WHY THE RICH GET RICHER, AND WHAT OWNER MANAGERS CAN DO ABOUT IT

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In their 1997 book *Rich Dad, Poor Dad : What The Rich Teach Their Kids About Money – That The Poor And Middle Class Do Not!*[1] Robert Kyosaki and Sharon Lechter explore why some people end well off financially while others do not. While a significant focus of the book is on education – how we fail to teach money to our children, and why highly educated people do not automatically end up better off – what is of particular interest to owner managers is their definition of "assets" and "wealth". It suggests why some owner managers end up well off, and others do not, and provides guideposts for owner managers who truly are motivated to be well off financially.

Why The Rich Get Richer

To these authors, it is all about appreciating what is and what is not an asset. To them, an "asset" is something which makes you money but which is not dependant on *your* labour. Stocks, bonds and real estate can all be assets. Your car, house and stamp collection are probably not.

Under this definition, your business may not be an "asset". Lawyers, for example, are owner managers, yet their income is dependent on their personal labour. Therefore, even though your business is of value to you, and might even have re-sale value to someone else, it is not an "asset" if you have to be there for the business to make money.

What results from this definition is a different perspective on wealth. You are "wealthy" when the monthly income from your *assets* is greater than your monthly expenses.

This is empowering from several perspectives. It brings into focus how important it is to acquire "assets" if you want to be financially secure. Something these authors think the rich already know but which the poor and middle class do not.

It is also empowering because it means that you do not need a big income from your assets if your monthly expenses are low. It is just as important to manage your monthly expenses as it is to acquire assets.

So what does this have to do with the rich getting richer? Well, once your income you're your "assets" is greater than your monthly expenses, you no longer need to work at producing income in order to live. This frees up a great deal of time. Time you can now spend on studying investments, acquiring more assets, improving your income, and managing your expenses!

The book makes the point that the poor typically have low incomes which are fully consumed on meeting expenses.

The middle class, on the other hand, are generally educated and have high incomes. But rather than acquiring "assets" that meet the definition above, they lever those incomes and incur significant liabilities which satisfy the more traditional definition of assets – houses, cars, furnishings, jewellery, cottages and lifestyle. If the middle class thought like the rich, they would not acquire such things on credit, but would first acquire the "assets" they need to produce the income they need to pay for the better things in life.

Barriers to Success

So why are there not more wealthy people? Kiyosaki and Lechter suggest many reasons.

First of these is lack of education about money. We just do not teach it to young people. And while many people want to be financially secure, they do not take the time to learn about money. Several recent studies and books suggest that the financially secure treat the management of their money and investments as a hobby or second job. They spend at least five to eight hours per week on it, and do not rely on third parties to do their thinking and analysis for them.

On the other hand what we do tend to say about education is simply not conducive to wealth creation. We tell our children that the key to financial security is a good education – and stop there. The impression is created that once you get an education, the money side will take care of itself. While 90% or more of American millionaires have a college education or higher, those who use their education to become wealthy are the exception to the rule.

Kiyosaki and Lechter identify five other factors which prevent people from becoming wealthy:

- Fear. Specifically – fear of losing money. Lots of people never lose a dime because they never invest. Everyone is *afraid* of losing money, and nobody *likes* to lose money. The difference is in how you handle the fear and how you approach risk. Both fear and risk can be managed.

- Cynicism. Yours and other people's. Cynics will never find anything to invest in. Investors manage cynicism, the same way they manage fear and risk. From time to time, they may even take advantage of the cynicism of others.

- Laziness. Understanding and managing money is hard work. And the busier we are in our day to day lives – running or growing our businesses, managing a family or a relationship, finding some "down time" – the easier it is to procrastinate or delegate personal money matters.

- Habits. See all of the above. It is much easier to *not* manage your money than it is to manage it. Once you get into that pattern of living, it is very hard to break out of it.

- Arrogance. "Arrogance plus ego equals ignorance". Arrogance leads to missed opportunities or failed efforts. Both ego and ignorance can and should be managed if personal financial security is important to you.

Lessons For Owner Managers

So what are the lessons for owner managers?

In Chapter Nine of their book Kiyosaki and Lechter give some practical suggestions on how to overcome these barriers and get started (see footnote 2 below).[2]

As an advisor to owner managers, my own thoughts are as follows:

- If you can, turn your business into an "asset" – something that makes money whether you are there working or not. Of course, in order for that to happen you will have to be in a profitable niche; be able pay someone else to manage the day to day management; have a stable, well-trained and well motivate workforce; and have a stable and predictable customer base and revenue stream. It will also force you to develop your leadership skills, and to "let go" enough that you are not in control of everything that is going on to feel comfortable that good things are happening. All of which can only be good for you and your business, whether you actually step back from the business or not.

- If you can not turn your business into an "asset", and even if you can, maximize your business profits and use that money to acquire "assets" outside your business. Restrict your lifestyle expenses, "pay yourself first", and use the surplus funds to acquire stocks, bonds, real estate and other investments which will make money for you even while you are sleeping, on vacation, or running your own business. There is an extra benefit from this. You will reduce your reliance on your business for financial security, which is not only good risk management and financial planning but also will give you the room you need to take risks with your business that you might not otherwise make, which is often exactly what is necessary to get your business to the next level of development.

- Hire good professional advisors and use them. As an owner manager, your primary business advisor should be a good chartered accountant. Right after that should be a good business lawyer and professional financial manager. Use them all, not only for advice about managing your business affairs, but also for advice in how to use your time wisely and to manage your personal finances.

- Commit to life long learning when it comes to money management. No matter how much you think you know about business and money, commit to learning more, from diverse sources. Make it a weekly passion. Just when you think you know it all is when you will probably make your biggest mistakes. And if the chance arises, teach what you learn to others. You can not teach something well unless you have learned it well yourself.

A Closing Thought

In their book, Kiyosaki and Lechter suggest that the three most important management skills necessary to start your own business are:

- management of cash flow
- management of people
- management of personal time.

Together with a healthy dose of self-discipline.

It is not by coincidence that these are the same management skills needed to take advantage of your business profits to maximize your personal wealth.

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[1] Kyosaki, Robert T. and Lechter, Sharon L., CPA; *Rich Dad, Poor Dad : What The Rich Teach Their Kids About Money – That The Poor And Middle Class Do Not!,* Warner Business Books, New York (1997).

[2] In Chapter Nine of their book, Kiyosaki and Lechter give some practical suggestions on how to overcome these barriers and get started:

- "I need a reason greater than reality." The reality is that acquiring financial security requires effort, patience and sacrifice. There are no quick fixes. It a long term emotional commitment.

- "I choose daily." We must manage our spending habits, and the daily choices we make. The power of choice is exercised daily, and must be exercised with the end game in mind.

- "Choose friends carefully." It is not about choosing rich friends. It is about choosing friends who share your values, and who you can learn from. And if you have friends who have done better than you have financially, ask them how they did it.

- "Master a formula then learn a new one." You become what you study. Be careful what you study and learn. If you want to learn about money, find one formula that others use that is proven to work, learn it well, and put it into practise. Once you have mastered it, find another one and do the same thing.

- "Pay yourself first." If you can not control yourself you will not get financial security. You need self-discipline. Put money for investment in your monthly budget, and pay that before you pay anything else. You can always live on what's left over. In most cases, millions of people probably are.

- "Pay your brokers well." That includes your accountant and attorney (heh, this is their advice, not mine!). Good advisors will give you good advice and take the time to educate you.

- "Insist on getting your money back." There is a difference between return OF investment and return ON investment. Sophisticated investors appreciate the difference. Their first question is "How quickly do I get my money back?" Then they want to know what they "get for free", what their piece of the action is.

- "Assets buy luxuries." Do not borrow money to buy luxuries. Do not postpone setting money aside for investment in order to buy luxuries. Do not sell assets to buy luxuries. Use the cash flow from your assets to buy luxuries.

- <u>"The need for heroes."</u> Follow the careers of the infamous investors. Study what works and does not work for them. Have financial heroes, as well as sports, arts, political or other personal heroes.

- <u>"Teach and you shall receive."</u> Believe in reciprocity. If you give, teach and help, it will come back to you, in financial and non-financial ways. And in order to be a good teacher, you have to learn the subject well yourself first. Be generous with what you have, and the world will be generous back to you, sometimes in unexpected ways.