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**Best-selling Books
by Robert T. Kiyosaki**

Rich Dad Poor Dad

What the Rich Teach Their Kids About Money –
That the Poor and Middle Class Do Not

Rich Dad's CASHFLOW Quadrant

Guide to Financial Freedom

Rich Dad's Guide to Investing

What the Rich Invest in That the Poor and Middle Class Do Not

Rich Dad's Rich Kid Smart Kid

Give Your Child a Financial Head Start

Rich Dad's Retire Young Retire Rich

How to Get Rich and Stay Rich

Rich Dad's Prophecy

Why the Biggest Stock Market Crash in History Is Still Coming...
And How You Can Prepare Yourself and Profit from It!

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Real-Life Success Stories from Real-Life People
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Without Cutting Up Your Credit Cards
Turn Bad Debt into Good Debt

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Get Smarter with Your Money

Robert Kiyosaki's Conspiracy of the Rich

The 8 New Rules of Money

Unfair Advantage

The Power of Financial Education

Why "A" Students Work for "C" Students

Rich Dad's Guide to Financial Education for Parents

Second Chance

for Your Money, Your Life and Our World

Introduction

6 RULES FOR INVESTING IN STOCKS

When I was a young boy, my best friend Mike (the son of my Rich Dad) took up golf and investing. Both were games (in a sense), both were difficult to master, and both required understanding the rules if you wanted to succeed.

Fifteen years later (when we were both 25-years-old) Mike was an expert at both golf and investing. I was just beginning to learn the rules. I make this point because regardless of how young or old you are, learning the basics is always important.

Most people assume they should take golf lessons before playing. No one wants to embarrass themselves on the course or lose big to a friend. If people gave the same level of training to investing as they do to their golf game, we might have less broke investors.

With this in mind, we've created a set of basic rules to start your stock investing education. The following pages show the *6 Rules for Investing in Stocks* needed to shape your context before you take that first step.

A handwritten signature in black ink, which appears to read "Robert Kiyosaki". The signature is fluid and stylized, with a large initial 'R'.

– Robert Kiyosaki

RULE 1

Financial intelligence begins with knowing why you're investing. In the world of stocks, there are three things investors invest for: capital gains, cash flow, and hedging. So why are you investing? You'd better have a clear idea of why you're investing and your investment goals before starting.

Capital Gains

One reason so many people think stock investing is risky is because they invest for capital gains. These investors are trying to buy stocks at a low price and sell them at a high price. Unless you have a crystal ball, investing for capital gains is nothing more than gambling.

Cash Flow

Investing for cash flow is more disciplined, less sexy, but a lot less risky. Using this strategy creates income from your investment rather than a one-time payment. A typical method of cash-flowing stock is dividends. Dividends are income produced from your stocks that pay out in regular intervals.

As you get more educated about stocks, you'll find that there are many more ways to generate cash flow from stocks—not just from dividends. Stock options can also be used to generate a great amount of cash flow. We'll get into stock options later in this guide.

Hedging

Hedging is essentially like buying insurance in the event the value of the dollar decreases or the economy has a serious downturn. Most people think of precious metals like gold and silver as a hedge, but stocks can be too—if you know what you're doing.

Our Rich Dad Advisor on paper assests (stocks), Andy Tanner, explains these three investment types using the analogy of real estate—something that is a little easier to comprehend for us.

Stock Investments Using Real Estate as the Analogy

To begin our discussion of personal fundamental analysis, let's start with an investing analogy related to real estate. As investors, there are three ways we can use real estate to accomplish our goals (some of these may sound familiar):

Capital gains | Buy a new house and then flip it (sell it off at a higher price) to earn a capital gain on our money.

Cash flow | Buy a new house and rent it to earn monthly income for ongoing cash flow.

Hedging | Buy insurance on the property to protect it from damage, theft or acts of god.

All three of these are valid actions.

Capital Gains

When you buy a house in hopes that the value of it will grow to yield a capital gain, you will enter the value of that house in your asset column. At that point, the value of that investment can grow or decrease in value, depending on the market. This fluctuation will affect your net worth.

Knowing this, you can ask yourself this important question:

“What are my investing goals? Is one of them to increase my net worth? If so, what investments should I buy to accomplish this?”

Stock investors have a similar option available to them. If they want to increase their net worth with stocks, they can buy shares and hold them in their portfolio, hoping they increase in value. Many people are already doing this through retirement plans such as 401(k)s, IRAs, and mutual funds.

Cash Flow

However, if you decide to rent a house to someone else you will generate cash flow from your asset. Cash flow is valuable to you because it's how you are able to feed your family and pay your bills. Simply having an asset that increases your net worth does nothing to improve your cash flow situation. Capital gains is like having a very pretty cake you're not allowed to eat. Cash flow is the epitome of having your cake and eating it too. That's why Rich Dad encourages people around the world to think differently and seek to buy assets that provide cash flow. When we have assets that generate cash flow for us, passive income comes in over and over again all the way through our retirement years.

Remember | Net worth doesn't help you retire; cash flow does. If you are renting your houses, that is cash flow that goes into your income statement. It's an important addition to your income statement that can transform your life.

Hedging

Our third investing option is hedging. In the real estate world it would be known as insurance. You put a hedge into your liability column because it doesn't increase your net worth or provide you with income. It is simply a purchase that protects you if something bad happens to your primary investment.

In my opinion, the biggest difference between professional and amateur investors is that amateurs are always going for the capital gain, and professionals go for cash flow. Amateurs are always trying to hedge or protect themselves with diversification, while professionals use contracts like insurance.

Most people associated with The Rich Dad Company are more familiar with real estate than stocks which is why I started out with the real estate analogy. That simple example with real estate applies to stocks in the same way.

For example, maybe you want to buy stock in ACME and you buy it at \$100 per share. You then sell it at \$200 per share. Now your net worth has risen. You have more money than you did before. Your assets have grown, but ACME has not given you any income. There's no cash flow generated from this transaction, which means, once you spend those gains, they're gone forever.

Instead, suppose you buy a stock that pays you a regular dividend. Now you own an asset that is also adding to your cash flow without you having to do a thing for it. With enough assets like this, you can eventually have the income to do whatever you want right now or in retirement. In my opinion, that should be the overall goal of investing: freedom of choice and lifestyle.

Today's typical retirement plans such as 401(k)s and mutual funds do not provide cash flow. Instead, the focus is usually trying to build a net worth that is large enough to support retirement. That is very hard to do. Most people are terrified that their money will run out before life does and it's a valid concern.

Mutual funds are not created to provide their investors with cash flow. They simply add to (or often subtract from) our net worth. What they don't do is generate income. For some new investors, this is a difficult concept to grasp—or admit to themselves. We are trained by the media and Wall Street to equate net worth with investing success. But let's look at a familiar situation that illustrates why net worth is an empty idea.

Suppose you have \$4,000 in living expenses each and every month. That \$4,000 is in your expense column. You've got a \$4,000 expense to cover each month. Well, having your net worth go up and down won't change that. You need income-producing assets to generate cash to cover those living expenses each and every month. Now, that's a goal!

Not only is that a goal, that is wealth. Wealth is when you have passive income doing the work to cover that \$4,000 expense on your behalf, rather than working a job to make \$4,000—eating up your time and your life.

The key to wealth is cash flow. If someone has a high net worth, he or she may be rich but they still have to work. You can be stinking rich in net worth and still not be able to pay your bills. You can have a million dollars in a 401K and not be able to cover your monthly expenses for the rest of your life. But when passive income from assets exceeds expenses, then you've become independently wealthy. In other words, you have enough wealth to be independent from having to work.

Let's take another quick look at hedging, which is essentially buying insurance on investments. When I buy an investment such as a house, I certainly don't want to lose that investment. No matter the reason behind my purchase, it's important to protect it. If the house burns down, the insurance I have purchased guarantees that my investment will be safe. If I bought the house to live in, the insurance will pay for a new one to be built. If I bought it for capital gains, then the structure will be restored so I can sell it in the future. And if I bought it for cash flow, I can get renters back into it fairly quickly. Buying insurance doesn't put money in my pocket. It's an expense. But smart investors protect their investments with insurance.

RULE 2

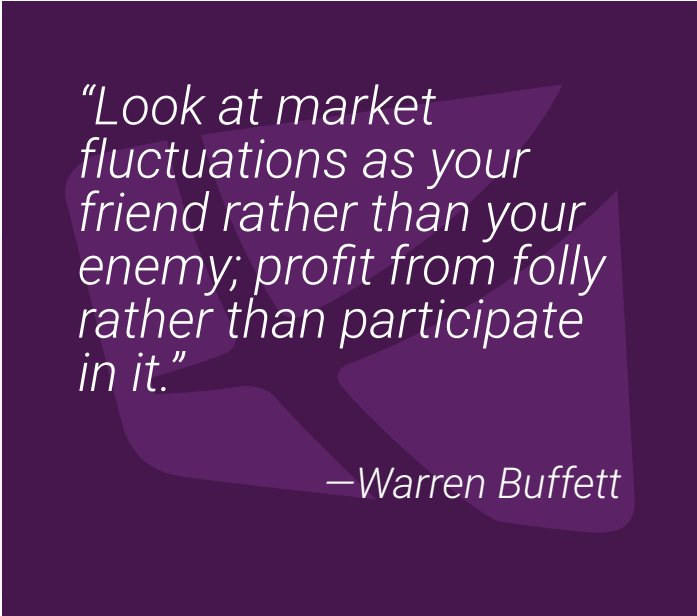
Most people try to predict what and when things will happen. But a true investor is prepared whether the economy goes up or down. Rich dad said, "If you are not prepared with education and experience, a good opportunity will pass you by."

Rich dad taught us that even the best stock tip or the best real estate deal would fail if you were not financially educated. The deal can only be as good as the investor. That is why getting education is the second rule.

We're not sure who said this, but rich dad would have agreed, "We must look at how well strategies, not stocks, perform."

By learning different ways to position yourself for cash flow (or even a capital gain, for that matter), you will begin to understand that there are opportunities for profit no matter what the stock market does. You can earn huge rewards when the market goes up. You can also earn huge rewards when the market goes down. And you guessed it, there are rewards when the stock market stays flat.

With the right education, you can make money no matter what happens in the stock market. Once you learn the strategies, you can build wealth. Even more important, you can build security because you are not at the mercy of the markets.



"Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."

—Warren Buffett

There are so many ways to get going with your education. You can take online courses, participate in local workshops, and attend professional seminars.

Reach out to people in the industry and pick their brains. We all had to start somewhere; we had to ask help from mentors, too. If they're good people, and they have the time, they'll be happy to talk with you on getting started.

With all this in mind, the crux of getting financially educated is taking action. You can take all the classes you want, listen to all the speakers, talk to mentors, and attend all the seminars you want. Your education will never truly take hold unless you apply what you've learned.

Get out there and look at the deals. Make trades. Purchase stock options. Only then will your education truly begin.

RULE 3

Most people start their life out by making ordinary earned income as an employee. The path to building wealth starts by converting your earned income into investment income as efficiently as possible. This way the money you've earned can start earning money for you.

There are really only three steps:

- 1 | Save a portion of your earned income from your job (pay yourself first),
- 2 | Get educated on a specific investment vehicle,
- 3 | Then put that money into an investment.

"That, in a nutshell," said rich dad, "is all an investor is supposed to do. It's as basic as it can get."

Step 1. Pay Yourself First

Start saving your money. While saving as an investment plan is probably the worst possible advice ever, saving to get seed money, or money to get you started, is part of step one.

The founders of The Rich Dad Company, Robert and Kim Kiyosaki, saved 30 percent of their money when they were first starting out. They forced themselves to stop buying things they did not need. They also forced themselves to find extra work.

Saving is very difficult. But it must be done. When you get your paycheck, do not use all of your money to pay your bills. At a minimum, we recommend you save 10 percent. You may have to change your spending habits. You may have to learn to say, "No," to yourself, but you must start saving enough to seed your investments and your education.

Step 2. Get Educated

There are so many ways to get educated. Online courses, local workshops, seminars, internships, etc. With the creation of the internet, learning can be done from your home at all hours of the day or night. It can be done in 10-minute increments or hours at a time. The Internet has removed the excuses to not get educated.

Step 3. Put That Money Into an Investment

When you use the money from your “Pay Yourself First” savings you need to first buy the education that is going to teach you how to buy or create an asset. Then you need to put it into action.

Education that is not put into action is a waste. Knowledge without action is pointless. To achieve anything, you must take action.

Our Rich Dad Stock Advisor, Andy Tanner says:

I frequently have students in my classes who love to talk about investing, but who have not yet actually bought any assets. They read a lot of investing books and listen to informative audio courses on building wealth. Yet their asset column is blank. They are making the mistake of waiting until they have a lot of money to begin investing. It's like the person who spends years reading every book they can find on how to play the piano, yet keeps putting off actually sitting down and playing a note. It's just not necessary. There is room for everyone at every level to sit down and play. Education is key, but remember that part of your education should be doing.

RULE 4

Many people think investing is risky. Laziness is riskier. There are three main ways to mitigate your risk exposure:

- 1 | Education
- 2 | Starting small
- 3 | Insurance

Education

How much research do people do when buying a car? They investigate the brands, the body styles, colors, features, fuel economy, etc. Then they spend countless hours on Craigslist or Autotrader trying to find the “perfect car.”

How many cars do they actually call on? How many do they go test drive?

How many weekends do they destroy in search of the perfect deal.

It’s a lot of work! People go through all of that work because they want the best deal on a car they can trust. No one wants to invest in a vehicle that lets them down. When it comes to investing though, most people just pick mutual fund option 1, 2, or 3, and then forget about it. They wake up one day to find their Return On Investment (ROI) has fallen to zero and then claim the market is “too risky.”

The market isn’t risky; you’re just not assessing the risk. To mitigate the risk of an investment: You must get educated, take online courses, talk with mentors, do the research, make the calls, and vet the investment.

Start Small

Education is the first risk-mitigation technique. Education doesn't stop at books, you need to take action and apply what you've learned. That is when the most powerful learning happens. When your money is on the line, your learning curve goes through the roof. Learning by doing is invaluable, but you need to start small. You need to take a "test drive" on a small investment and actually learn what makes up a good investment or not.

Our Rich Dad Stock Advisor, Andy Tanner says:

There is a common misconception that you need a lot of money before you can begin to invest. Perhaps that's why so many people put off their investing for so long. Some people never get around to it. Fortunately, investing in stocks allows almost anyone to begin their investing sooner rather than later.

Because buying stock is buying only a share of a company, buying stock is more affordable for the average person than buying an entire company or starting a business. But the beauty of this is that you can own exactly the same stocks as a famous investor like Warren Buffett. The difference is that, as a new investor, you'll probably buy a smaller number of shares than Buffett. A company you want to invest in may be a multi-billion dollar enterprise, but you may be able to get a single share of its stock for just \$25. The cost effectiveness of stock allows you to scale up into your investing as you gain the experience and the monetary means to go bigger. For the average person, this is a faster way to invest than saving up for decades to purchase a franchise or some other business.

Another avenue of profitable stock market investing is the options market. An option is the right to buy or sell a particular thing at a specified price within a set time frame. Just as we saw with stocks, options are also a very affordable way for anyone to begin their investing. As you advance in your knowledge and experience with options, you might be surprised to find just how much stock you can take control of for relatively small amounts of money and risk. In my view, this scalability is very attractive. It permits almost anyone to quickly place an asset on his or her financial statement. In fact, acquiring an asset with stocks can be done faster than any other asset class. Plus, the lessons learned from researching in the stock market are skills that will carry over into both real estate and general business. The stock market is a great place to learn about the concepts of exit strategy, hedging, and capital gains versus cash flow.

Insurance for Stocks

In 2007, we all watched the stock market crash, knowing the consequences for millions of investors, investors who falsely believed that the stock market would always go up over the long term and that diversification was insurance against losses.

Making matters worse, in 2010, uninsured investors were reentering the market hoping prices would go up again.

Professional investors use insurance, even in the stock market.

Again, we turn to Andy to explain how he uses insurance to protect his paper-asset investments.

One of the things I purchase on a regular basis is rental insurance. I do this in case my tenants damage my property by accidentally starting a fire, for example. Imagine trying to manage that risk with diversification. It wouldn't make much sense to me to buy a whole bunch of houses and just hope that while some might burn down, most will not.

I like the idea of having a contract that I pay a relatively small amount of money for to protect an asset that is worth a much larger amount of money. Most of us call these types of contracts "insurance." When a person gets in an automobile accident, the first question that is often asked is, "Do you have insurance?"

In the stock market, we don't usually use the word insurance. Instead, we use the word "hedge." Like insurance, we can protect a relatively large amount of money against loss by spending a relatively small amount of money on a contract, such as a Put Option, as I mentioned above. Many professional investors will spend money on put options during times of uncertainty and when they're faced with events that are beyond their control, such as an earnings report or an announcement by the Federal Reserve. The more risky the situation, the more expensive the contract. In fact, these

kinds of contracts can give an investor insight as to how risky the situation is. With a little bit of education, anyone can learn how to use an option contract to protect themselves against loss.

The irony of this idea is that many people label the options market as too risky. In reality, many of the people who purchase options are doing so to reduce their risk. They use the option as a hedge, rather than for speculation. I purchase many options with the idea that I will lose 100 percent of the money I've spent on the option. To me, the context is not much different than the money I spend on insuring my rental property. The income from the rental property pays for the insurance, just as the income from a paper asset will pay for the option that protects it.

RULE 5

One of the biggest concerns for new investors is learning how to raise money. Most people will say, “It takes money to make money.” This couldn’t be further from the truth. You need to get creative with how you raise investment capital.

Rich dad said, “If you are prepared, which means you have education and experience, and you find a good deal, you will find the money.” If you have the team, systems, and the right deal, you’ll be able to raise the money you need. You will be hard-pressed to find an investor who will invest with you based on a deal you haven’t found yet. But if you do the work and find a good deal, you’ll be surprised how many people are looking to invest.

So, don’t shut down your creative brain and your ambition by saying, “It takes money to make money.” This is a lazy and mediocre mentality. It takes finding the right deal, the right education, and the experience to make money.

We’ve talked plenty about education, but what about experience? One of the great benefits of stock investing is that you can get the experience without using money. Just about every online trading house offers virtual trading. Virtual trading is exactly like real-time trading. You can make trades, learn, correct trades, use options, and more just as you can in real-time trading, except it’s a complete simulation.

What is great about stock simulations is now you have something to show potential investors. You can let them see how you use your education to create winning stock strategies that really work.

RULE 6

One of the truly great aspects of stock investing is that there are two ways to analyze a stock:

1 | Fundamental analysis

2 | Technical analysis

Fundamental analysis

Fundamental analysis is the process of looking at some basic numbers and evaluating the financial strength of the entity based on those numbers.

When you look at these fundamental numbers you will have an increased ability to make wise investment decisions. You'll be able to set a bar for comparison and then quickly see if the opportunity measures up with your expectation of a good investment.

Technical analysis

Technical analysis tells you how eager other investors are to buy shares in the company and if there's a high demand for the shares that could drive the company's stock price higher and higher. Basically, technical analysis shows you the trend of the company.

Once you have evaluated the stock, you need to compare it to other stocks to make sure you are picking the right stock to succeed with your strategy. As you get into being an investor, you must quickly learn to evaluate risk and reward.

Robert tells of a conversation he had with rich dad.

"If you had a nephew with an idea for a burger stand and he needed \$25,000, would that be a good investment?" "No," I answered. "There is too much risk for too little reward." "Very good," said rich dad, "but what if I told you that this nephew has been working for a major burger chain for the past 15 years, has been a vice-president of every important aspect in the business, and is ready to go out on his own and build a worldwide burger chain? And what if you could buy 5 percent of the company with \$25,000? Would that be of interest to you?" "Yes," I said. "Definitely because there is more reward for the same amount of risk."

Whether it is an investment in the stock of a company or purchase of a burger stand, an investor must always analyze the financial statements. You can determine how profitable a business is by looking at its financial statements and calculating financial ratios.

CONCLUSION

We've just gone over a very high level of what it takes to get into the investing game. It's really not rocket science. It just requires some effort.

The great part about investing is you can get into it in your spare time. And, in spite of what most people say, you don't need money to make money. You just need to put yourself out there and get going.

