RICH DAD COACHING

CASHFLOW

Cashflow 101

MODULE TWO

Change Your Context

Objectives

In this lesson you will:

- Learn to see money the way the rich do.
- Begin your Rat Race exit strategy.

Learn to See Money the Way the Rich Do

One of the reasons the rich are able to have their money work for them is because they view money from a very different standpoint than the poor or middle class. If you want to change your viewpoint, you'll have to change your quadrant. If you want to change your quadrant, you'll have to change your patterns of thinking and this change is primarily emotional. How you emotionally view money will determine your success more than anything else. The more you open yourself up to the possibilities of money, the more you'll be able to make and keep it.

Begin Your Rat Race Exit Strategy

Every successful investment or business activity requires an exit strategy—a view of the end from the beginning. The Rat Race is no exception. What will you do about your current financial situation? How will you generate income from the right side of the CASHFLOW Quadrant? The answers to these and other questions will become the foundation of your strategy to exit the Rat Race.

Listening Assignments/Viewing

To prepare for your work in this module, please listen to the following:

- *60 Minutes To Getting Rich* video, parts 1–4.
- *It's Easy To Be Rich* audio series, Disc 1.

Learn to See Money the Way the Rich Do

Money is not seen with your eyes. Money is seen with your mind. “It’s not what your eyes see,” said rich dad. “A piece of real estate is a piece of real estate. A company’s stock certificate is a company’s stock certificate. You can see those things. But it’s what you cannot see that is important. It’s the deal, the financial agreement, the market, the management, the risk factors, the cash flow, the corporate structuring, the tax laws, and a thousand other things that make something a good investment or not.”

The first step to becoming rich is learning to see money—training your brain to see money through financial literacy. It begins with the ability to understand the words and the number systems of capitalism.

“Most people,” rich dad said, “invest 95 percent with their eyes and only five percent with their minds.” They look at a piece of real estate, or the name of a stock, and often make their decision based on what their eyes see or what a broker tells them, or on a hot tip from a fellow worker. They often buy emotionally instead of rationally. “That is why 9 out of 10 investors do not make money. While they do not necessarily lose money, they just do not make money. They just sort of break even, making some and losing some. Many people invest because they want to get rich quickly. So instead of becoming investors, they wind up being dreamers, hustlers, gamblers, and crooks.”

Every day, $1.4 trillion orbits the planet electronically, and it is increasing. There is more money being created and available today than ever before. The problem is, money is invisible. Today, the bulk of it is electronic. So when people look for money with their eyes, they fail to see anything.

Prior to 1971, every U.S, dollar bill was backed by gold or silver. Now, each dollar is an IOU guaranteed to be paid by the U.S. taxpayers. Because of this, rich dad explained, “Money is debt.” Today, most money is “fiat” money meaning that it cannot be converted to something tangible—like gold or silver. The money is only good as long as people have confidence in the government backing it. History has shown that this can greatly reduce the value of a dollar saved. The rich know that savers are losers because the value of money saved decreases over time. The value of money invested wisely, however, grows many times over.

CASHFLOW Quadrant
The CASHFLOW Quadrant describes the four different types of people represented in the world of income: the employee, the self-employed, the business owner and the investor.

E–Employee **B–Business Owner**

S–Self-Employed **I–Investor**

You find employees (E) and self-employed individuals on the left side of the CASHFLOW Quadrant. The right side of the Quadrant is for individuals who receive their income from businesses (B) they own or investments (I) they have/make/own.

Each person resides in at least one of the four quadrants and may reside in two or more. Where you fall within the quadrant is determined by what types of efforts generate your income, and this may change over time.

What Quadrant Are You In?

Who are you? How do you earn money? What is your idea of risk—or security for that matter? Equally important—how does your spouse or partner answer these questions?

HOW PEOPLE IN THE "E" QUADRANT THINK

When people from the "E" Quadrant hear the word "secure" or "benefits," they get a warm fuzzy feeling. Rich dad said the word "secure" is a word often used in response to the emotion of fear.

If a person feels fear, then the need for security is often a subject of conversation. This is a dead ringer for someone who comes predominantly from the "E" Quadrant. When it comes to money and jobs, there are many people who simply hate the feeling of fear that comes with economic uncertainty—hence the desire for security.

People in the "E" Quadrant see benefits as a kind of additional reward that is spelled out—a defined and assured extra compensation, such as a health care or retirement plan. The key is that they want to feel secure and see it in writing. Uncertainty does not make them happy; certainty does. Their internal voice says, "I'll give you this...and you promise to give me that in return."

These folks want their fear satisfied with some degree of certainty, so they seek security and strong agreements when it comes to employment. They are accurate when they say, "I'm not that interested in money." For them, the idea of security is more important than money. Employees can be presidents of companies or janitors of companies. It is not so much what they do, but the contractual agreement they have with the person or organization that hires them.

HOW PEOPLE IN THE "S" QUADRANT THINK

These are the "do-it-yourselfers." Often, when it comes to the subject of money, a hard core "S" does not like to have his or her income dependent on other people. In other words, if an "S" works hard, he or she expects to get paid for the work. Those who are an "S" do not like having the amount of money they earn dictated by someone else, or by a group of people who might not work as hard as they do.

If they work hard, they expect to be paid well. They also understand that if they do not work hard, then they don't deserve to be paid much. When it comes to money, they have fiercely independent souls.

An “S” responds to fear differently than an “E.” An “S” doesn’t respond to fear by seeking security, but by taking control of the situation and doing it on his or her own. When it comes to fear and financial risk, they want to “take the bull by the horns.”

Also in the “S” group are people who took educational paths other than, or in addition to, traditional schooling. In this group are direct-commission salespeople—real estate agents, for instance—as well as small-business owners such as retail shopkeepers, cleaners, restaurateurs, consultants, therapists, travel agents, car mechanics, plumbers, carpenters, preachers, electricians, hair stylists, and artists.

For this group, money is not the most important thing about their work. Their independence, the freedom to do things their way and to be respected as experts in their fields, are much more important than mere money. They have a hard time hiring other people to do what they do simply because in their mind, nobody else is up to the task. This causes this group to often say, “It’s hard to find good help these days.”

HOW PEOPLE IN THE “B” QUADRANT THINK

People in the “B” Quadrant are almost the opposite of people in the “S” Quadrant. Why? Because rather than doing things themselves, they like to surround themselves with smart people from all four categories: E, S, B and I. Unlike the “S,” who does not like to delegate work, the true “B” likes to delegate.

Many people know either the essence of leadership or the technical skills of business. To be a successful “B,” you really need to know both. Rich Dad always said, “The technical skills of business are easy...the hard part is working with people.”

Many entrepreneurs who start up a new company to produce something no one else has produced wind up starting an “S” Quadrant type of business and not a “B” Quadrant type. Not that one is necessarily better than the other, but many people who want to start the latter, end up starting the former—out of ignorance or inexperience. And they become stalled in their quest to move to the right side of the Quadrant.

“B” owners own a system, not a job. So when they go on vacation, they still make money. To be successful as a “B” requires both:

1. Ownership or control of systems.
2. The ability to lead people.

HOW PEOPLE IN THE “I” QUADRANT THINK

These people make money with money. They do not have to work because their money is working for them.

The “I” Quadrant is the playground of the rich. Regardless of which quadrant people make their money in, if they hope someday to be rich, they ultimately must come to the “I” Quadrant. It is in the “I” Quadrant that money is converted into wealth.

What Quadrant Do You WANT to Be In?

The answer to this question depends entirely on the lifestyle you want. Do you want to be rich—the way that less than one percent of the population is? Or do you want to be among the majority—in the poor and middle class.

For a majority of the population, the poor and the middle class, at least 80 percent of their income comes from wages from the "E" or "S" Quadrants and less than 20 percent from investments, or the "I" Quadrant.

On the other hand, most of the rich receive 70 percent of their income from investments, or the "I" Quadrant, and less than 30 percent from wages, or the "E" Quadrant. And if they are an "E," chances are that they are employees of their own company. Regardless of how much money people make, Rich Dad recommends that they put some in the "I" Quadrant. The "I" Quadrant deals specifically with the idea of money making money.

Being successful on the right side of the quadrant requires a different mindset and skill set. If you're flexible enough to make a change in the way you view money, time, income, assets, and liabilities, you will find the process of achieving greater financial security or freedom easy.

Patterns

In the CASHFLOW Quadrant, each set of people operates under a different set of assumptions, values, and fears. When people try to change their quadrant, they have a difficult time breaking free of the patterns and changing their context.

If you're looking to change your context, remember that an "E" works for the system, an "S" is the system, a "B" creates, owns or controls the system, and an "I" invests money into the system.

The reason people find it so hard to change their working pattern is because money today is essential for life. In the Agrarian Age, money was not that important because the land could provide everything you needed. Today, you need money for just about everything. It's the fear of not having money that keeps many people in the "E" Quadrant. Rich dad said it was an internal struggle. "The part of you that still seeks security is at war with the part of you that wants freedom. It's a battle between who you no longer are and who you want to become that is the problem." It is a journey from one set of core beliefs and technical skills to a new set of core beliefs and a new set of technical skills. More importantly, it is more emotional than technical.

"If you want to be rich, you need to be financially literate."

Summary

People from different quadrants see money and investing from different contexts. If you want to be rich, chances are you'll need to change your quadrant. If you want to change your quadrant, you'll have to change your context: the way you think about and see money.

Exercise:

Complete the exercises below by filling out the forms located in the Assignment section of the website and submit a copy to your coach.

- *Complete the Quadrant Analysis Worksheet associated with this module and email or fax a copy to your coach.*

Begin Your Rat Race Exit Strategy

The left side of the quadrant is where a majority of the people in this world spend their lives. They are primarily the poor and middle-class. They always have to work for money. They work and live in the Rat Race every day.

People on the left side of the quadrant think "play it safe" is a logical thought. It isn't. It's an emotional thought. And it's the negative emotional thoughts that keep people stuck in the Rat Race. What people DO on the right side isn't really that hard. For them, life is like a game of Monopoly.

You may recall that the secret to wealth when playing the game of Monopoly is to buy four green houses and then trade them in to buy a large red hotel. That is all it takes in the real world.

As you play CASHFLOW, you'll find that a few small investments (usually small deals) help you build the necessary capital to invest in the truly cash flowing deals (the big ones). Once you're out of the Rat Race, you're no longer working for money—so the motivation of fear becomes less and less powerful. Soon you're making all of your decisions from a financially intelligent standpoint—based on the numbers. You'll being asking the question, "Is this the place I should put my money to achieve the highest rate of return?" Your investments—and the freedom they provide—become your motivation, rather than a salary or benefits.

Just like in the game, to gain your freedom, you'll have to begin acquiring assets that create enough passive income to escape the Rat Race of real life.

"People who lack control of their cash flow make people who are in control of their cash flow rich."

The Types of Asset Classes

Assets can be categorized as one of three types: paper assets, real estate, or business.

Paper Assets

Paper assets include stocks, bonds, mutual funds, insurance, and notes receivable. Paper assets create portfolio income (see Module One).

Real Estate

Real estate includes non-owner occupied residential properties (single family homes, condos, and small 1 to 4 unit properties), commercial properties (large residential properties of 5 units or more, warehouses, retail or office space, mobile home parks, etc). Real estate creates passive income (see Module One).

"You want to learn how to convert earned income into passive or portfolio income."

Business

The business category includes any enterprise your either own entirely, or of which you own a part (ownership besides simply holding stock). Businesses create passive income.

Find Your Passion

As you can see, earned income from a job is not represented in an asset class. Since it is passive and portfolio income that will make you rich and get you out of the Rat Race, the key is to replace your earned income with portfolio and passive income. Portfolio and passive income are earned on the right side of the quadrant.

If you want to move to the right side of the quadrant, you'll have to find a way to create, own, or control your own system, or you'll have to invest money into such a system.

As you do, you must find your passion and then let nothing—neither fear nor distractions—deter you from your dream. This becomes the "why" in getting rich, changing your life, and getting out of the Rat Race. The best way to build a successful system and stay on course, despite setbacks and challenges, is to build a system around your heart... around your passion.

Rich dad truly believed that most of us have the potential to be successful in all of the quadrants. It all depends on how determined we are to be successful. He often said, "Passion builds businesses—not fear."

Do What Rich People Do

Doing what rich people do is easy. One of the reasons there are so many people who did not do well in school but became wealthy anyway is because the "to do" part of becoming wealthy is simple. There is an equation Robert promotes as the fundamental steps to getting rich:

THOUGHTS–ACTIONS–RESULTS

Goals are the "results" part of these three words. Once people figure out the results they want—their goal—they begin listing the "actions" they need to take.

Take, for example, the goal of having a great body. Many people set the goal then they go to the gym and start dieting. It's only a few weeks before they're back to eating pizza and fries. It's not the diet that counts; it's who you have to be to follow the diet that counts. Moving from the left side of the quadrant to the right side is first about thinking, then taking action and getting results. If you don't change your thinking, and actions, why would you ever expect to change your results? As Albert Einstein put it, "The definition of insanity is doing the same thing over and over again and expecting different results."

"The reason most people suffer financially is because they purchase liabilities, but list them in the asset column."

Strategize Like the Rich

If you want to exit the Rat Race, it's vital that you learn how to take action by translating your hopes and dreams into goals and tasks that you can accomplish one step at a time, on a day-to-day basis. In order to do this successfully, you'll need a solid strategy or plan of attack. An effective strategy is really nothing more than a set of well-thought-out goals.

A goal is a specific, realistic and measurable accomplishment to be achieved within a specified time. An effective goal requires specific action leading to its accomplishment. Start by answering the following questions:

- Why?
- What?
- How?
- When?

WHY?

Ask yourself, "Why am I setting this goal? Will it help me achieve financial success?" Before you go any further, you have to really want what that success provides. Your desire will ultimately determine whether or not you achieve the major goals you set. How badly do you really want it? How will your life be different? How will you feel? What are the benefits of getting out of the Rat Race? No one ever worked for a goal without working for the benefits of the goal. If you desire a specific monthly cash flow, list what you will do with the money and why.

To be fully empowering, a goal must be tied to what you want—your passion, your mission—it must be tied back to your larger purpose. This gives the goal meaning and keeps it from being another "to-do." Robert said if you don't have a powerful enough "why," you will always look for an easier "how." As a result, you should be able to answer the "why" question in the goal setting process without any hesitation.

WHAT?

This is simply a written statement of the goal. Goal statements contain action verbs and provide all the elements of a goal. The SMART acronym outlines the elements of effective goals:

Specific

What is it that you want to do? Give your goal as much detail as possible. Make it crystal clear. Write it so there is no room for interpretation. Give each goal a single focus. The road to financial freedom will be comprised of long-term and short-term goals. You may have one goal for getting out of debt, one goal for real estate, and one goal for a business, etc.

Measurable

What criteria are used to know the goal has been accomplished? Define the exact dollar amount, or return on investment (ROI), etc. you want from your real estate investments, business, etc.

Action-oriented

Your goal must contain action verbs and describe what you will do. It is not enough to say that you will become financially literate—you must describe the action(s) necessary to become financially literate. Avoid the future tense, it allows the mind to deprioritize and procrastinate. Rather than stating, "I will read and study relevant financial information at least 30 minutes daily," simply state the action, "Read and study relevant financial information at least 30 minutes daily."

Realistic

This is the reality check. Do you possess everything necessary to reach this goal? Have you involved everyone that needs to contribute or make a decision? Do you lack financial literacy in this area? Can you devote the time necessary to attain this goal?

Time-dimensional

What is the time frame for this goal? Determine when you will start and/or finish. Commit to dates to execute each step. Block out the time when you will work on your goal.

Robert held himself to the goal of retiring by age 40. Forces in the marketplace and a few mistakes kept him from reaching that goal until age 47. But his goal was SMART because he knew he specifically wanted to have his assets producing enough cash flow to outweigh his liabilities indefinitely. His training from his rich dad helped him to know how realistic the goal was—and each of the smaller goals along the way followed the same pattern.

Goal statements should be brief, positive, gradual, and realistic to avoid inconsistency.

"Not all property management companies are created equal."

EXAMPLE:

Goal: Review and refine my personal budget over the next 30 days.

HOW?

This is the establishment of intermediate steps to reach your goal. These steps are the tactics and practices used to achieve a goal and must be complementary to the goal. Intermediate steps make your goals happen. The means to accomplishing these intermediate steps are reflected in your planner on the daily task list and fill the appropriate time budgeted for the activity type.

EXAMPLE:

Goal: Review and refine my personal budget over the next 30 days.

Intermediate Steps:

- Track my spending (expenses) everyday for at least 30 days.
- Trim my spending by $20 each week.
- Increase my monthly credit card payment to $100 beginning with the next payment.

WHEN?

Create your own deadlines for performance. Make them specific. Keep in mind the fundamental weakness that ruins so many people's lives is procrastination. If it is right, if it is what you want, do it now. In the example above, the goal has a time constraint—30 days. The intermediate steps have a time constraint—weekly and/or daily. Until you determine a time frame, your goals and intermediate steps are nothing more than dreams or wishes. Set a completion date for each goal and record these dates in your planner in the appropriate sections of your time budget.

Summary

When it comes to setting goals, make sure your goals truly reflect what you want. Why do you want to achieve them? What are you willing to do to achieve them? What are you willing to give up? Are you totally committed? If you feel uncertain about your strategy, now is the time to make some adjustments. You may experience this same feeling several times throughout the process. When you do, stop and reconsider.

If a specific goal seems difficult for you, list the obstacles and challenges that will get in your way. This list may be long and, occasionally, humorous. If you list these obstacles, you can tackle them head on. Many of them won't seem significant after all. Look to educate yourself and overcome any obstacles that are significant. Don't allow fear or uncertainty to slow your progress. Rich dad said, "The primary difference between rich people and poor people is how they handle fear."

Whatever you do, don't make excuses. You can make money, or you can make excuses—but you cannot make both. The best plan or strategy in the world will not accomplish anything until it is implemented. Take action.

As a result of your work thus far, you should be ready to begin formulating your Rat Race Exit Strategy. To complete your preparation, work though the following suggestions:

- Review your personal CASHFLOW Game Card Financial Sheet and Personal Financial Analysis that you completed in Module One.
- Consider your current spending habits.
- Examine your debt and liabilities.
- Review the Quadrant Analysis you completed earlier in this module.
- Think about how you might increase your means and generate income from the right side of the quadrant.

Exercises:

Complete the exercises below by filling out the forms located in the Assignment section of the website and submit a copy to your coach.

1. *Begin your Rat Race Exit Strategy by identifying and recording at least five goals on the form provided. Email or fax a copy to your coach.*
2. *Play CASHFLOW 101 and exit the Rat Race at least once playing the "Cautious Mover/Cynic" character in the CASHFLOW 101 Personal Coaching Game Guide Book (using Small Deals only). Then play CASHFLOW 101 again and exit the Rat Race at least once playing the "Big Dog" character (primarily using Big Deals). Complete a CASHFLOW Learning Worksheet for each style of play and email or fax copies to your coach.*
   i. *Note: While playing with Big Deals only, it may be necessary to partner with other players or use Bank Loans as appropriate to finance your deals.*
3. *To maximize the time with your Coach and increase what you accomplish between sessions, complete the Preparing for Your Session Assignment associated with this module and email or fax a copy to your Coach.*