 'brave hero' inside Bell that helped him overcome the rejection from Western Union and set him on the path of creating massive wealth using his invention of the telephone.

Information is wealth

We are living in extraordinary times today. While land was the currency of wealth a few centuries ago, today it is information. Wealth today is not shackled by the geographical constraints.

Opportunities abound around us and this is the right time to ensure that our financial intelligence is at its best. **How do we then increase our financial intelligence?**

The first concept of financial intelligence is that money is not real. The real money is our mind. Great opportunities to make money emerge from a well-trained mind. The mind, when trained well, identifies opportunities that later turn into money.

Once we realise that the real money is in training our mind to be financially intelligent, we will be willing to take risks and invest in opportunities that others do not see.



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Rule 6: Work to learn

A business consultant once told me '(They) are one skill away from great wealth'. This phrase means that our income can jump exponentially if we master one more additional skill.

Earlier in this summary, we got to know that financial IQ is a combination of accounting, investing, understanding markets and understanding the law. However, what most people understand about making money is 'work hard'.

For most of us, our income would go up exponentially if we combine 'working hard' with the additional skill of financial IQ.

While my Poor Dad encouraged to study more and become a specialist in one domain, my Rich Dad encouraged me to 'know a little about a lot.' It is important to understand at this stage, that learning does not get along well with job security.

Education is the best investment

You can learn only that much if you are in the same job for years. Falling in love with job security is a wrong long-term strategy. It may work in the short term, but in the long run, it is recommended that we work to learn more, rather than earn more.

Education is more valuable than money in the long run.

Management of cash flow, management of your time and management of people, are the key management skills needed for success. Communication skills and the ability to sell are the other core skills required to succeed in life.

Why do the financially literate struggle?

Being financially literate does not solve everything though. Financially literate people may still struggle to build revenue generating assets due to the following reasons:

Fear of losing money: There is nothing wrong in having a fear of losing money. This fear exists in all of us. What makes the difference is how you handle that fear. If the response to this fear is about playing it 'safe', then you start fearing failure, which becomes a much bigger problem than fearing losing money.

The inability to take a risk makes the financially literate person ignore opportunities to build his assets column. Failure should inspire winning, not take you to the safe shores.



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Deep-rooted cynicism: That inner critic inside us can help us or it can destroy us. When our doubts take over our lives, then for every action that you plan, there will be a doomsday scenario.

The more you listen to the doomsday scenario, the more such thoughts will strangle you, forcing you to let go of every opportunity to buy a good quality asset.

Laziness: Are you too busy to take care of your wealth? Does the same hold for your health also? The reality is that this is not about you being busy, this is about you avoiding something that you would rather not face.

In order to beat laziness, you need to be a little greedy. Being greedy helps you move ahead, ask for more. Of course, too much greed will take you on the wrong track altogether.

Bad habits: Good habits are difficult to build, while bad habits face no resistance at all. Prioritise yourself when it comes to financial literacy. Do not be the first to pay the bills. That's a bad habit because it prioritises others over you. Do not get pushed around by landlords, bill collectors and so on.

Arrogance: When your ego combines with ignorance, it is a lethal combination. This lethal combination is called arrogance. Do not try the snake oil sales pitch to cover for your ignorance. Instead, educate yourself.

Go ahead, take action

In order to make your money work for you, take action! Look for new ideas and look for teachers who can help you learn something new. Pick up Peter Lynch's book *Beating the Street* to understand how to pick stocks. When the stock market crashes, do not run for cover. Dive deep end and start buying.

Money is not real, it is an illusion, an idea. The science of making money is about thinking differently, identifying opportunities that help build revenue generating assets.

Think and Grow Rich is a popular book that you may be aware of. There's a reason why the book is not titled *Work Hard and Grow Rich*. Building a strong financial IQ will help you move away from general speak like 'Work hard' and move you towards leveraging insights to improve your financial IQ and build your wealth.

Start now, as action always beats inaction.

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