

THE  
**RICH DAD** POOR DAD  
LETTER

ROBERT  
KIYOSAKI

HOW TO ADD  
**\$1.1 MILLION**  
TO YOUR NEST EGG

When You Protect Your Retirement  
from Wall Street's Latest Scam



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# THE **RICH DAD** POOR DAD LETTER

## How to Add \$1.1 Million to Your Nest Egg When You Protect Your Retirement from Wall Street's Latest Scam

**How hidden fees destroy billions of wealth each year — and how you can avoid them**

Every year, Warren Buffet comes out with a long, informative, and entertaining letter to Berkshire-Hathaway investors. In his letter released in 2017, the man considered to be the smartest investor in the world noted one thing he believes has destroyed a massive amount of wealth in the United States.

This force was something that seems so small and inconsequential on the surface, something that almost every investor pays: the simple brokerage fee.

According to Buffett's estimates, brokerage fees have decimated more than \$100 billion in investor money over the last decade.

*"The bottom line: When trillions of dollars are managed by Wall Streeters charging high fees, it will usually be the managers who reap outsized profits, not the clients."*

How can this happen?

The answer is simple: most people have no idea how much they are paying in fees. And on top of that, they know precious little about how money and the financial system works.

Take for instance the following stats from Tony Robbins' *Unshakeable*...

**The nonprofit organization AARP published a report in which it found that 71% of Americans believe they pay no fees at all to have a 401(k) plan. (Put another way, more than 7 out of 10 people in America today are completely unaware that they are even being charged a fee to participate in their 401(k) plan!)... [and] 92% admit that they have no idea how much they're actually paying.**

According to Tony, nearly two-thirds of a retirement nest egg can be destroyed by hidden and excessive fees that average investors have no idea they are paying. Tony shares this insight from Jack Bogle, the founder of Vanguard (a low-cost index fund):

*"Let's assume the stock market gives a 7% return over 50 years," he began. At that rate, because of the power of compounding, "each dollar goes up to 30 dollars." But the average fund charges you about 2% per year in costs, which drops your average annual return to 5%. At that rate, "you get 10 dollars. So 10 dollars versus 30 dollars. You put 100% of the capital, you took 100% of the risks and you got 33% of the return!"*

Ultimately, the problem with the average investor is that they have a very low financial intelligence. They are, in fact, intimidated by money. So, rather than truly invest, they choose to hand their money over to a broker, let it sit in low-fee ETFs and collect next to nothing, so that it's out of sight and out of mind.

According to a recent study from NerdWallet:

**Almost 9 in 10 Americans (87%) have money in a bank account, and about 3 in 5 (58%) have money in an investment account. On average, Americans think they will pay \$2,244 in investment and banking fees over the course of their lives. In fact, they could pay more than \$369,000 in lifetime fees for their workplace retirement, IRA, checking and savings accounts...**

Much like sending a prayer to a saint, people hope their broker will work miracles with their money. Unfortunately, saints probably have better track records with prayer than brokers do with investor money.

## **How to Get Your Money Working for YOU Instead**

If you don't want to be a victim of such wealth-killing fees, it's imperative that you move from being an average investor to a sophisticated one.

My rich dad often talked about the sophisticated investor. He'd say, "A sophisticated investor is an investor who understands each of the ten investor controls."

The keyword here is *control*. When average investors lose billions of dollars to fees they aren't even aware they are paying, it's a sign of who has control — the brokerage. So instead of just sitting, waiting, hoping, you can put these ten controls in place to make huge sums of money in the markets.

### **1 Control Over Yourself**

"The most important control you must have as an investor is control over yourself," my rich dad said.

In school, there was only one right answer to every question on every test we faced, and making mistakes was always a bad thing. We were not taught financial literacy in school. And still today,

once you graduate and join the real world, it takes a lot of work and time to change your thinking to become financially literate — and few people actually do it. School trained us to become employees.

A sophisticated investor knows that there are multiple right answers to any given situation, that the best learning comes through making mistakes, and that financial literacy is essential to success. They do not get flustered when they make a mistake. Rather, they have control over themselves to learn and get better from mistakes. They know their own financial statement, and they understand how each financial decision they make will ultimately impact their financial statement.

One method that really helped me enhance my control in making money came from creating a corporation. A corporation can do many things that an employee or an individual cannot, like pay expenses before paying taxes. It's a whole area of expertise that is very exciting. Employees earn and get taxed, and they try to live on what is left.

A corporation earns, spends everything it can, and is taxed on anything that's left. It's undoubtedly one of the most significant legal tax loopholes used by the rich. They're easy to set up and are not expensive if you own investments that are producing good cash-flow. For example, by owning your own corporation, your vacations can be board meetings in Hawaii. Car payments, insurance, repairs, some restaurant meals, and even health-club memberships are company expenses. But it's done legally with pre-tax dollars.

A huge benefit and way to take control of money you're spending.

## **2 Control Over Income/Expense Ratios and Asset/Liability Ratios**

This control is developed through financial literacy. My rich dad taught me the three cash flow patterns of the poor, middle class and the rich.

The poor spend every penny they make and own no assets. It is simply money in and money out.

The middle class accumulates bad debt as they become more successful. A pay raise qualifies them to borrow more money from the bank so that they can buy things like cars, vacations, boats, you get the idea. As their income increases, so does their personal debt. That is what we call the rat race.

The rich use their income and take out loans to purchase assets that work for them. They have gained control over their expenses and focus on acquiring or building assets. Their businesses pay most of their expenses, and they have few, if any, personal liabilities that aren't covered by their cash-flowing assets.

Sophisticated investors focus their time and energy on buying assets that put money in their pockets — not chasing liabilities that take money out (like brokerage fees).

A great method for purchasing an asset is explained in **Unit #4** of your Retirement Masterclass, purchasing tax liens. Take another look at that video to get step-by-step instructions to follow.

Briefly, tax liens are issued by a state county and placed on a person's property when they have failed to pay taxes on that property for a number of years. The owner of the lien has the right to collect very high interest on debt and eventually keep possession of that property if the debt is not paid by a certain point.

By purchasing a tax lien from a state county, you can pay a small amount to potentially take ownership of a home, and collect cash flow in the intermediary. It's a great way to put a small fee into a huge ROI that begins and ends with you in control.

Personally, I hold a small portion of my assets in tax-lien certificates instead of "low-risk" (and low-return) certificates of deposit (CDs). I earn 16% per year on my money, much higher than the interest rates banks offer on CDs or what you can get from a low-cost index fund. The certificates are secured by real estate and enforced by state law, which you've learned in **Unit #4** of your Masterclass. The formula they're bought on makes them safe. They just lack liquidity. So, I look at them as 2- to 7-year CDs that yield me a lot more money. When I tell someone that I hold my

money this way, especially if they have money in CDs, practically every time they'll go into a spiel about how this thing they read or this guy they know says it's risky.

They've never done it themselves, yet they feel knowledgeable enough to tell someone who's doing it why they shouldn't. The lowest interest rate I'll take is 16% return, but people who are filled with doubt because of what they don't know accept a far lower return.

Doubt is *expensive*.

My point is that it's those doubts and cynicism that keep most people poor because they think they're playing it safe. The real world is honestly waiting for you to get rich. There are so many vehicles to do it. Only a person's doubts keep them poor. As I said, getting out of the Rat Race is technically easy. It doesn't take much education, but those doubts paralyze most people.

### **3 Control Over the Management of an Investment**

An inside investor who owns enough of an interest in the investment to control the management decisions has this type of investor control. The investor can be a sole owner or own enough of an interest that he or she is involved in the decision-making process.

The skills learned through building a successful business using the B-I Triangle are essential to this investor.

Once the sophisticated investor possesses these skills, he or she is better able to analyze the effectiveness of the management of other potential investments. If the management appears competent and successful, the investor is more comfortable investing funds.

### **4 Control Over Taxes**

The sophisticated investor has learned about the tax laws, either through formal study or by asking questions and listening to good advisors. The right side of the CASHFLOW Quadrant (business owners and investors) provides certain tax advantages that the sophisticated investor uses thoughtfully to minimize taxes paid

and to increase tax deferrals wherever possible.

For instance, in the United States, people on the B (business) and I (investor) side of the quadrant enjoy many tax advantages that those on the E (employee) and S (self-employed) side do not.

Much of the sophisticated investor's income is in the form of passive and portfolio income, so they do not have to pay social insurance taxes like social security and Medicare on that money.

They can use tax laws to defer tax payments, sometimes indefinitely.

They can pay for expenses with pre-tax dollars and be taxed only on the net income.

These and many other advantages give the sophisticated investor a huge head start over those investing in the E and S quadrants. Take another look at **Unit #8** in your Retirement Masterclass for a deep-dive into all the different ways you can save on your taxes in the coming year, and the rest of your life.

And then, once you have concentrated your retirement income into non-taxable streams, there's another tax move you can make to protect your Social Security from being taxed ever again. It's a secret I like to call...

### **"The Box 20a Trick"**

If you can create enough cash flow in retirement through untaxed sources to report your taxable income as below \$25k annually if you're single or \$32k if you're married, the government can't take any of that away from you. If you look at a 1040 tax form, you'll see two boxes: 20a is where you find total Social Security benefits, and 20b is the taxable amount. If you can claim a number within the threshold, all that money is 100% yours. No greedy government pawing allowed.

## **5 Control Over When You Buy and When You Sell**

The sophisticated investor knows how to make money in an up market as well as a down one. In building a business, he or she has great patience. I sometimes refer to this patience as "delayed



gratification.” A sophisticated investor understands that the true financial reward is after the investment or business becomes profitable and can be sold or taken public.

## **6 Control Over Brokerage Transactions**

Sophisticated investors who have inside influence can direct how the investment is sold or expanded.

As outside investors in other companies, sophisticated investors carefully track the performance of their investments and direct their broker to buy or sell appropriately.

Average investors rely on their brokers to know when to buy and sell. That is not sophisticated. It’s foolish.

## **7 Control Over the E-T-C (Entity, Timing, Characteristics)**

“Next to control over yourself, the control over the E-T-C is the most important control,” said rich dad. To have control over the entity, timing, and characteristics of your income, you need to understand corporate, security and tax law.

Rich dad truly understood the benefits offered through choosing the right entity with the right year-end and converting as much ordinary income into passive and portfolio income as possible. This strategy combined with the ability to read financial statements helped rich dad build his financial empire more quickly.

## **8 Control Over the Terms and Conditions Agreement**

The sophisticated investor is in control of the terms and conditions of the agreements he or she makes when on the inside of the investment. For instance, when I rolled over the sale of several of my small houses into a small apartment building, I used a Section 1031 exchange (U.S. law), which allowed me to roll over the gain. I didn’t have to pay taxes on the sale because I controlled the terms and conditions of the agreement.

We have spent a whole unit in your Retirement Masterclass (**Unit #3**) getting into the nuance of this little-known law, and teaching you exactly what steps to follow to capitalize on the caveat for yourself.

In 1989, I got a good deal on a house in a lovely neighborhood in Portland, Oregon. I put \$5,000 down on a \$45,000 deal. Its cash flow wasn't hugely exciting — about \$40 a month in my pocket — but a year after I bought it, the depressed Oregon real estate market had begun to pick up. I sold the house for \$95,000 and my capital gains of approximately \$40,000 were placed into a 1031 tax-deferred exchange. Next, I went shopping for a place to put my money. I soon found a 12-unit apartment house right next to the Intel plant in Beaverton, Oregon. The owners lived in Germany, had no idea what the place was worth, and just wanted to get out of it. I offered \$275,000 for a \$450,000 building. They agreed to \$300,000. I bought it and held it for two years. Utilizing the same 1031-exchange process, we sold the building for \$495,000 and bought a 30-unit apartment building in Phoenix, Arizona. Like the former Oregon market, the real estate market in Phoenix was depressed. The price of the 30-unit apartment building in Phoenix was \$875,000, with \$225,000 down. The cash flow from the 30 units was a little over \$5,000 a month.

The Arizona market began moving up and, a few years later, a Colorado investor offered us \$1.2 million for the property.

The point of this example is how a small amount can grow into a large amount. Again, it is a matter of understanding financial statements, investment strategies, a sense of the market, and the laws.

1031 exchanges are an excellent tool for paving your path to success.

## **9 Control Over Access to Information**

As an inside investor, the sophisticated investor again has control over access to information. This is where the investor needs to understand the legal requirements of insiders imposed by the SEC in the United States (other countries have similar oversight organizations).

## **10 Control Over Giving It Back**

The sophisticated investor recognizes the social responsibility

that comes with wealth and gives back to society. This may be through charitable giving and philanthropy. Some of it will be through capitalism, by creating jobs and expanding the economy. Plus, money given to charity can be deducted from your income taxes. You can give your money to those who need it rather than our bloated government.

As you can see, it takes a lot of financial knowledge and intelligence to become a sophisticated investor.

Mastering these ten investor controls makes the difference between settling for an average 7% returns annually and making infinite returns possible. It's your choice.

Play it smart,

A handwritten signature in black ink, appearing to read 'Robert T. Kiyosaki', written in a cursive, flowing style.

Robert T. Kiyosaki  
Editor, *The Rich Dad Poor Dad Letter*