

Rich Dad's 3-Steps to Wealth

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“There is nothing more powerful than an idea whose time has come, and there is nothing more vulnerable than someone who is still thinking old ideas.” – Rich Dad

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INTRODUCTION

Rich Dad said, *“All of us have the power of choice. I choose to be rich, and I make that choice every day.”*

If you’ve made the choice for financial freedom, congratulations! **Now it’s time to get results.**

“I have a passion to get rich,” you may be thinking, *“but how do I actually do it?”*

There are three steps. First, you need to think like the rich. Second, you need to learn what the rich know. And third, you need to do what the rich do.

It’s been said that the rich follow a different set of rules than the rest of us, and I know this to be true from experience, thanks to my best friend’s dad, whom I call my Rich Dad. If you are not happy with your financial situation, it’s not your fault. If no one told you what the rich know about getting and staying rich, how are you supposed to know how to do it?

The fact is, all you need is a change in perspective along with some practical insider’s knowledge of how the rich play the money game. Then you can take that knowledge and build a fortune with it. That’s what I did with the information my Rich Dad taught me, and now I want to teach you to do the same things I’ve done.

This is a journey that began for me at the age of nine. As a young boy, everything I learned about money came from two men. My own dad, whom I refer to as my Poor Dad, was highly educated, with a high-paying job as a Superintendent of Education for the State of Hawaii. As his income continued to grow, however, so did his debt; he worked harder and harder, struggling paycheck to paycheck.

In contrast, my best friend’s dad, whom I call my Rich Dad, never finished high school. Yet he became one of the wealthiest men in the state of Hawaii. And his path not only led to great wealth, but also allowed him to spend more time with his family.

I admired both men very much, but when it came to money, I decided to follow my Rich Dad’s path. He taught me a new way of thinking about money and wealth – lessons I still carry with me today.

My Rich Dad’s greatest lesson of all was that the rich are not smarter than the rest of us – they just know things about money that the middle class and poor do not. He also taught me there was nothing difficult about becoming rich; all I had to do was change the way I thought about money. The truth about money was different from everything I was taught at home, at school, and even by bankers.

And finally, he taught me it was just a choice. A choice I continue to make every day.

Based on the lessons of my Rich Dad, I was able to make my first million by the age of 30. And at the age of 47, I was able to retire with complete financial freedom! But as my own dad's – my Poor Dad's – son, I am a teacher at heart. And since school does not prepare us to become rich, my wife Kim and I have dedicated ourselves to teaching others the lessons my Rich Dad taught me. So what I do today is really a tribute to both my *dads*.

Now it's time for you to make one of the most critical decisions of your life: whether to take control of your finances. Why critical? Because if you *really* take control of your finances, it will empower you to shape a new life for yourself.

The choice is really a series of smaller decisions: the decision to change your financial future, which is merely preliminary, and the decision to follow up, renewed each day you open your eyes. **Will you see your choice through to the end?**

This book has been designed not to determine which direction you will go in (That's what *Rich Dad, Poor Dad* was about); it has been designed to light your way. And so I want to show you in more detail how to:

- **Think Like the Rich.** Shed old ways of thinking and adopt new ideas that propel you up the entrance ramp to financial freedom.
- **Learn What the Rich Know.** Discover the five pillars of financial literacy and absorb the knowledge required to keep you moving down the road.
- **Do What the Rich Do.** Follow a step-by-step guide to the financial fast track as you learn in detail what it takes to reach your destination.

Getting rich isn't just a matter of luck, or inheritance, or having a brilliant idea. People who inherit wealth or win the lottery have to learn to manage their money or else they will lose it. Brilliant ideas are useless without a thriving business system to give them life.

More than anything, getting rich is a matter of confidence – of changing your thinking from “*I can't*” to “*How can I?*” Once you commit to this way of thinking you'll be on your way. You won't get rich – **you'll choose to be rich.**

Rich Dad's Get-Rich Strategies

People who become trapped in the lifelong process of bill paying are like hamsters running on their little exercise wheels. Their legs move furiously, their wheels spin on and on, and in the end they're in the same place they started – nowhere.

They keep working and working and their incomes go up, but then so do their taxes and the charges on their credit cards. Buying a home and a car, going on vacations, paying for the children's education, saving for retirement – these successive challenges prevent the bill payers, no matter how well educated they may be, from ever getting ahead.

This doesn't have to be your fate.

In the following pages, you'll encounter some of the strategies Rich Dad taught me to get out of the rat race and become a business owner and investor. Read this book once, twice, as many times as it takes to absorb the radical way of thinking that was Rich Dad's gift to me.

It took me years before I fully absorbed his lessons. I would jump off the wheel only to jump right back on, uncertain whether to follow his advice or Poor Dad's. But those years of indecision and struggle were well worth it. Thanks to Rich Dad's persistence as a teacher, eventually I absorbed his strategies and put them to work. After all the blood, sweat, and tears, at last I was able to jump off the wheel for good and start my journey down the path to financial freedom.

I am not saying, "*Quit your job.*" I am saying. **"Take responsibility for your financial future."**

Strategy 1

Become Financially Literate

The key to riches is to become financially literate. It's a strategy Rich Dad drummed into my head every time we were together, even as Poor Dad was stressing the importance of reading books and going to school. Unfortunately, schools don't teach financial literacy. That's why my hard-working, educated dad was getting nowhere.

Rich Dad may not have been school educated, but because he was financially educated, he left the rat race behind and became a business owner and investor.

Financial literacy requires proficiency in several areas: economic history, accounting, taxes, investing, and building businesses. These are difficult subjects to master, particularly accounting and investing.

But don't let the level of difficulty scare you off. Anyone can master these subjects, especially you. It's a matter of choosing to do so, then moving through the subject material at a pace that suits your individual learning style.

Becoming financially literate has nothing to do with how far you go in school. What matters is whether you're willing to educate yourself. If you are, you can become a business owner and investor and eventually achieve financial freedom.

Strategy 2

Work to Learn

Job security meant everything to Poor Dad. Learning meant everything to Rich Dad. Poor Day thought I was going to the U.S. Merchant Marine Academy to learn to be a ship's officer. Rich Dad knew I went there to study international trade.

The academy sent me on cargo runs to the Far East and the South Pacific, where I learned the art of navigating large freighters, oil tankers, and passenger ships. By the time I graduated from the academy in 1969, I had acquired a wealth of information about trade, people, business styles, and cultures in Japan, Taiwan, Thailand, Singapore and elsewhere – information that would play a crucial role in the success of my later business ventures.

I left the Merchant Marines for the Marine Corps, ostensibly to learn how to fly a plane, but really to learn how to be a leader. I went to Vietnam, and when I returned in 1973, I resigned my commission and took a sales job with Xerox Corporation, even though I loved flying. I took this job not for the salary and benefits, but to overcome my shyness and learn all about marketing and sales. Xerox had one of the best sales-training programs in the country.

Rich Dad was proud of me for taking the job; my educated dad was ashamed because he thought I should have looked for a more “intellectual” job.

Three years later, shortly before my 30th birthday, I left Xerox to form my own company. It was time to test all that I had learned. If I failed, I would be broke. My educated dad thought I was crazy to give up job security. Rich Dad thought it was a great idea to strike out on my own. “If you run the risk of going broke,” he said, “you should do it before the age of 30. You’ll still have time to recover.”

Most people focus on working for pay that rewards them in the short term; over the long term, this strategy can be disastrous because it doesn't build up enough assets for a stress-free retirement. If you want to be financially free, you need to seek work for what you'll learn, not for what you'll earn. The skills you learn when you work for someone else can be invaluable when you begin to work for yourself – and if you want to be financially free, you'll have to work for yourself. You'll have to become an investor. (But that doesn't mean you'll have to start your own company, a subject I'll address soon.)

The Skills You'll Need

Are you working? Are the skills you're learning in your current job those you'll need to become financially free? To achieve that goal, you'll have to be experienced in the following:

- Leadership
- Management
- Sales and marketing

Leadership is critical. When I was in Vietnam, the commanding officer in my squadron said, “*Gentlemen, your most important job is to ask your troops to risk their lives for you, your team and your country.*” Leadership is just as important in business as in war. More businesses fail from lack of leadership than from any other single factor.

Management is twofold: management of cash flow and management of business systems. To manage a company’s cash flow properly, you have to know how to read financial statements and analyze sales and accounts receivable, and expenses and accounts payable. If you can learn to run a business on the basis of the numbers revealed on its financial statements, you’ll be positioning yourself for success.

To manage business systems properly, you have to understand that a company is a complex network of interdependent systems, everything from product or service development to computer systems to human resources. For the business to grow, all systems have to operate with maximum efficiency – a leak in any single one can cause the entire ship to sink.

Sales and marketing are not less important than leadership and management. To be good in sales and marketing, you have to learn how to communicate effectively. If you can’t speak or write well, you won’t convince people your product or service is worth buying. I have friends who are geniuses, but because they can’t communicate well with others, they’re poor. The world is full of smart poor people.

All of these skills – leadership, management, and sales and marketing – are things you can learn through the experience of working. If your current job isn’t teaching you these skills and you want to be financially free, then you may want to seek a new job.

Remember, you’re an apprentice. Find a job in which you’ll be working to learn, not earn. The skills you develop as an employee can help you take control of your own financial life.

Again, I am not telling you to quit your job. Your personal financial life is your business. Even employees need to learn how to become investors and business owners.

Strategy 3

Find Mentors, Build a Team

At the same time you are working to learn, you need to seek out mentors and advisors who can teach you the valuable skills you'll need to become a business owner and investor. No one climbs Mount Everest alone, and you shouldn't try to climb your personal financial mountain without the aid of others. Without support, you'll never reach the top.

A mentor is a successful person you'd like to emulate. A mentor is distinctly different from someone who merely tells you how to do something – someone who instructs but whose experience is limited.

Rich Dad was my first mentor. He didn't just dispense advice; by building his business and using it to invest, Rich Dad had actually accomplished what I wanted to accomplish.

Rich Dad wasn't my only mentor. Back in 1996, through a mutual friend, I met a man I'll call Peter. He is a distinguished and articulate man who has had his own companies listed on the American and New York Stock Exchanges and on the NASDAQ. During the course of his career, he's taken nearly 100 companies public. At the time of our meeting, Peter had done everything I wanted to do. He was a man who guarded his privacy, and the challenge for me was how I could convince him to take me on as an apprentice.

Over the course of several months, I pressed my case with Peter and finally got him to agree to a meeting to talk it over. I told him I could support myself and my wife with the income from my real estate investments and that I would work for him for free if he would teach me everything he knew. Naturally, he was skeptical. But once he saw that I was serious, he decided to take my offer on a trial basis.

There was a bankrupt gold mine in Peru he was considering buying. He asked me to drop everything and fly to Peru at my own expense, inspect the mine, meet with a bank and find out how much it wanted for the mine, and then fly home and give him a report.

That caught me off guard! At first I hesitated. I had appointments scheduled for the week. Moreover, I wasn't sure I was up to the challenge. But deep inside I knew this was a defining moment for me.

In those few seconds, I realized that if I chose not to go to Peru I would lose this valuable potential mentor. Setting aside self-doubt and swallowing all excuses, I decided to take a leap into the unknown. "Okay, Peter, I'll do it." I flew to Peru and inspected the mine. It turned out to be an unwise investment, and I recommended against his buying it.

He agreed with my findings and more importantly, he agreed to teach me. For almost a year and a half I worked as an apprentice to Peter, after which he offered me a partnership in his private venture capital company.

Since then, my association with him has been personally rewarding and financially profitable. And it wouldn't have been possible if I hadn't asked him to be my mentor. By shunning doubt and excuses, I gained the courage needed to take the next step toward my financial goals.

In addition to mentors, if and when you do finally start working for yourself, you'll need a team of competent, loyal advisors. A team assembled with care will help you as you set out on your quest for financial freedom. Your team is your protection and your technical expertise. You don't need to have all the answers as long as you know who to call.

Although you may not be aware of it, you already have a financial team in place. Members of that team include your family, co-workers, and friends – anyone you ask for financial advice.

Ask yourself: Do these informal advisors share your goals, and is their advice sound in light of your goals? Just as important, have they practiced what they preach and met with financial success? **If not, it might be time for you to assemble a new team.**

One thing is certain: When you do set out to work for yourself, you'll need more than just friends and family – you'll need a team of professional advisors. One secret of the rich is their humility. They surround themselves with people who know more than they do. They surround themselves with experts.

Depending on the nature of the business you build or the investment you make, your team could include an accountant, an insurance agent, a tax strategist, a stockbroker, or a score of others. Bear in mind that the team list will constantly change along with the strategies and plans for your business.

You should show your advisors the kind of respect and attention you want them to show you – and your business. The best advisors are those who care about you and your financial goals. I have certainly had good advisors along the path to financial freedom, and I'm thankful to each and every one of them for extending my business and investing horizons.

Strategy 4

Work for Yourself

Rich Dad's central strategy for achieving financial freedom was to build a business of his own. His reasoning was that most people work first for the owners of the companies that employ them, then for the government through taxes, and finally for the banks that own their mortgages.

No wonder they have so little left at the end of their working days!

To escape the rat race, Rich Dad would say, *"You need to work for yourself."*

You may be saying, *"But the odds of a start-up succeeding are against me – nine out of ten companies fail within five years."* Instead say to yourself, *"One out of every ten businesses succeeds within five years, and mine will be one of them!"*

You have to be very determined if you want to build your own business, and if you are, you'll have a head start down the path to financial freedom. If you choose not to start a business, then you can still achieve financial freedom, albeit more slowly, by keeping your expenses low, reducing your liabilities, and diligently building a base of solid assets.

Here's what I mean by assets:

- Businesses that don't require your presence (you own them, but they're managed or run by other people; if you're self-employed and have to work, you work isn't a business, it's a job)
- Stocks
- Bonds
- Mutual funds
- Income-generating real estate
- Notes (IOUs)
- Intellectual property, such as copyrights on books, music, and scripts, and patents on inventions that may generate royalty income, just to name a few
- Anything else that produces income or appreciates in value and can be readily sold

If you're involved with all of the above, you can stop reading. You're already financially free or will be soon.

Chances are, however, you're only involved in three or fewer of these asset categories. If that's the case, **you're reading the right book.**

Strategy 5

Create Money

"*Money isn't real,*" Rich Dad once told me. "*It's an idea.*" It took me some time to absorb this lesson, but I finally did, and then I used it to make myself rich. You can do the same.

Here's a simple example: In the early 1990s, the real estate market in my hometown of Phoenix, Arizona, was horrible. Houses that were once \$100,000 had plummeted to around \$75,000. Although short of cash, I recognized that this was a good time to buy.

Instead of shopping at the local real estate office, I began shopping at a bankruptcy attorney's office and at the county courthouse. Soon I came across a great deal: a \$75,000 house for only \$20,000. With a \$2,000 90-day loan, for which I paid \$200 in interest, I made a down payment on the property. Within days I resold the house for the still-bargain price of \$60,000. I had created a \$40,000 profit for myself out of essentially nothing. Total work effort: five hours over a few days' time.

This is one way to create money seemingly out of nothing. *Here are some other ways to do it:*

- **Find an opportunity that everyone else has missed.** A friend of mine bought a rundown house that nobody else wanted. He tore the house down, subdivided the property into five lots, and within two months sold the whole package to a builder for \$75,000 – three times what he paid for it.
- **Learn to raise money.** The average person only goes to the bank. But there are many ways to raise capital that don't require a bank. Let's say you want to buy a piece of investment real estate but you don't have the cash for a down payment. You might be able to take out an equity loan on your home, or obtain seller financing, or sell your idea to an "angel," or form a group of investors to purchase the property. If there's a will and a promising financial idea, there's a way.
- **Work with knowledgeable people to help you reach your financial goals.** This goes back to the advice I gave you earlier about building a team. You don't want to jump at every moneymaking opportunity, just the smart ones. Having a team of skilled advisors can help you quickly identify the good deals.

Strategy 6

Give Back

While you're pondering Rich Dad's get-rich strategies, there is one more that you should consider: charitable giving.

Many people think the rich are all greedy. That's not true. Some rich people are greedy, just as some poor people are. But for every greedy rich person there is a rich person who understands the importance of giving, and society is better off for it.

Rich Dad was no exception. He strongly believed that to make a fortune and then hoard it was a misuse of money's power. "*When you create wealth,*" he said, "*it's your responsibility to return it to society.*"

Rich Dad practice what he preached. He set up a foundation that gives generous amounts of money to charitable causes, including cancer research. The foundation is so well directed that it will continue to earn and donate money to worth causes for many years to come.

Rich Dad taught me that giving back is a necessary step in getting rich. There are strategies for giving, and the richer you get, the more sophisticated your philanthropic strategies will become.

But this is jumping the gun. For now, while you're thinking about Rich Dad's strategies for acquiring wealth, you should also be thinking about how you might best give away the wealth those strategies will reap for you. Indeed, even before you become wealthy, you should adopt the practice of giving.

Why? Because giving will help teach you to take control of your cash flow. I'll even tell you a strategy for giving that, instead of risking your plans for financial freedom, will actually enhance them.

But there's another, more important reason for giving. Newton's law states, "*For every action there is an equal and opposite reaction.*" If you're a greedy Scrooge, people will respond to you in kind. You have to give money to get it back. **Give and you shall receive.**

Where Are You?

What is wealth? Wealth is measured in time, not money. It is the number of days you can survive without working and still maintain your standard of living.

When my educated dad advised me to get good grades and find a secure job, he was recommending that I become a highly paid employee or that I become a highly paid self-employed professional such as a doctor, a lawyer, or an accountant. He was very concerned about a steady paycheck, benefits, and job security.

My rich but uneducated dad offered very different advice. “*Go to school, graduate, build businesses, and become a successful investor,*” he told me.

If you’re like most people, you are an employee or you’re self-employed. But the simple fact that you’re reading this book means you’re thinking about expanding your horizons. You’re getting ready to pull up your once-stubborn roots – to move beyond job security and toward financial freedom.

The Path to Financial Freedom

The path Rich Dad recommended for me was the path to financial freedom. **Why?** Because as a business owner, people would be working for me, and as an investor, my money would be working for me. The person who has knowledge of these two areas achieves what most people through history have yearned for: freedom from work.

Many of the super-rich follows this path – people of legendary status such as *Bill Gates, Rupert Murdoch, and Ross Perot*. Can you? Yes, if you’re sufficiently equipped with knowledge, experience, and determination. The path to financial freedom is open to you.

My highly educated dad worked hard, but he never got anywhere financially. He got promoted and gained more responsibility, but as he climbed the ladder, he had less and less time to spend with his children. He left for work at seven in the morning, and we were often in bed before he came home. The price he paid for his job success was less and less time.

Rich Dad also worked hard, but he climbed his own ladder. The higher he climbed, the more time he had for his family. When his business reaped profits, he expanded the business and simply hired more people to do the work. If his investments did well, he reinvested the money and **made more money**.

I’ve mentioned Rich Dad was generous with his money. He was also generous with his free time. He spent hour after hour with his son and me explaining exactly what he was doing in business and investing.

Rich Dad had – and I’ll teach you to have – time. And time is freedom – freedom to **make more money**, to give it away, and to be with your loved ones.

The path to freedom is open to you. You can be a worker bee, buzzing around until the end of your days, barely noticing those around you, or you can be a free spirit, with plenty of time to seize the day and tend to your family. Freedom is yours for the taking.

Secure, Comfortable, or Rich?

By now you're getting the gist of Rich Dad's thinking – and no doubt your anxious to get started. Getting started requires two actions. First, you have to decide what your general financial goal is.

Do you want to be secure? Comfortable? Or rich? The answer to this question is important because it will determine how you go about making money. Second, you have to become financially literate so you learn to think like the rich.

What is your financial goal? Bear in mind that a goal is different from a wish. You may wish to be rich, but that doesn't mean you've ever taken any practical steps to make it come true. If you've earned enough money to put some aside, like most people, you've probably invested it with an eye toward security, since you can't imagine yourself ever getting rich.

Be honest with yourself. If you had to list the three choices in order of priority – as goals rather than just wishes – you'd probably put security at the top of the list, comfort in the middle, and wealth at the bottom.

Like most people, you probably want, if you don't already have, a job with a steady paycheck and with good health and retirement benefits. Next you'd like a house, a car, and enough money for extras like vacations. Then, of course, you'd like to be rich, but that's only something that will happen if you "get lucky." Or so you think.

"Most people dream of becoming rich, but it isn't their first choice," Rich Dad said. That's because the effort and uncertainty of becoming rich disturbs them and they seek refuge in the easier goals of security or comfort. People who make security and comfort their first and second choices are often seeking a single hot investment tip, a simple, risk-free way of getting rich quick. Some people do get rich on one lucky investment, but all too frequently the money they amass is later lost.

"Nothing is more tragic than to see people who have sold themselves short on what's possible for their lives," Rich Dad taught me. They try to live frugally, scrimping and saving, and they think they're being financially smart. In truth, they're limiting themselves. Most people spend their lives imprisoned by financial ignorance. It shows up in their faces and in their attitudes as they get older. They begin to look like wild lions trapped in their cages, pacing back and forth while they mull over what happened to the life they once knew.

How can you escape this fate? Simple. By thinking like the rich think, learning what the rich know, and doing what the rich do.

The reason most people stop and turn back from their dreams is that the tiny person inside them beats the person who is bigger. Work daily to be bigger than your smallness. Even though you still may not be good at everything, if you keep on striving, your world will change. Never run from what you need to learn. Face your ignorance, your fears, and your doubts. Make mistakes and then learn from them.

I hope you will learn more about yourself – your attitudes toward money, your avoidance of change, your tolerance of risk.

I've said it before and I'll say it again: The old advice, "*Get a good education so you can get a good job and be secure for life,*" is obsolete in the information age. The sooner you learn financial skills for the new age, the sooner you'll take complete control of your life.

Go ahead; seize the opportunities out there.

Choose to be rich!

Robert Kiyosaki