MORTGAGE advisor™

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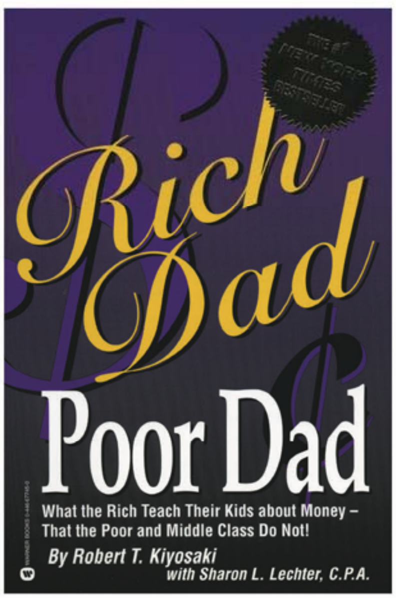
FAIRWAY
Independent Mortgage Corporation

Ken Pederson
Certified Mortgage Planner
CMPS
717-431-9299
kenp@fairwaymc.com
www.FairwayPA.com



Rich Dad's Secrets for Building Wealth

Highlights from Robert Kiyosaki's bestselling book, "Rich Dad, Poor Dad"

Part two in a two-part series

In last month's Mortgage Advisor, we outlined the first three lessons in Robert Kiyosaki's bestselling book, Rich Dad, Poor Dad. Lesson one emphasizes that the rich do not work for money, but instead look for opportunities. Lesson two advises to acquire financial intelligence, which means understanding the difference between true assets and liabilities. And lesson three advises to mind your asset-building business. If you missed last month's Mortgage Advisor, contact us and we will send you a copy.

With these three lessons under your belt, you're ready to proceed to Robert Kiyosaki's final lessons and put your wealth-building plan into action.

Lesson #4: Understand Taxes and the Power of Corporations

Learn about tax loopholes. The rich have been using corporations and 1031 exchanges for decades to keep their taxes to a minimum. A corporation's taxes are lower than those for individuals. By establishing a corporation, individuals can spend pre-tax dollars within the corporation, getting taxed only on their income after "business" expenses like business trips, car payments, insurance, and health club memberships. As part of your wealth-building strategy, Kiyosaki recommends establishing a corporation around your assets.

The 1031 exchange, which is named for Section 1031 of the Internal Revenue code, allows sellers to delay paying taxes on a piece of real estate that's sold for a capital gain through an exchange for a more expensive piece of real estate. As long as you keep trading up, you won't be taxed on the gains until you liquidate.

These loopholes can save tens of thousands of dollars in taxes. Those who don't educate themselves on their benefits are missing out on significant opportunities to grow their asset columns.

Lesson #5: The Rich Invent Money

The rich invent money by creating deals. In order to make money the way the rich do, you must be able to handle risk. It often isn't the smart that become wealthy–it's the bold. Many people who have a lot of money never get ahead financially because they lack the courage to act on opportunities. They wait for the "right" opportunity, but even when the chance of a lifetime comes along, they're too afraid to act on it.

This is where financial intelligence comes into play. Financial intelligence is the ability to recognize opportunities, turn situations around, and act straight away. When a deal doesn't go the way you've planned, financial intelligence will help you shift the situation to your favor. Luck is created, Kiyosaki asserts, just as money is. You must be able to see great opportunities with your mind, not your eyes. Don't take everything at face value. Use your imagination and be bold. The main reason that most people aren't rich is because they're terrified of losing. Those who avoid failure also avoid success.

Learn to find opportunities that everyone else has missed, to raise money in ways other than going to a bank, and to organize and gather a team of intelligent individuals from whom you can get advice. What you know is your greatest wealth, and what you don't know is your greatest risk. There is always risk. If you want to acquire wealth, you must learn to manage risk, rather than to avoid it.

Lesson #6: Work to Learn

The poor work to earn. The rich work to learn. Numerous talented, well-educated, intelligent and hard working people are barely getting by financially. That tells us that building wealth is requires other skills. Kiyosaki asserts that the key to building wealth is acquiring true financial intelligence, which is the combination of knowledge in accounting, investing, marketing and law.

Because our best teacher is experience, the best way to acquire these skills is to get into a position that provides gain practical experience. Instead of working to earn a living, start working to learn. Our schools and workplaces support the popular dogma of specialization, telling us that success requires us to become experts in one area. Several decades ago, people stayed in their jobs for 10, 20 and even 40 years. In today's world, however, people change jobs frequently, which is a great way to build skills. According to Kiyosaki, it's not job stability and specialization that brings success, but rather a composite of management skills gained from practical on-the-job experience.

The top three management skills needed for success are: management of cash flow, management of systems and management of people. The most critical of all specialized skills are sales and marketing capabilities, which encompass the ability to communicate with others; customers, supervisors, employees and family. Communication skills such as writing, speaking and negotiating are critical to success. Working to learn may not pay off in the short term, but it will pay dividends in the long term. Take the focus off earning and put your energy into learning. Seek out opportunities that will give you the opportunity to build your skill set. By understanding the importance of having a wide base of skills, you will be closer to building your wealth empire.

Five Obstacles to Overcome

Some of the most well educated and talented people can become financially literate, only to repeatedly encounter seemingly insurmountable roadblocks. According to Kiyosaki, there are five main obstacles that keep financially literate individuals from developing asset columns that produce abundant cash flow and enable them to live the life of their dreams.

Obstacle #1: Fear

Rich or poor, everyone has a fear of losing money. But losing money is part of the game. The sooner you accept that, the better off you'll be. The primary difference between a rich person and a poor person is the way they handle their fear of losing money. In the words of football great Fran Tarkenton, "Winning means being unafraid to lose." You'll need a winning attitude if you're going to win at building your asset column. Losers avoid failing, but failure turns losers into winners. Winners have guts, patience and a great attitude toward failure.

Obstacle #2: Cynicism

Cynicism and doubt keep most people poor. Cynics allow doubt and fear to close their minds rather than to open their eyes. Instead of investing, they ask questions like: *What if the market crashes? What if I can't pay the money back?* Cynics criticize, but winners analyze. Rather than seizing opportunities in the real estate investment market, cynics give excuses like "I don't want to fix toilets." Are you focused on problems that hold you back or solutions that lead to financial freedom? When presented with a challenge, choose to analyze rather than to criticize.

Obstacle #3: Laziness

Avoiding important issues is laziness in disguise. Kiyosaki's solution for laziness is a little greed. While many people were raised to believe that greed is bad, Kiyosaki asserts that it is a necessary component to building a better life. You have to want things to be better. Instead of feeling guilty for avoiding your wealth-building goals, start thinking about how you'd like things to improve. By adding a little incentive, you'll be more likely to move forward.

Obstacle #4: Habits

Rich Dad established the habit of paying himself first, even before creditors and the government. He knew the pressure from tax collectors and creditors would motivate him into working harder. If he paid himself last, he'd have no pressure and would be content to relax. Paying others first is like letting bill collectors push you around, forcing you to give up your share to satisfy their demands. Paying yourself first is like standing up to the playground bully and not letting anyone take what is yours.

Obstacle #5: Arrogance

Arrogance is ego plus ignorance, and occurs when people think that what they don't know isn't important. Rather than ignoring what you don't know, start learning about the subject. Find an expert in the field, read books or take classes. "What I know makes me money," says Rich Dad. "What I don't know loses me money."

Ten Steps to Success

Finding deals of a lifetime requires you to call on your internal financial genius, which can be developed by taking the following ten steps:

1. Find a reason greater than reality. The journey to building wealth can be daunting. Make sure you find your deep-seated, emotional reasons for taking the journey.
2. Choose daily. Each day, make a choice to be rich. Then follow through with your actions by educating yourself through seminars, books and CDs.
3. Choose friends carefully. This doesn't mean choose your friends based on money. Surround yourself with winners from whom you can learn and grow.
4. Master a formula and keep learning. It's no longer what you know that counts, it's how fast you learn. Information changes quickly these days. Learn and keep learning.
5. Pay yourself first. Establish self-discipline, keep yourself out of large debt and never use your savings or investments when times get tough.
6. Pay your brokers well. Good professionals make money when you make money. Find and pay for the best. Cutting corners will cost you.
7. Get a quick payback. Sophisticated investors always ask how fast they'll get their money back. You should do the same.
8. Assets buy luxuries. Rather than simply buying a luxury item, find out how to acquire assets that cover their cost. Minimize your out of pocket expenses.
9. Find your heroes. In addition to inspiring you, heroes make goals and activities look easy.
10. Teach and give back. Be generous with what you have, whether it's money, knowledge or kindness.

Rich Dad's Formula for Building Wealth

The primary difference between the rich and the poor is that the rich know how money works. They don't work for money–they have money work for them. They acquire financial literacy and mind their wealth-building businesses. They understand the law where taxes and corporations are concerned and invent money by creating investments, rather than waiting for investments to come to them. The rich, unlike the poor, work to learn, rather than working to earn.

Upon learning these principles, it's your choice to enact them. The question is, are you ready to build wealth? ■

Ken Pederson
Certified Mortgage Planner, CMPS
717-431-9299
www.FairwayPA.com
Equal Housing Lender