Cashflow Quadrant: Rich Dad's Guide to Financial Freedom

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INTRODUCTION

Kiyosaki's book is divided into three parts and comes in 251 pages. The book is packed with the mental, emotional and educational processes that Kiyosaki learned from his rich dad and his poor dad. In part one of this book, he writes about the major differences between people in each of the four quadrants. He explains why some people are comfortable in a certain quadrant while some others are stuck within a certain quadrant without even realizing it. Why has security become more important than freedom? Hence, the book brings greater clarity as to which quadrant we are in today and where we want to be or should be in the next five years. Part two of the book is about personal change. It is about "who you are today" and "who will you be in the future?" Why must one change one's pattern of thinking, which is often so hard to do? Part three talks about the steps one can take on to move to the right side of the quadrant.

I found the book to be inspiring and an excellent guide to move away from being caught in the "rat race". Most of us today have been caught up in the "rat race" of being the fastest and strongest without knowing what we should be doing to achieve financial freedom. He goes on to explain more about the four cashflow quadrants which he had elaborated in his first *Rich Dad Poor Dad* book.

The four cashflow quadrants are E (Employee), S (Self Employed), B (Business Owner) and I (Investor). E and

E	B
S	I

S are on the left side of the quadrant whereas B and I are on the right side of the quadrant. The book guides readers on the why and how one must and can move from the left side of the quadrant to the right side of the quadrant to achieve financial freedom, which will allow us to do what we truly love.

THE CASHFLOW QUADRANT

For those who have not read *Rich Dad Poor Dad*, it was about the different lessons Kiyosaki learned from his two dads on the subject of money and choices in life. One of his dads was a school dropout but was highly successful and the other was highly educated but poor. What were their choices in life? What was their perception of money? What made one rich and the other poor? One was looking for job security and the other was other willing to take risk...why? All these choices will determine one's destiny not only in achieving financial freedom but also in becoming the person one really wants to become someday.

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What happens to most people is that as their income increases, their work load and level of stress also increase. Therefore, although they become financially more successful, they don't have time to enjoy the things they have always wanted to enjoy. As we grow older, we must become financially free and that is the reason why Kiyosaki preaches that one must move from the E and S quadrants (left side) to the B and I quadrants (right side). Almost 98% of people are on the left side of the quadrant. The sad thing is not that a large percentage of people are in the left side of the quadrant but that that many people continue to stay in the same quadrant all their life.

LEFT QUADRANT: E (EMPLOYEES) - YOU HAVE A JOB

The Employee quadrant is the largest among the four quadrants. Most people are stuck in this quadrant for too long. Job security and a steady stream of income may be the driving factor why people tend to stay in this quadrant. People in the E quadrant make money for those in the B and S quadrants. They also tend to work harder and longer to make money for them. As a result, they usually end up not having enough time for family, leisure and not caring about their health. The feeling of job security and employment benefits will keep them where they are for a long time. Although this is a difficult quadrant, a person in this quadrant too can become a successful B or I while they are in the E Quadrant. However, a mindset overhaul is required to get them change their thinking pattern.

LEFT QUADRANT: S (SELF EMPLOYED) - YOU OWN A JOB

Kiyosaki calls this group of people the "do-it-yourselfers". Most self-employed people are people with small businesses. They would to like to have some control over the income they can earn. They know the harder they work the more they can earn. Many professionals such as lawyers and doctors fall into this category. People in this category are also caught up with time as they are constantly seeking more time all their life to make more money. I think that this is probably the most dangerous quadrant to be in as people in this quadrant are neither in business nor in employment. They are a mixture of the E and the S quadrants. They may earn a good income and may also get a taste of achievement and success but not financial freedom. This is simply because most people in this quadrant are drowned with work as their position has become irreplaceable. They don't think of building a system to leverage on time and effort.

RIGHT QUADRANT: B (BUSINESS) - YOU OWN A SYSTEM AND PEOPLE WORK FOR YOU.

This group of people are almost the opposite of those in the S quadrant. They create systems and make the systems work for them. Some small businesses and almost all large businesses fall within this category. They are also more willing to hire people and delegate all their work unlike those in the S quadrant who like to do it themselves. As a result of having proper systems in place, they may not be involved actively in the business, which in return gives them the time to focus on other things in life. People in this quadrant have the highest success rate of moving to the I quadrant.

RIGHT QUADRANT: I (INVESTORS) - MONEY WORKS FOR YOU.

People in this group are people who have achieved financial freedom. Investors use money to make money and they don't have to work as their money works for them. One can be in any quadrant (E, S or B) at this very moment but one ultimately must make plans to move to the I quadrant (Investor). Kiyosaki further elaborates that the difference between the poor and rich is what they do during their spare time. This allows them to leverage on time to focus on the things that are more precious or valuable such as family, leisure even personal development. This is the very difference between the rich and the poor, which is so evident. It is about how much time you have with you without you worrying about having to work to find the income.

According to Kiyosaki, there are 7 levels of investors:

Level 0: Those with nothing to invest

Level 1: Borrowers

Level 2: Savers

Level 3: "Smart" Investors

Level 4: Long-term Investors

Level 5: Sophisticated Investors

Level 6: Capitalists

The most important question the reader must ask after reading about the 7 levels of investors is "Where am I now?" or What level of investor am I now? If you are in Level 1, 2 or 3, you have to get to work and review your position and goals. People in these levels must also totally revamp their mindset and habits to move and become a higher level of investor. Although this part of the book is very interesting, there are not many guidelines and methods as to how one can move to be a higher level of investor.

In part two of the book, Kiyosaki writes more about self-development, character and attitude building to become a successful investor. In my opinion this part is written well and inspiring although it does not talk too much about financial education that is required for one to move into the next quadrant. Most of the content is about "what you can become" and not about "how you can become". The notions of Other People's Time (OPT) and Other People's Money (OPM) are again expressed in this book as in the *Rich Dad Poor Dad* book. Although those concepts look exciting on paper, they may be a little challenging to execute in a real life situation. This is primarily because of the difference in the financial systems of countries. Some of his thoughts and ideas may be not applicable in the Malaysian financial system.

In the third part of the book he writes about how one can become a successful B (Business) and I (Investor). This part of the book is very well written and exciting to read but again there is limited information on 'the real how-to". He writes about the "The 7 Steps to Finding Your Financial Fast Track". All the 7 steps are very much based on the core values of successful investors, like knowledge, skill, attitude and habits.

STEP 1: IT'S TIME TO MIND YOUR OWN BUSINESS:
Generally people become programmed in the way they have been brought up and the environment they live in. Therefore, traditionally, people find a good secure job and stay there comfortably for a long period of time. During this period they breach some basic fundamentals of moving to the next quadrant. They stay as employees and debtors too long; they consume more and they also pay too much in taxes. Therefore, they need to strategise and start planning how they can move to the next level rather than stay fixed in the E quadrant. They need to start to take action and set clear financial goals. The ultimate purpose should be the creation of passive income, more than what is required to maintain your desired standard of living.

STEP 2: TAKE CONTROL OF YOUR CASH FLOW:
Investors need to understand the difference between good debts and bad debts. Credits card balances and having invested in depreciating assets that are not producing income are some examples of bad debt. Such bad debts will halt our cash flow and will bring about financial deadlock if we allow it to grow.

STEP 3: KNOW THE DIFFERENCE BETWEEN RISK AND RISKY:
Kiyosaki writes that people always say "Investing is risky". It is not that investment is risky; it is their financial literacy level that makes it so. Financial literacy will allow the investor to make better decisions and understand the risk he or she is taking. The question is "Are you just taking risk or are you taking calculated risk"? Hence, to calculate a particular risk we need to equip ourselves with sufficient knowledge and information. Although we understand that risk cannot be totally eradicated, with sufficient knowledge, it can be minimised. Understanding risks gives us more choices in a variety of investment options.

STEP 4: DECIDE WHAT KIND OF INVESTOR YOU WANT TO BE:
Assessing and understanding your current position is of utmost importance in deciding to move to the next quadrant and even in becoming the next level of investor. Time is always a key component for most investment vehicles to grow. Investors are more at risk if they don't make decisions fast to learn, improve and keep up to date with market conditions. Being financially illiterate is more risky than the investment itself.

STEP 5: SEEK MENTORS:
Seek Mentors: Kiyosaki had two mentors (Rich Dad and Poor Dad) and both taught him valuable lessons in life and investing. Having mentors who have successfully made it into quadrants B and I will make a great deal of difference in the journey to financial freedom. We need to list a few mentors who can not only guide us but also help us to stay away from temptations.

STEP 6: MAKE DISAPPOINTMENTS YOUR STRENGTH:

At the beginning of these seven steps, he alerts beginners to take "baby steps" in making this journey to financial freedom successful. There will be difficult moments along the way. He says investors have to expect it, recognise it, learn from it and develop strength to become better and stronger. Go back to step 5 to get advice from your mentors. There is a sentence in the book which I liked the most and it is: "The size of your success is measured by the strength of your desire, the size of your dream, and how you handle disappointment along the way".

STEP 7: THE POWER OF FAITH:

His final words in this book are some words of wisdom and encouragement for investors to work on moving towards financial freedom. In order to do this, investors have to firstly believe in themselves and that it is possible for anyone to achieve financial freedom, no matter in whichever quadrant they may be right now in their lives. We must have faith in all the calculated decisions made. Our thoughts and beliefs are reflections of what to expect in the future.

CONCLUSION

In conclusion, Kiyosaki's book is not only excellent reading material but it is also an inspirational guide to achieve financial freedom. Many people have always wondered why some work less but earn more and are financially more secure than others. The answers to this question lies this complete guide to financial freedom. It is a book recommended for people who are ready to move beyond job security, people who are ready to make professional and financial changes to achieve the ultimate destiny of financial freedom. It provokes the thinking of those who spend lavishly on assets that will depreciate and those who consume more and more of what they earn to satisfy their current living standard.

Although many ideas are a repetition of what can be found in his earlier book (Rich Dad Poor Dad), his writing has inspired me to plan and create passive cash flow for the future. Making progress to achieve your financial freedom is like running a marathon. You may not be the leader of the race now but you are sure to win the gold medal at the end of the race. While you run the race, many may give you the impression of their financial freedom. This may even create temptations to throw you off-track. During these moments, true financial freedom seekers will stay focussed on their race as they have greater clarity of their financial freedom destiny. The book will definitely be a great source of inspiration and information and be an eye opener to all, from high school students to employees, professionals, entrepreneurs and even investors. ■