THE NEW RULES OF MONEY

by Robert Kiyosaki

In 1971, the rules of money changed. In 1971, President Richard Nixon took the U.S. dollar off the gold standard. Today, 37 years later, the U.S. dollar has become toxic as it falls rapidly in value. Recently, *The Economist* called the dollar's fall "the biggest default in history," exceeding those of any emerging market catastrophe. Today the rich get richer as the financial resources of America's poor and middle class are wiped out. Unfortunately, the poor and middle class have no idea the rules of money have changed.

One definition of the word intelligent is: if you agree with me, you are intelligent. If you disagree with me, you are a moron. In my opinion, Steve Forbes is a very intelligent man. It was an honor to be interviewed with him on the economy during the Forbes.com iconference.

As a bonus, in conjunction with that iconference, I offer my views on the New Rules of Money. Before discussing the new rules, I think it's important that I cover the old rules.

THE OLD RULES:

1. **Go to school so you can get a safe, secure job**. During my dad's time, people did this. They went to school, got a job, and stayed with the company until they retired. Today, we all know that job security is a myth, especially as jobs are exported. Billions of people in the third world enter the global market competing for your job at a lower wage, and technology wipes out companies that do not stay competitive. Today, rather than having a job for life, those born after 1970 will probably have four to seven jobs in their lifetime.

2. **Work hard, climb the ladder, and earn more money**. The problem with working hard as an employee is the tax laws are written against employees. The more money an employee makes, the higher the percentage in taxes the government takes.

   Most of us have heard Warren Buffett say that he thought it unfair that he pays a lower percentage in taxes than his secretary.

3. **Save money.** Savers are losers, especially if you are saving U.S. dollars. Since 1971, the U.S. has been able to print money faster than the country earns it. This causes the value of savings to erode as prices increase. Adolf Hitler was elected Chancellor of Germany after the middle class had their savings wiped out due to hyperinflation. Stalin and Mao also rose to power when the previous leaders devalued their money.

4. **Get out of debt.** Because the value of the U.S. dollar is falling rapidly, it is important to know the difference between good debt and bad debt. Unfortunately, even the U.S. banks are loaded with bad debt, a.k.a. subprime debt. If you want to become wealthy in a subprime world, it is important to know how to use good debt to offset the falling value of the U.S. dollar. If they are smart, debtors can be winners.

5. **Invest in a well-diversified portfolio of mutual funds through your company's 401(k).** First of all, Warren Buffett does not diversify. He says, "Diversification is for people who do not know what they are doing." Second of all, John Bogle, founder of The Vanguard Group and one of the more brilliant minds in investing today, says that mutual fund companies have been ripping investors off. He states that investors in mutual funds put up 100% of the capital, absorb 100% of the risk, and receive only 20% of the rewards. The 80% in investor gains goes to the mutual fund company. On top of that, the *Wall Street Journal* called the last ten years "the lost decade" because there have been no real profits in stocks for the past ten years.

THE NEW RULES:

1. **Keep your daytime job but start a part-time business.** In other words, become an entrepreneur at home. Not only will you learn a lot, but the tax rules of the rich swing to your favor. If your business grows and can replace the income from your job, you may be ready to spread your wings and fly. As you may know, the richest people on earth are entrepreneurs who invest in real estate.

2. **Become an entrepreneur.** The world's most successful entrepreneurs did not go to school nor did they climb the corporate ladder. Many of the most famous entrepreneurs did not do well in school. Some of them are: Henry Ford, founder of Ford Motor Company. Ford could use the old man today. Thomas Edison, the founder of General Electric, was called "addled" by his teachers. Others include Bill Gates of Microsoft, Michael Dell of Dell Computers, Steve Jobs of Apple, Richard Branson of Virgin.

   Today, for a country to remain competitive, we need more entrepreneurs and fewer employees. With more entrepreneurs and fewer employees, wages could go back up. Unfortunately, most parents still say to their kids, "Go to school so you can get a job." In other words, many people and our schools program kids to be employees – rather than entrepreneurs.

3. **Hedge your money.** Instead of saving money, keep your money liquid in assets that increase in value as the dollar drops in value. Personally, I keep my liquidity in gold and silver ETFs. I buy every time the price of gold or silver goes down. Today, as I write, I believe gold is a good price under $1000 and silver a bargain at under $25. If I need cash in a hurry, I sell my gold or silver ETFs.

4. **Use debt as leverage.** I am deeply in debt… good debt. I use debt to make me richer. I could pay off my home, but my effective interest is only 6%. As long as I can earn a 15% or higher return on my money, I'll

invest my money rather than pay off debt.

If you are a professional investor, a 50% to an infinite return on your money is possible. If you would like to find out how I achieve an infinite return, read my latest book, *Rich Dad's Increase Your Financial IQ*.

One reason I do not diversify is because diversification is like going to the racetrack and betting on every horse. The only way you win by diversifying at the racetrack is if the dark horse wins. I would prefer to focus and pick winners. One myth in investing is that higher returns require higher risks. That is a huge myth. As Buffett says, "Risk comes from not knowing what you are doing."

5. **Know the difference between salespeople and rich people.** One of the reasons so many people are in trouble financially today is because they get their financial advice from sales people. Today, I cringe whenever I hear so-called investment gurus, who are really sales people, recommending the old rules of money. As Warren Buffett says, "Wall Street is the only place that people ride to in a Rolls Royce to get advice from those who take the subway."

   Steve Forbes is a rich person who knows what he is talking about. His column in *Forbes* magazine, *Fact and Comment*, is a column I look forward to every month. If you want to grow rich – and stay rich – investing a few moments with Mr. Forbes is a priceless investment of your time.

A FINAL CHILLING THOUGHT

Here are some closing thoughts from Craig Karmin's *Biography of the Dollar: How the Mighty Buck Conquered the World and Why It's Under Siege:*

> In 2005, U.S. interest payments on foreign debt topped the $100 billion mark for the first time – coming in at $114 billion dollars. That breaks down to $310 million per day, according to Joseph Quinlan, Bank of America's chief market strategist. This equates to more than $1 million per day for every man,

woman, and child in America. Not only is America addicted to foreign oil, America is addicted to foreign capital. This is not healthy, wealthy, or wise.

It will not make much difference who is elected as president or if we raise or lower taxes if America, as a subprime nation, does not stop living on borrowed money. At the risk of being redundant: This is not healthy, wealthy, or wise.