Cash flow is the most important work in the world of money. The second most important word is leverage. Leverage is the reason some people become rich and others do not become rich. The reason less than 5 percent of all Americans are rich is because only 5 percent know how to use the power of leverage.

One of the recognized forms of leverage is the leverage of borrowing money. Millions of people struggle financially because the power of debt leverage is used against them. Good debt makes you rich and bad debt makes you poor. I retired young and rich because we were deeply in debt, deeply in debt with good debt, debt that made us rich and financially free. We used the power of leverage, we did not abuse the power, nor do we live in fear of its power. Instead we respect the power of leverage and use it wisely and cautiously.

The most powerful form of leverage in the world, your mind, has the power to make you rich or make you poor.

Rich people use rich words and poor people use poor words. Your brain can be your most powerful asset or it can be your most powerful liability. The difference between rich people and poor people is that poor people say “I can't afford it” more often that rich people. If you want to retire young and retire rich, you will need to use your brain in your favor, not against you.

Forbes magazine defines rich as $1 million or more a year in income. The problem with having a job is that it gets in the way of getting rich. We retired young so that we would have time to become rich.

Most people have a plan to be poor. That is why so many people say, “When I retire, my income will go down.” In other words, they are saying, “I plan of working hard all my life and then I will become poorer after I retire.”

Millions of workers are now counting on their retirement plans, plans such as 401(k) and IRA. Employees are now responsible for their retirement. In the Industrial Age, it was the company or the government that would take care of your financial needs once your working days were over. There is one tragic flaw in these Information Age retirement plans. The flaw is that most of these plans are indexed to the stock market, and as you may have noticed, stock markets go up and stock markets go down.
Planning to work hard all your life is a poor plan. For many baby boomers, time, our most important asset, is running out.

In the real world less than 5 percent of the U.S. population is rich because 95 percent of the population may want to be rich but only 5 percent takes action.

THREE EASY THINGS EVERYONE CAN DO TO BECOME RICH

I will go into the three main assets that make people rich and allow them to retire young. The three assets are:

1. Real Estate
2. Paper assets
3. Businesses

_The reason Kim and I could retire young and retire rich is because we spend out time acquiring assets rather than working for money._

This book is written to assist you in finding your own financial freedom...freedom from the drudgery of earning a living.

THE LEVERAGE OF YOUR MIND

Poor people use poor words and poor words create poor people. If you can change your words and your thoughts to those of the rich, retiring young and retiring rich will be easy.

We all have doubts. The difference is what we do with those doubts.

The biggest challenge you have is to challenge your own self-doubt and your laziness. It is your self-doubt and your laziness that define and limit who you are. If you want to change what you are, you must take on you self-doubt and you laziness. It is your self-doubt and laziness that keep you small. It is you self-doubt and laziness that deny you the life you want. There is no one in your way except you and your doubts about you. It is easy to stay the same. It is easy not to change. Most people choose to stay the same all their lives. If you will take on you self-doubt and your laziness, you will find the door to your freedom.

It was decision time once again. It was time to choose. I could let my self-doubt and laziness win or I could go on and change my perceptions about myself. It was time to move forward or to go backward.

Without the “why,” the “how” would have been impossible. It is the “why” that gives you the power to do the “how to.” The reason most people do not do what they
can do is because they do no have a strong enough “why.” Once you find the” why,” it is easy to find you own “how to” to wealth. Instead of looking inside of themselves to find their own “why” they want to become rich, most people look for the easy road to wealth, and the problem with the easy road is that the easy road usually ends in a dead end.”

Rich Dad’s three paths to great wealth are:

1. Increasing business skills
2. Increasing money management skills
3. Increasing investment skills

If you find yourself arguing with a good idea, you may want to stop arguing. Whenever someone says something like ‘I can’t afford it’ or ‘I can’t do it’ to something they want, they have a big problem. Why in the world would someone say, “I can’t afford it’ or ‘I can’t do it’ to something they want? I was arguing because I was protecting myself from the pain that dreaming big dreams can bring if that big dream does not become a reality. I had dreamed and failed. That night I realized that I was arguing against failing again, not against the dream.

A suggestion: I learned years ago that passion is a combination of love and hate. Unless someone has a passion for something, it is difficult to accomplish anything. If you want something, be passionate. Passion gives energy to your life. If you want something you do not have, find out why you love what you want and why you hate not having what you want. When you combine those two thoughts, you will find the energy to get off your seat and go get anything you want.

Ex: 

<table>
<thead>
<tr>
<th>Love</th>
<th>Hate</th>
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<tbody>
<tr>
<td>Being rich</td>
<td>Being poor</td>
</tr>
<tr>
<td>Being free</td>
<td>Being required to work</td>
</tr>
<tr>
<td>Buying anything I want</td>
<td>Not having what I want</td>
</tr>
<tr>
<td>Expensive things</td>
<td>Cheap things</td>
</tr>
<tr>
<td>Having other people do what I don’t want to do</td>
<td>Doing things I don’t want to do</td>
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Your Loves

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Your Hates

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As a final comment, I have heard many people say, “Money does not make you happy.” That statement has some truth to it. But what money does do is buy me the time to do what I love and pay other people to do what I hate doing.

“How many of you plan on retiring early?” “How many of you would like to retire in your forties and be financially free for the rest of your life?”

**DEBT vs EQUITY**

Most people try to use equity to retire. They use their own money to retire. I used debt to retire. I used other people's money.

People’s 401(k) depends on market momentum and capital appreciation. Not on cash flow. I invest for cash flow. How much cash flow per month does your 401(k) put into your pocket to spend each month. Most people are hoping for capital appreciation of their mutual funds and hoping to retire later in life...hoping the market does not crash when it is our turn to retire.

Rich Dad’s Lessons.

1. How long would it take you to save $1 million? How long would it take you to **borrow** $1 million?
2. Who is going to get richer in the long run? Someone who works all their lives trying to save a million dollars? Or someone who knows how to borrow a million dollars at 10 percent interest and also knows how to invest it and receive a 25 percent per year return on that borrowed million dollars?
3. To whom would a banker rather lend money? Someone who works hard for money, or someone who knows how to borrow money and have that money safely and intelligently work hard for them.
4. Who would you have to be and what would you have to know in order to call your banker and say, ‘I want to borrow a million dollars.’ Then have the banker say, ‘I will have the papers ready for you to sign in twenty minutes.’
5. Why does the government **tax your savings** but give you a **tax break for being in debt**?
6. Who has to be financially smarter and better financially educated? A person with a million dollars in savings or a person with a million dollars in debt?
7. Who has to be financially smarter with money? Someone who works hard for money or someone who has money work hard for him?
8. If you had a choice of education, would you choose to go to school to learn how to work hard for money, or would you rather go to school to learn how to have money work hard for you?
9. Why is it that a banker will gladly lend you money to speculate in real estate, but will hesitate to lend you money to speculate in the stock market?
10. Why do the people who work the hardest and save the most pay more in taxes that people who work less and borrow more?

The poor and middle class have a hard time getting rich because they try to use their own money to get rich. If you want to get rich, you need to know how to use other people's money to get rich...not your own.

The most important work in the world of money is cash flow. The second most important word is leverage.

If you want to rich, you must learn to harness the power of leverage. Even if you are just little guys in the world, you can beat the big guys if you understand the power of leverage. The difference between the rich, the poor, and the middle class is the different forms of leverage each class uses. The rich are richer simply because the use different forms of leverage and they use more of it. Financial leverage is the advantage the rich have over the poor and the middle class. Financial leverage is how the rich get richer quicker.

One of the main reasons the middle class and the poor work harder, work years longer, struggle to pay off debt and pay more in taxes is because they lack a very important form of leverage... and that is the leverage of financial education.

If you want to be rich, you need to know the differences between good debt and bad debt; good expenses and bad expenses; good income and bad income; and good liabilities and bad liabilities. Simply put, good debt is debt that puts money in your pocket every month, and bad debt is debt that takes money from your pocket every month. Let’s make a list of your good and bad debt:

<table>
<thead>
<tr>
<th>Good Debt</th>
<th>Bad Debt</th>
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After you inspect your list, you many want to think about what you want to do with your debt. You may want to reduce bad debt and think about increasing good debt. If you work on increasing good debt, your chances of retiring young and retiring rich are greatly improved. But always remember to treat all debt as you would treat a loaded gun, and that is very carefully.

If you want to retire early and retire rich, it is very important to understand the principle of leverage. The word leverage simple means the ability to do more with less. If you want to become rich, you need to work less, and earn more. In order to do that, you employ some form of leverage. People who only work hard have limited leverage. If you’re working hard physically and not getting ahead financially, then you’re probably someone else’s leverage. If you have money sitting in the bank in your savings account, then others are using your money as their leverage. People with leverage have dominance over people with less leverage. Leverage is power. Poor people use fewer leveraged tools that rich people. If you want to be rich and keep up with the rich, you need to understand the power of leverage.

The good news is that more and more leveraged tools are being created today, tools such as computers, the Internet, and more to come. The humans who can adapt to use these tools of leverage are the humans who are getting ahead. The people who are not leaning to use more and more tools of leverage are falling behind financially or working harder and harder just to keep up. If you are getting up and going to work only to earn money, rather that working to gain some leveraged advantage in life, the chances are you are falling behind today. Never in the history of the world have so many tools of leverage been invented in such a short period of time. The people who use these tools get ahead and people who do not fall behind.

People without leverage work for those with leverage. It is ironic that the poor and the middle class think of the financial tools of leverage as too risky. Because they think that financial leverage is too risky, most people do not utilize the faster tools of financial leverage. Rather than utilize the financial leverage the rich use, the poor and middle class tend to use physical leverage to try and get ahead. Physical leverage is also known as hard work. The rich get richer primarily because they use the financial tools of leverage and the poor and middle class do not, at least not in the same way the rich use the same tools.

The rich use debt to win financially and the poor and middle class use debt to lose financially.
OTHER FORMS OF LEVERAGE

To build another type of asset, an asset known as a business, you have to use another type of leverage, OPT, other people’s time. This leverage uses the employment of people.

Two different forms of financial leverage is OPM (other people's money) and OPT (other people's time).

Other types of leverage are health, time, education, relationships, tools, and spare time.

Leverage is the ability to do more and more with less and less.

The rich keep adding more and more leverage, which is why they get richer and richer. The poor and middle class stop adding more leverage. The point at which you stop adding more leverage defines you financial station in life. The truly rich never stop increasing their leverage.

There are three different kinds of education. They are:
1. Academic or scholastic education
2. Professional education
3. Financial education

If you stop learning, your money will soon go to someone who has continued to keep leaning. Your money will go to the person who realizes that true leverage is the ability to constantly do more and more with less and less.

The people who will win financially are those willing to do more and more with less and less...not those who want to be paid more and more for doing less and less.

This is a very important question:

How can I do what I do for more people with less work and for a better price?

THE LEVERAGE OF YOUR MIND

What you think is real is your reality.

People who take risks increase prosperity. Most people think only in the realm of what is smart and what is risky. Financially intelligent people think in terms of risk and reward, the weigh the risks and they weigh the rewards. If the rewards are great enough, they will come up with a strategy or a plan that will
increase their chances of success regardless of how many times they will lose before they will win.

A Loser’s Strategy

The average person who avoids losing and expects to win 100 percent of the time is the person who often has the loser’s strategy. Expecting to win 100 percent of the time and never failing is a loser’s reality. A winning strategy must include losing. Most people today have a retirement plan that does not include the possibility of losing. Most people today simply expect the stock market to always go up, and that when they retire, their nest egg will last them as long as they live. That is a plan that has no room for losing and that is why it is a loser’s plan.

Losers are people who think that losing is bad. Losers cannot afford to lose and often avoid losing at all costs. Many losers bet only on sure things…such things such as job security, a steady paycheck, a guaranteed pension, and interest from a bank account. Losers keep losing and winners keep winning simple because winners know that losing is part of winning.

If we could win a million dollars, and the risk-reward ratio was 1:100 and minimum bet was $1, we would get $100 in single bills and work our strategy to bet $1 100 times. You would lose 99 out of 100 times.

Be willing to think outside the box. Our mind is the most powerful tool of leverage. If you can learn to take control of your own reality, making more and more money with less and less effort will become easier and easier. If you cannot control and change your reality, then getting richer and richer may take longer than you like. The primary difference between the rich and the poor and middle class is the difference in their realities.

Constantly control, change, and expand your realities. What is the risk-reward ratio? How many times will I lose before I win? Today when people ask me what it takes to be rich, I say, “It takes the ability to expand your reality. If you are not willing to expand your reality, getting rich may take a very long time.”

I have met many people who are not successful simply because they have successfully failed to fail.

If you truly want to retire young and retire rich, the place to start is with your own realities.

The rich think the opposite of the poor and middle class. The poor and middle class think that having a safe secure job is smart. The rich think building a business is smart and job security is risky. Learning to build a business is like learning anything else. If you work for job security, you will work hard for most of your life. If you work to build a business, you many work harder at the start but you will work less and less
in the end and you’ll probably make ten to 100 to 1,000 times more money. So which one is smarter?

It is their mental reality that makes them poor. It is what we think is smart and what we think is risky that determines our socioeconomic standings in life. We do the same things but we operate from a different mind-set. I operate from a rich person's mind-set and your parents operate from a middle-class mind set.

You do not have to be rich or poor to be greedy or generous. Doing more and more with less and less is one form of being generous. *The easiest way to become rich is by being generous.* Anytime I want to earn more money, all I have to do is ask myself how I can serve more people.

Most poor and middle class expect to receive pay raises the longer they work at a job. It is called seniority or tenure. Can you see how wanting more money for doing the same amount of work can be greedy. Or wanting to be paid overtime or wanting to be paid extra if the job the person does is outside the job description. In my world, if I want more money, I first need to do more and more for less and less money, for more and more people, then I become rich. Henry Ford became one of the riches men in the world because he provided automobiles for more and more people for less and less cost.

A big business owner will do his or her best to build a system to serve as many people as possible. A B business owner uses a system to serve as many people as possible.

In your family, what was the reality on the following subjects?

<table>
<thead>
<tr>
<th>Subject</th>
<th>Smart</th>
<th>Risky</th>
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<tbody>
<tr>
<td>Job security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building a business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A big house</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apartment houses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saving money</td>
<td></td>
<td></td>
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<tr>
<td>Investing money</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The rich are</td>
<td>greedy</td>
<td>generous</td>
</tr>
</tbody>
</table>
increase in bad income. If you want to retire young and retire rich, you need to work hard for the right kind of income.

There are three different types of income:

1) Earned income: Earned income is you working for money. It is the income that comes in the form of a paycheck. It is also the type of income you ask for more of when you ask for a raise, bonus, overtime, commissions, and tips.

2) Portfolio income: Portfolio income is generally income from paper assets such as stocks, bonds, and mutual funds. A vast majority of all retirement accounts are counting on portfolio income in the future.

3) Passive income: Passive income is generally income from real estate or businesses. It can also be royalty income from patents or for use of your intellectual property such as songs, books, or other objects of intellectual value.

Why Rich Dad Did Not like Earned Income

In rich dad’s mind, the worst kind of income to work hard for was earned income. To him it was the worst for four main reasons:

1. It is the highest taxed income and it is the income with the fewest controls over how much you pay in taxes and when you pay your taxes.
2. You personally have to work for it and it takes up your valuable time.
3. There is very little leverage in earned income. The primary way most people increase their earned income is by working harder.
4. There is often no residual value for you work. In other words, you work, get paid, and then have to work again to be paid again. Again, to the rich there is very little leverage in working for earned income.

Most people I knew dreamed of high-paying jobs with lots of earned income. Teaching people to spend their lives working for earned income is like teaching someone to be a high-paid slave for life.

Why Rich Dad Liked Passive Income

Although he did receive all three types of income, if given the choice among the three, he would take passive income all the time. Why? Because it was the income he had to work the least for, it is often the least taxed, and it earned him some of the highest returns consistently over a long period of time. In other words, he worked hard for passive income because, in the long run, he worked less and less, served more and more people, and earned more and more the older he got.

Another difference is that we planned on retiring with more passive income and not portfolio income, which is what most people plan to retire on.
Earned income is the income that you work the hardest for and you are allowed to keep the least of.

50 Percent Money

Rich dad often called earned income, the income you receive from a paycheck, “50 percent money.” The reason he called it 50 percent money was because no matter how much money you earned, the government always took at least 50 percent of it or more in one way or another. As most people know, you are taxed when you earn, spend, save, invest, and when you die. Rich dad had a difficult time understanding people who spent their lives in search of a higher paying job or a pay raise. He often said, “When you get a raise, so does the government.” To him, spending your life working hard for 50 percent money was not the financially intelligent thing to do.

20 Percent Money

Many people are attempting to retire utilizing what my rich dad called 20 percent money, which is money from capital gains or appreciation of stocks and sometimes real estate.

Another way of deferring taxes is by taking the depreciation from the improvements of real estate.

The Best Loophole of All

If you work for job security, you will earn less and less the more and more you work. To me, that is too high a price to pay for a little bit of security. Today, the best way to earn more and work less is via owning your own business. It continues to be the best loophole in the world. One reason to start your own business is the difference in when you pay your taxes.

<table>
<thead>
<tr>
<th>Employee</th>
<th>Business owner</th>
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<tbody>
<tr>
<td>Earns</td>
<td>Earns</td>
</tr>
<tr>
<td>Taxed</td>
<td>Spends</td>
</tr>
<tr>
<td>Spends what is left</td>
<td>Pays taxes on what is left</td>
</tr>
</tbody>
</table>

A business owner can pay for those things with before-tax dollars while an employee pays for them with after-tax dollars.

The tax laws are the worst for the employee. If fact it is the lower paid employees who pay the highest percentage in taxes-so much for the government
working to protect the working class. Even the S quadrant has more loopholes that the E quadrant. The government has locked up the loopholes for the E quadrant.

The only true loophole available to the E is their 401(k).

The Problem with a 401(k)

Although I recommend that everyone have and maximize contributions to a 401(k), if they qualify for one, there is one major flaw I see in it. The flaw is that although you save your money in it and it hopefully grows free of the 20 percent capital gains tax when you withdraw it at retirement time, you are taxed at the 50 percent tax rate off earned income. Even though you believe you are investing in portfolio or 20 percent money, when you cash in, you are still taxed at earned income rates. That means you work all your life for 50 percent money, and when you retire you are still taxed at the 50 percent rate.

The second problem with a 401(k) is that it only works for people who are planning on being poor. If your income remains high after you retire, you continue to pay higher taxes on your retirement money because your income went up, not down.

The Problem with Social Security

The problem with Social Security is that it only works for people who want to be poor. If after you retire and you find that Social Security is not enough for you to live on, and you go to work for earned income, the government will begin reducing your Social Security payments. In other words, the only was to receive a full payment is to choose to be poor, in most cases.

How You Can Earn More Tax-Advantaged Income

By simply starting a small home-based business, buying a franchise, or joining a network marketing company, you are moving into more tax-advantaged income. If you can reduce the cost of some of your expenses, just by utilizing tax-advantaged dollars, you are getting ahead financially.

The trouble with working for earned income is that you have to keep working hard for it. Eventually a person working for portfolio and passive income will pass the earning potential of earned income because you can work less, earn more, and pay less and less in taxes when you work for portfolio and passive income.

The reason is explained in this table:

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Tax Rate</th>
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<tbody>
<tr>
<td>Earned Income</td>
<td>50 percent</td>
</tr>
<tr>
<td>Portfolio Income</td>
<td>20 percent</td>
</tr>
<tr>
<td>Passive Income</td>
<td>0 percent</td>
</tr>
</tbody>
</table>
The quadrants with the most control over taxes, the highest leverage potential for labor-free income, and the most legal tax advantages are the B and I quadrants.

If you are serious about retiring young and retiring rich, you may want to consider working for free. The moment you ask yourself the question, 'How can I become rich by working for free?' you begin to push your mind into another reality.

If you want to become really rich, learn how to build, buy, or create assets.

Working hard for pay raises is very risky. It is risky because people often get deeper into the rat race of life working for pay raises and secondly because other people get ahead financially faster than you.

Many of the very rich became rich in their spare time. So, if you have a job because you have financial responsibilities, keep your job but make better use of your spare time. When your friends go to play golf or go fishing or watch sports on TV, you can be starting your part-time business.