RICH DAD®

MANAGING YOUR MONEY

Personal Finance Simplified

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MANAGING YOUR MONEY:
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"What do you do when you find yourself in a hole? Stop digging." – Anonymous

Before you can start on your way to financial freedom, you first have to pinpoint exactly how much bad debt you really have. For many people, figuring out how deeply in debt they are is like going to the dentist. You know it's good for you, but it's not always pleasant. Some people have already given up. They know they're in a big hole but don't want to deal with it.

But if you're serious about building positive cash flow in your life, you have to start with the fundamentals of financial literacy. Here's a quick quiz to get yourself going. Put a 1 next to any of the following questions to which you would answer yes:

___ Do you routinely pay your bills late?
___ Have you ever hidden a bill from your spouse?
___ Have you neglected repairing the car because of insufficient funds?
___ Have you bought something recently that you didn't need and couldn't afford?
___ Do you regularly spend more than your paycheck?
___ Have you been turned down for credit?
___ Do you buy lottery tickets in the hope of getting out from under your debt?
___ Have you put off saving money for a rainy day?
___ Does your total debt (mortgage excluded) exceed your rainy-day reserve?

Add up the numbers in the boxes. _____

- If your score is 0, that's great! You're already in control of your cash flow.

- If you scored in the 1–5 range, you may want to think about reducing your bad debt.

- If you scored in the 6–9 range, watch out! You may be headed toward financial disaster.

Rich Dad's Emergency Cash-Flow Program

If you really want to gain control of your cash flow, you're going to need three key ingredients:

1. A financial statement to know where you are financially (Use the financial statement from the CASHFLOW 101 game, included in the Appendix, to fill out your own financial statement.)

2. Personal discipline

3. A game plan that's going to take you where you want to go

Is it difficult to change your habits? You bet it is. It depends on you, and how eager you are to take control of your financial life. Remember, you don't have to do any of these steps. But if you don't, you'll just remain where you are, in the current Rat Race of spending your paycheck on bills that never stop coming—unless, of course, you win the lottery. It's always amazing to me to see how many people think that winning the lottery is really a solid plan of getting ahead financially. But let's get back to reality. While you don't have to cut up your credit cards, you do have to follow a debt-reduction plan. The first two steps in doing this are:

• Pay yourself first

Whenever you get a paycheck, the first bill you pay is to yourself. Not the car payment. Not the mortgage or rent money. Pay yourself a decent bit of money, and then immediately put that money into a separate investment savings account. And don't touch it until you're ready to invest it in some other way.

Note:

Through my years of teaching, I've come to learn that this concept is one of the hardest to understand. To grasp this concept one must be in full command of their emotions, especially fear.

Here is an except about paying yourself first that I wrote in Rich Dad Poor Dad:

Overcoming Bad Habits

Our lives are a reflection of our habits more than our education. After seeing the movie Conan the Barbarian, starring Arnold Schwarzenegger, a friend said, "I'd love to have a body like Schwarzenegger." Most of the guys nodded in agreement. "I even heard he was really puny and skinny at one time," another friend added.

"Yeah, I heard that too," another one said. "I heard he has a habit of working out almost every day in the gym."

"Yeah, I'll bet he has to."

"Nah," said the group cynic. "I'll bet he was born that way. Besides, let's stop talking about Arnold and get some beers."

This is an example of habits controlling behavior. I remember asking my rich dad about the habits of the rich. Instead of answering me outright, he wanted me to learn through example, as usual.

“When does your dad pay his bills?” rich dad asked.

“The first of the month,” I said.

“Does he have anything left over?” he asked.

“Very little,” I said.

“That’s the main reason he struggles,” said rich dad. “He has bad habits. Your dad pays everyone else first. He pays himself last, but only if he has anything left over.”

“Which he usually doesn’t,” I said. “But he has to pay his bills, doesn’t he? You’re saying he shouldn’t pay his bills?”

“Of course not,” said rich dad. “I firmly believe in paying my bills on time. I just pay myself first. Before I pay even the government.”

“But what happens if you don’t have enough money?” I asked. “What do you do then?”

“The same,” said rich dad. “I still pay myself first. Even if I’m short of money. My asset column is far more important to me than the government.”

“But,” I said. “Don’t they come after you?”

“Yes, if you don’t pay,” said rich dad. “Look, I did not say not to pay. I just said I pay myself first, even if I’m short of money.”

“But,” I replied. “How do you do that?”

“It’s not how. The question is ‘Why?’” rich dad said.

“Okay, why?”

“Motivation,” said rich dad. “Who do you think will complain louder if I don’t pay them—me, or my creditors?”

“Your creditors will definitely scream louder than you,” I said, responding to the obvious. “You wouldn’t say anything if you didn’t pay yourself.”

“So you see, after paying myself, the pressure to pay my taxes and the other creditors is so great that it forces me to seek other forms of income. The pressure to pay becomes my motivation. I’ve worked extra jobs, started other companies, traded in the stock market, anything just to make sure those guys don’t start yelling at me. That pressure made me work harder, forced me to think, and all in all, made me smarter and more active when it comes to money. If I had paid myself last, I would have felt no pressure, but I’d be broke.”

“So it is the fear of the government or other people you owe money to that motivates you?”

“That’s right,” said rich dad. “You see, government bill collectors are big bullies. So are bill collectors in general. Most people give into these bullies. They pay them and never pay themselves. You know the story of the 98-pound weakling who gets sand kicked in his face?”

I nodded. “I see that ad for weightlifting and bodybuilding lessons in the comic books all the time.”

“Well, most people let the bullies kick sand in their faces. I decided to use the fear of the bully to make

me stronger. Others get weaker. Forcing myself to think about how to make extra money is like going to the gym and working out with weights. The more I work my mental money muscles out, the stronger I get. Now I'm not afraid of those bullies."

I liked what rich dad was saying. "So if I pay myself first, I get financially stronger, mentally and fiscally." Rich dad nodded.

"And if I pay myself last, or not at all, I get weaker. So people like bosses, managers, tax collectors, bill collectors, and landlords push me around all my life—just because I don't have good money habits."

Rich dad nodded. "Just like the 98-pound weakling."

• Cut back on what I call doodads.

Doodads are those extra things in life that we all crave but really don't need. It might be a fancy car or going out to dinner at expensive restaurants or really sharp clothes. Whatever your doodads are, just stop that habit of purchasing them impulsively. Admittedly, this is where your self-discipline and willpower come into play. But if you really want to get out of bad debt, you need to adopt the old-fashioned virtue of delayed gratification.

I am not changing rich dad's advice. While he believed in expanding your means to be able to afford any lifestyle you want, there are times when you have to stop and take other measures to get started on the right track. Remember that old saying: "What do you do when you find yourself in a hole? Stop digging."

Earlier I referred to people who are at the red line of life. They are barely making it from paycheck to paycheck. The following "Take Control of Your Cash Flow" formula from Rich Dad's CASHFLOW Quadrant and the following tips are designed to help you take those drastic steps that will help you "stop digging" and

start a plan for a better financial future.

To better understand this excerpt, I've included a quick explanation of the CASHFLOW Quadrant:

E for employee
S for small business or self-employed
B for big business (500 employees)
I for investor

The E (Employee)

When I hear the words "secure" or "benefits," I get a sense of who the speaker might be at the core. 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 commonly used phrase 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. The word "benefit" means people would also like some kind of additional reward that is spelled out, a defined and assured extra compensation, such as health insurance or a retirement plan.

The key is that they want to feel secure and see it in writing. Uncertainty doesn't make them happy; certainty does. Their internal workings say, "I'll give you this if you promise to give me that in return."

They want their fear reduced by the presence of some degree of certainty, so they seek security and strong agreements when it comes to employment. They're accurate when they say, "I'm not that interested in money." For them, the idea of security is often more important than money.

The S (Self-employed)

These are people who want to "be their own boss" or like to "do their own thing." I call this group the "do-it-yourselfers."

Often, when it comes to the subject of money, a hard-core S doesn't like to have his or her income dependent on other people. In other words, if S's work hard, they expect to get paid for their work.

S's don't 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.

Conversely, they also understand that if they don't work hard, then they don't deserve to be paid much. When it comes to money, they have fiercely independent souls.

The B (Business owner)

This group of people could almost be the opposite of the S. Those who are true B's like to surround themselves with smart people from all four categories: E, S, B, and I. Unlike the S, who doesn't like to delegate work (because no one can do it better), the B likes to delegate. The true motto of a B is, "Why do it yourself when you can hire someone to do it for you, and they can do it better?"

The Difference Between an S Type of Business and a B Type of Business

Those who are true B's can leave their business for a year or more and return to find their business more profitable and running better than when they left it. In a true S type of business, if the S left for a year or more, chances are there would be no business left to return to.

So what causes the difference? Saying it simply, an S owns a job; a B owns a system and then hires competent people to operate the system. Or put another way, in many cases, the S is the system. That is why they can't leave.

B business owners can go on vacation forever because they own a system, not a job. If the B is on vacation, the money still comes in.

The I (Investor)

Investors make money with money. They don't 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's in the I quadrant that money becomes converted to wealth.

What's Next?

Okay, you've decided to discipline yourself and take control of your cash flow. Here is the next step:

- **Follow the "Take Control of Your Cash Flow" formula from *Rich Dad's CASHFLOW Quadrant.***

Take Control of Your Cash Flow

1. Fill out the financial statement at the end of this book.

2. Determine which quadrant of the CASHFLOW Quadrant you receive your income from today.

3. Determine which quadrant you want to receive the bulk of your income from in five years.

4. Begin your cash-flow management plan:

- Pay yourself first. Put aside a set percentage from each paycheck or each payment you receive from other sources. Deposit that money into an investment savings account. Once your money goes into the account, DO NOT take it out until you are ready to invest it. Congratulate yourself! You have just started managing your cash flow.

- Focus on reducing your personal debt.

The following are some simple and easy-to-apply tips for reducing and eliminating your personal debt:

Tip #1: If you have credit cards with outstanding balances, keep only one or two credit cards in your wallet.

Keep the other cards out of sight, preferably in a safe or a safety-deposit box. Any new charges you add to the one or two cards you now have must be paid off every month. Do not incur any further long-term bad debt.

Tip #2: Come up with $150 to $200 extra per month.

Now that you are becoming more and more financially literate, this should be relatively easy to do. If you cannot generate an additional $150 to $200 per month, then your chances for achieving financial freedom may only be a pipe dream.

Tip #3: Apply the additional $150 to $200 to your monthly payment of ONLY ONE of your credit cards.

You will now pay the minimum PLUS the $150 to $200 on that one credit card.

Pay only the minimum amount due on all other credit cards. Often people try to pay a little extra each month on all their cards, but those cards surprisingly never get paid off.

Tip #4: Once the first card is paid off, apply the total amount you were paying each month on that card to your next credit card.

You are now paying the minimum amount due on the second card PLUS the total monthly payment you were paying on your first credit card.

Continue this process with all your credit cards and other consumer credit such as store charges. With each debt you pay off, add the full amount you were paying on that paid-off debt to the minimum payment of your next debt. As you pay off each debt, the monthly amount you are paying on the next debt will increase.

Tip #5: Once all your credit cards and other bad debt are paid off, continue the procedure with your car and house payments.

If you follow this procedure, you will be amazed at the shortened amount of time it takes for you to be completely debt-free. Most people can be debt-free within five to seven years.

Tip #6: Now that you are completely debt-free,

take the monthly amount you were paying on your last debt and put that money toward investments. Build your asset column.

That's how simple it is.

Other Tips to Help You Get Control

- Start paying all your bills on time to avoid any late fees.

- Find a credit card with a lower interest rate and no annual or transfer fees. Then you may want to consider consolidating your other credit-card debts to that one card. This will allow you to pay less in interest and fees.

- Stop using automated teller machines (ATMs) that charge a fee. That's like paying to use your own money!

You May Need to Get a Grip on Your Spending Habits

- Get in the habit of paying cash. Use a charge card only for emergencies.

- Learn to stop buying on impulse. Use your willpower to say no!

- Shop at wholesale clubs and discount department stores.

- Respect your budget! If you've reached the $200 food limit, skip the potato chips and ice cream.

- Buy generic medicines or find a discount pharmacy.

- Start looking for a part-time business or other way to earn a little more income.

- Turn your thermostat down. Turn off a few lights to save on your electric bill.

- Learn how to winterize your home from top to bottom. Insulate pipes. Get rid of drafty windows. Eliminate those areas where you lose energy.

- Cut back on your home telephone as well as cell-phone usage. This is an area where many people overlook how they can save money.

- Check on your insurance policies. See if you can find some comparable policies for the same cost. Raise your deductible to lower your monthly bills.

In short, start getting in the habit of watching how you spend a dollar here and a dollar there. Give yourself a week and just check on how much you can save by not buying the expensive shampoo or not going out to dinner. Let's say you save $30 or $40 a week. Over a month, that comes to more than $100. Over a year, you're saving $1,200 or more—and that's a nice chunk of change to put towards paying off your credit cards.

Your goal should be to get out of bad debt as quickly as possible so you can start looking to a better future and thinking like the rich. Then you can start buying or building assets that will generate the passive income to pay for your phone bills, electric bills, insurance policies, and more. That is the Rich Dad philosophy of expanding your means to live the lifestyle you choose.

Secured vs. Unsecured Debt

There are two types of debt. Secured debt is debt that has collateral backing it up. Typical examples would include a home mortgage or a car loan. Unsecured debt is debt without any collateral

backing it up. That usually includes credit-card bills, personal loans, and medical bills.

The very first debt to try to get rid of is the unsecured kind. In the Rich Dad system, unsecured debt is most definitely what we call bad debt, and the sooner you can eliminate it, the more in control of your finances you will be. That means paying down your credit cards as quickly as you can, along with any other outstanding debts you may have.

Let's look at credit cards for a moment. No question that they are a wonderful convenience. And there really is no reason to cut them up, as long as you fully understand how they can lead to real financial concerns. For example, many credit cards charge you an annual fee just to have the card. Then, on top of that yearly fee, they of course charge an annual percentage rate (APR) on any monies you owe them.

Take a look at your credit cards. Some charge as high as 20 percent or 25 percent. You'll spend a fortune trying to pay off credit-card debt if you only pay the monthly minimum fee. Get in the habit now of paying off new purchases on your credit card each month.

Let's Focus on Getting Rid of Bad Debt

Here's the precise method I suggest for regaining control of your monthly cash flow:

1. Take all of your credit cards out of your wallet or purse. Following the formula for "Take Control of Your Cash Flow," check the various outstanding balances on each one.
2. Take the cards with the smallest amount of bad debt on them, and pay them in full first.

3. Once you have paid off those cards, put them out of sight. Or, if you don't have the discipline to stop accumulating bad debt with your cards, call up the credit-card company and cancel them.

4. Do the same on the remaining cards. Keep whittling away that outstanding bad debt until it's gone.

Please understand that this is a process that, in most cases, cannot be accomplished in just one or two months. Depending on how much cash you have, this process of whittling down your credit-card debt may take several months, or even years. But do it, because it's a wonderful feeling when you are no longer a slave to those monthly bills.

Once you have control of your credit cards, you may want to take the extra money you have and start to pay off the mortgage on your home. Most homeowners have the option of prepaying their mortgage. In many cases, it makes sense for homeowners to save thousands of dollars by prepaying their mortgage each month. Even just tacking on an extra $50 a month to your principal payment will take years and thousands of dollars off your home mortgage. (Be sure you let the lender know that the additional money is to be added to the principal on your mortgage payment.)

The best news is that those individuals who have the willpower to follow these simple measures will find themselves financially solid and free of major bad debt within a few years. It may sound impossible to you in your current financial situation, but trust me—these measures will work for you.

Your Job's Not Done

Changing bad habits and getting out of debt is how you learn to manage your money. It's a great place to start on your journey to financial freedom. It's the step you take before you begin your true education.

Your next step is to become financially educated. Once you get financially educated and understand how debt works, then your next job will be to get into massive debt.

"What?!?" you say.

"I just got out of debt!"

Yes, but you just got out of BAD debt. In order to gain wealth, you need to get into GOOD debt.

When I was a young man, my rich dad taught me one of life's most valuable financial lessons—the difference between good debt and bad debt. Like most things, debt in and of itself is not bad. It's how you use debt.

My rich dad explained it this way: "Many things can be both good and bad depending on how you use them. For instance, drugs can be good if they're prescribed by a doctor and taken according to direction. They can be bad if you overdose on them.

Guns can be good if you understand gun safety and use them for sport or to protect your family. They can be bad if a bad person uses them to commit crimes.

And debt can be good if you are financially intelligent and use debt to create cash flow. It can be bad if you're financially unintelligent and use it to acquire liabilities. All things can be good or bad depending on how you use them."

When people say one thing is always bad, they do so either out of fear and ignorance or to take advantage of someone else's fear and ignorance. So, when so-called financial experts tell you that debt is bad, they're appealing to their reader's fear and ignorance—and possibly exposing their own.

Many of these experts know the difference between good debt and bad debt. In fact, they probably use good debt to further their businesses. But they withhold that information from their readers because it's easier—and more profitable—to preach the conventional wisdom of go to school, get a good job, save money, buy a house, and invest in a diversified portfolio of stocks, bonds, and mutual funds.

There is a perceived risk with using debt, and so, rather than educate, many choose to placate—and collect a buck in return. The problem is that the old financial wisdom, the old rules of money, are riskier than ever. Savers are losers and the middle-class is shrinking.

You have a choice. Live in ignorance and fear and suffer the pain that will come from that decision as the debt crisis wipes out the middle-class, or gain financial knowledge and courage and learn to play by the new rules of money, the rules where asset-buying debt is good and taxes guide you to wealth.

Final Thought

Managing your money is only the beginning. Are you brave enough to continue your journey onward to financial freedom?

Managing your money might be difficult and sometimes confusing, especially at first. There is a lot to learn, regardless of how much you already know. It is a lifelong process. But the good news is that the hardest part of the process is at the start. Once you make the commitment, life really does get easier and easier. Managing your money is not hard to do. It's just common sense.

Appendix

GOAL: Get out of the Rat Race and onto the Fast Track by building up your **Passive Income** to be **greater** than your **Total Expenses**

INCOME STATEMENT

INCOME

Description	Cash Flow
Salary:	
Interest/Dividends:	
Real Estate/Business:	

Passive Income: $ _____
(Cash Flow from Interest/Dividends + Real Estate/Business)

Total Income: $ _____

EXPENSES

Taxes:	
Home Mortgage Payment:	
School Loan Payment:	
Car Loan Payment:	
Credit Card Payment:	
Retail Payment:	
Other Expenses:	
Child Expenses:	
Loan Payment:	

Total Expenses: $ _____

Monthly Cash Flow: $ _____
(Total Income - Total Expenses)

BALANCE SHEET

ASSETS

Savings:

Stocks/Funds/CDs:	# of Shares:	Cost/Share:

Real Estate/Business:	Down Pay:	Cost:

LIABILITIES

Home Mortgage:	
School Loans:	
Car Loans:	
Credit Cards:	
Retail Debt:	

Real Estate/Business:	Mortgage/Liability:

Loan:

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