SUMMARY

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RICH DAD, POOR DAD

BY ROBERT T. KIYOSAKI

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Summary of “Rich Dad, Poor Dad” by Robert T. Kiyosaki

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What the wealthy teach their children about financial independence.

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Introduction

Does money ever make you nervous? Do you ever find yourself feeling as though you're not equipped to deal with your own personal finances? Perhaps you have a mountain of credit card debt. Or maybe you're so afraid of getting into debt that you've never opened a credit card at all, even though you really need to build credit! No matter what your particular problem is, discomfort with your personal finances can create a host of crippling limitations. The authors observe that our mindset is the first and most significant of these limitations. That's because we often set ourselves up for failure by telling ourselves things like, "I'm not smart enough to manage money," or "That's just too confusing, I can't figure it out."

The author observes that our experience with financial education is often at the core of these insecurities. And sadly, the financial education that most people receive is woefully inadequate. Schools are more concerned with cramming our minds full of algebraic equations to teach us about a credit score. And our parents may feel just as lost as we do when it comes to money management, so they are ill equipped to teach us themselves. In the author's experience, this lack of education highlights an appalling class divide that must be addressed if we want to improve our access to financial education. And over the course of this summary, we'll use the author's personal experience as an investment banker to illustrate the variation between what rich and poor people teach their children about money.

Explore Your Money Motivations

The author's experience has shown him that, when it comes to money, people are motivated by one of two things: greed or fear. We aren't always aware of these feelings, but if we don't make a conscious effort to think about how we manage our money, these emotions can instinctively drive our decisions. To put this theory to the test, the author invites us to imagine a hypothetical scenario. Let's say you just started a new job with a massive pay raise. Sounds awesome, right! But it's the next step-- deciding what to do with that money-- that determines how awesome your financial future will be. So, as you contemplate this scenario, what do you think would be the right thing to do? Should you buy a new house and make it as close to your dream house as possible? Should you buy a new car, nicer clothes, or any of the other fashionable accoutrements that would make your life appear more glamorous? Or should you invest in something like stocks and bonds?

The author's research indicates that this is where the class divide really comes into play. Wealthy people teach their children to hang on to their wealth, even if that means re-distributing it a bit by investing in stocks. The people who make this choice understand that even if you're parting with a little bit of your wealth in the short-term, those investments will make you more money in the long run and that makes it a good choice. However, people who have less financial education are unlikely to make choices that would secure a solid financial future for themselves. Although wealthy parents teach their children that investments are a very real and viable option, other people lack that kind of comfort with stocks and bonds.

For people who were not born into wealth, stocks seem almost as fictitious and unrealistic as unicorns. People in this position might not know a great deal about investments and as a result, they feel uncomfortable with the topic. They might not know what constitutes a good investment and they might worry that investing will cause them to lose money. So, in a fearful bid to keep their money safe, they spend it on more tangible things like property and cars. These purchases might be flashy and cool; they might seem more solid and secure because you can literally see where your money's going. But unlike investments, your new house or new car will never make you money. In fact, they simply suck your newfound wealth right out from under you. And that's why the key takeaway from this chapter is to avoid falling prey to the common temptations that overwhelm financially ignorant people.

Your feelings might tell you that a new house is a better purchase, but feelings can lie. So, if you want to acquire and maintain your wealth, it's important to identify the emotional factors that motivate your relationship with money--and then learn to ignore them. Instead of listening to your feelings, replace them with knowledge that can help you make sound decisions about your finances. And in the next two chapters, we'll take a look at the financial education you need that was never taught in schools.

Who Wants to be A Millionaire?

If you went up to the average person on the street and asked them this question, pretty much everybody would say, "YES! I'd love to be a millionaire!" However, the author observes that having an excess amount of wealth can be more problematic than you might think. That's because it's a lot easier to become a millionaire than it is to stay a millionaire. Why? Well, although we tend to conceptualize "a million dollars" as being an infinite sum of money, the truth is that it's anything but. So, let's imagine that you really do have a million dollars. You spend at least half of it on a fancy house. You spend more on a luxury car. You spend a little extra on some designer clothes to match your new lifestyle. Now an overwhelming portion of your "infinite amount of money" is gone. How are you going to make your house payment? How will you pay for your flashy car's insurance or repairs? How can you keep up with your new high-class friends? What are you going to do when something breaks in your house?

The authors observe that self-made millionaires who hang onto their nest eggs are successful because they considered these dilemmas in advance and planned accordingly. Sure, there are a lot of young self-made millionaires and celebrities who are happy to flash wads of cash around and who blow their money trying to maintain their lifestyle, but these are the folks who quickly run out of cash. By contrast, the millionaires who make few expensive purchases and control their budgets carefully are able to hold onto their wealth for a long time to come. And the authors' research indicates that many millionaires practiced this strategy for a long time before they ever attained their wealthy status. In fact, the penny-pinching strategies they employed are so accessible that pretty much anyone could implement these tips to become a self-made millionaire!

Here's how it works: you start by simply cutting out all the purchases you don't need. The things we buy may be different for everyone, but the logic is the same. Because, at one point or another, everyone has thought, "Oh, it's only $5, $10, or $15! It won't hurt to spend just a little bit!" But every time we employ that logic and spend another "small" amount on something we don't need, we're throwing away another little bit of money. And if we repeat this process multiple times every month, we've thrown away hundreds of dollars before we ever even realize it! But what would happen if we held onto those little chunks of money every time instead? What would happen if we saved them and put them aside? By carefully saving over time, the authors affirm that it's easy to put aside enough money to become a self-made millionaire. In fact, contrary to popular opinion, you don't need to make seven figures to begin with! You don't even need a substantial salary. You can cultivate a fortune of your very own simply by setting a goal, sticking to a budget, and saving money every month!

How to Make Smart Investments

In the previous chapter, we examined the financial success strategies of your average self-made millionaire. But even though saving money over time is crucial to financial success, the reality is that that's not how your average millionaire made their money. Instead, most wealthy people amass their fortunes by investing in stocks. And because this is a topic that many people aren't familiar with, we're going to devote this chapter to learning about stocks and investments. We'll start off with a bit of terminology first by learning the difference between an "asset" and a "liability."

An asset is an investment that will help you make more money, like holding shares in a company such as Apple or Google. A liability is an investment that will cost you money, like a flashy Maserati that you probably can't afford. Similarly, a house is often thought of an asset, but it's actually a big liability because you're constantly pouring money into

it! Whether that's because of the mortgage or because of repairs, renovations, and decor, owning your own home is more of a money pit than people assume! But now that we've taken a look at some terminology and some common misconceptions, let's dive in and learn more about making smart investments. So, first of all, let's take a look at what an investment really is. Renowned investment banker and CEO Warren Buffett defines investing as "...the process of laying out money now to receive more money in the future." So, now that we have a solid definition for investing, let's unpack the inner workings of the stock market and how to invest in it. We'll start with this simple and accessible explanation from professional investor and financial analyst Chad Langager.

To begin to understand the stock market, we first need to know what stocks are. Langager begins by providing a simple definition of stocks: "stocks, or shares of a company, represent ownership equity in the firm, which give shareholders voting rights as well as a residual claim on corporate earnings in the form of capital gains and dividends. Stock markets are where individual and institutional investors come together to buy and sell shares in a public venue. Nowadays these exchanges exist as electronic marketplaces. Share prices are set by supply and demand in the market as buyers and sellers place orders. Order flow and bid-ask spreads are often maintained by specialists or market makers to ensure an orderly and fair market."

So, now that we know more about investing and stocks, we can move forward and develop a better understanding of the stock market and how it works. Langager adds that "the prices of shares on a stock market can be set in a number of ways, but the most common way is through an auction process where buyers and sellers place bids and offers to buy or sell. A bid is the price at which somebody wishes to buy, and an offer (or ask) is the price at which somebody wishes to sell. When the bid and ask coincide, a trade is made.

The overall market is made up of millions of investors and traders, who may have differing ideas about the value of a specific stock and thus the price at which they are willing to buy or sell it. The thousands of transactions that occur as these investors and traders convert their intentions to actions by buying and/or selling a stock cause minute-by-minute gyrations in it over the course of a trading day. A stock exchange provides a platform where such trading can be easily conducted by matching buyers and sellers of stocks. For the average person to get access to these exchanges, they would need a stockbroker. This stockbroker acts as the middleman between the buyer and the seller. Getting a stockbroker is most commonly accomplished by creating an account with a well established retail broker."

This explanation helps us to understand how the stock market works and how the average person can buy and sell stocks. But this information doesn't tell us why someone would want to invest in the stock market. If it's so complicated and unstable, why would anyone want to put their money in the stock market? The short answer is that, when you make smart investments, you can make a lot of money. Langager explains that "numerous studies have shown that, over long periods of time, stocks generate investment returns that are superior to those from every other asset class. Stock returns arise from capital gains and dividends. A capital gain occurs when you sell a stock at a higher price than the price at which you purchased it. A dividend is the share of profit that a company distributes to its shareholders. Dividends are an important component of stock returns—since 1956, dividends have contributed nearly one-third of total equity return, while capital gains have contributed two-thirds.19

While the allure of buying a stock similar to one of the fabled FAANG quintet—Facebook, Apple Inc. (their share abbreviation is AAPL if you're interested in buying stock in this company), Amazon.com Inc. (AMZN), Netflix Inc. (NFLX), and Google parent Alphabet Inc. (GOOGL)—at a very early stage is one of the more tantalizing prospects of stock investing, in reality, such home runs are few and far between. Investors who want to swing for the fences with the stocks in their portfolios should have a higher tolerance for risk; such investors will be keen to generate most of their returns from capital gains rather than dividends. On the other hand, investors who are conservative and need the income from their portfolios may opt for stocks that have a long history of paying substantial dividends."

This explanation helps us to understand the inner workings of the stock market. It also helps us to see why people invest in the stock market and why making smart investments is the key to building your own fortune. And, lastly, we can see how a lack of financial knowledge can pose a significant barrier in a person's quest for making smart investments and building a personal fortune. Because insider knowledge about the stock market is common for many wealthy parents, they are able to pass this knowledge on to their children and encourage them to feel comfortable with the stock market. Therefore, the author asserts that everyone-- regardless of their socioeconomic background-- ought to possess this knowledge if they want to cultivate financial success.

Final Summary

The author's personal experience has shown him that the socioeconomic divide between rich and poor parents has created a disparity in financial education. Because wealthy parents are comfortable with the inner workings of the stock market and the logistics of wealth management, they pass this knowledge on to their children and give them the tools to build a healthy financial future. Children of poor parents lack this education and suffer as a result. So, the author uses his experience to craft a roadmap to financial success by explaining the basics of the stock market, identifying the difference between an asset and a liability, and providing examples of smart investments.