7 Insights from 'Rich Dad Poor Dad' that will change how you manage money

"The main reason people struggle financially is because they have spent years in school but learned nothing about money. The result is that people learn to work for money…but never learn to have money work for them." – Robert T. Kiyosaki

Written by: Nisham Murarka
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Like in many capitalistic countries, the poverty gap has been widening in Nepal. The rich are getting richer; poor are getting poorer while the middle class (that is supposed to be the backbone of the country) are struggling in debt. If it weren't for remittance income, which comprises of approx. 30% of Nepal's nominal GDP, the poverty gap would have been magnified to a larger extent. But, what if this remittance income, which has been the pillar for our country's revenue declines or stops completely in the coming years? Malaysia, which used to be the largest labor destination for Nepalese, recently suspended recruitment of foreign workers to reduce its reliance on overseas workers. What if countries in the Middle East follow suit citing slow growth? How long can we sustain solely relying on remittance?

As per the Asian Development Bank report, of the total of 26 million (approx.) Nepalese populations, there are about 20 million people who earn less than NPR 150 per day and fall under the lower income group in Nepal. They are the ones who work hard but never seem to earn enough. Does working hard always help? If that were the case, one's work ethic and dedication would be directly proportional to wealth amassed. This begs the question – Is formal education preparing us well? Many people these days have the highest college degree and best grades, still they struggle financially. Whereas, people like Steve Jobs, Bill Gates and Thomas Edison are school dropouts with no degree and yet they are so successful. Have you ever pondered why?

Robert T. Kiyosaki, in his book *'Rich Dad Poor Dad'*, gives a lot of meaningful insights for anyone looking to gain control of their financial future. He shares the education and financial advice given to him by his rich dad that made him highly successful. The book explains why lower and middle-class families struggle their whole lives whereas rich people continue getting richer. The ideas expressed in this book provide several parallels which can be related to many struggling Nepalese lower and middle class families. A World Bank report titled "Moving up the ladder" reveals that 90% of the Nepalese are suffering from a sense of insecurity or are struggling financially. A majority of the Nepalese population today constitute a vulnerable group that is either perilously close to falling back into poverty or otherwise struggling to cement their economic security.

(Leonardo DiCaprio featured as Jordan Belfort in the movie 'Wolf of Wall Street")

Kiyosaki, in his book, correctly depicts how the lower class and middle class fall into the trap of rat race. However, the book also suggests many ways that may help you escape from falling into this very trap. Here, I will share 7 insightful ideas from the book which I believe will be extremely helpful in improving your financial outlook:

1. Financial Literacy is a must

Our educational system and the way we are taught about money at home are the two main reasons why so many people struggle financially. Our parents stress on teaching us that we must go to school, get high grades and then get a good job. But, does that ensure financial security? Not exactly! Unfortunately, school focuses mostly on scholastic and professional skills, and not financial skills. As a result, even highly educated people generally do not know how to handle their finances. School is definitely very important, but one must realize that school is a beginning, not the end. If you want to become rich, financial literacy and skills are very important. In Nepal, parents hardly have any conversation regarding the subject of money with their kids. Whereas, in the U.S., parents have their kids do chores at home, and pay them with allowances for their work. They open bank accounts for their kids and teach them how to save. Even when shopping, if a child wants multiple items, the parent teaches the importance of making good financial decisions and being selective with the budget at hand. These may seem like trivial ideas but it definitely helps in creating a strong financial foundation among kids. The earlier children understand good financial habits; the sooner they'll learn how to properly manage it.

2. The more you exercise your mind, the stronger it becomes

Many Nepalese have a dream to own a home, which generally translates into being successful in life. However, it is how you respond to this dream or your very attitude that will determine if you can achieve it. Do you say "I can't afford it" or "How can I afford it?"? As Kiyosaki rightly puts it, the first statement is generally said by the poor people and the latter by the rich people. When you say 'I can't afford it', your mind stops working and leads to mental laziness, whereas, when you say 'how can I afford it', you exercise your mind and your brain gets stronger every day. Hence, we must learn to say "How can I afford it?" which will help us to think big and then bigger. It is important to make a habit of saving every month, a portion of each paycheck. For example, if you start saving for the retirement in your 30's, even 10% of your salary before taxes each year is a good goal. A small yet consistent contribution like that can grow substantially over time.

3. Break the Rat race taboo

The pattern for most of the lower class and middle class families go like this – Get up, go to work, pay bills, get up, go to work, pay bills, and the cycle continues. Their lives are forever controlled by two emotions – fear and greed. The fear of being without money motivates them to work hard, and then once they get their paycheck, greed or desire causes them to think about all the wonderful things money can buy. If you offer them more money, they will increase their debt and spending. This is what author means by "Rat race". They chase paychecks, pay raise and job security because of greed and fear even without questioning where those emotion-driven thoughts are leading them. Their thinking starts getting so controlled by emotions that they stop using their heads. As a result, they are blind to various opportunities right in front of them.

Control your emotions, don't live a life chasing paychecks, open up your mind and think out of the box, widen your views, get a rich mindset and use your imagination to identify an opportunity. This way, you will be able to break the rat race taboo.

4. The rich don't work for money

Since our childhood days, we are always taught to work for money, but never taught how money can work for us. The lower and middle class strive to work for money all their lives whereas rich people know how to make money work for them. According to the author, don't become an employee and work for money, instead become a businessman and make your money work for you. You can create a corporation to protect your assets and reduce tax expenses. An employee earns, gets taxed, and then spends whatever is left. While, a corporation earns, spends everything it can, and only then gets taxed on what is left. This is the biggest leap loophole that the rich know and use. Focus on creating residual money – money that increases even if you don't work, rather than waiting for the next job with a pay raise. You can invest part of your income into income generating assets. Again, reinvesting income into new income generating assets will make your money work for you. This will trigger the power of compounding which will make a huge impact on how your wealth grows over time. It is no wonder that Albert Einstein referred to compound interest as the "eighth wonder of the world".

5. Know the difference between an asset and a liability

Suppose you buy a dream house in Nepal. Now, you use it as collateral and take out a loan and buy a new car, furniture and new appliances to match your new house. You may feel really happy because you have finally acquired your greatest "asset", your home and gradually you've been collecting more assets. This is one of the biggest mistakes made by lower and middle class families or the hardworking people. Yes! They do not understand the difference between an asset and a liability. Their home is actually a liability but they consider it as their biggest asset. Here is the difference between an asset and a liability. Asset puts money in your pocket and liability is something that takes money out of your pocket. In the above example, if you remember the moment you bought your house, your expenses and liabilities grew along with it. Here, don't get me wrong. I don't mean that one should not own a house. Rather that if you want to buy house, first buy assets that will generate cash flow that will instead pay for the house. If you do so, you can call the house your "asset". Another distinction between rich and lower class people is that rich buy luxuries last, while the lower class and middle class tend to buy luxuries first because they want to look rich. But, in reality, they just get deeper on credit. Whereas, in the long term, rich build their asset column first and then the income generated from the asset column buys their luxuries. Rich people acquire assets but the lower class and middle class acquire liabilities that they think are assets. So choose to spend your money wisely!!

6. Invest in real asset

If you want to become rich, begin acquiring real assets that you love. The author suggests acquiring the business that do not require your presence, investing in stocks, bonds, income generating real estate, notes, royalties from intellectual property such as music, scripts and patents, and anything else that has value, and has a ready market. Historically, in Nepal, real estate and stock market have been the go-to place for investors. The compound annual growth rate (CAGR) of Nepse during the last 10 fiscal years is approx. 16.08% which is actually a very healthy return. Investing in stock market is definitely risky, but with high risk comes potential for high return. People who are risk averse put their money in the bank. They may get 7-8% interest on their savings but in the long run, safe savings provide no real returns as the current inflation rate hovers around 11%.

This does not mean you leave your job and just buy real assets or invest in stocks. Keep your daytime job, and gradually buy real assets with your income!

7. Start acting now

Lastly, the author rightly says – With every dollar in hand; you have the power to determine your destiny. If you spend it foolishly, get ready to join lower class. Spend it on liabilities; get ready to join the middle class. Instead, invest it on your mind and on income generating assets, you choose wealth as your goal and future. Every day with every dollar, you decide to be rich, poor or middle class. What do you wish to be? So, start acting now!!