The ENGINEERING CAREER COACH PODCAST
SESSION #65
Personal Finance for Engineers

Show notes at: engineeringcareercoach.com/richdad

Episode Intro: This is ***The Engineering Career Coach Podcast***, the only podcast dedicated to helping engineers succeed in work and life. This show is hosted by engineering enthusiasts, Anthony Fasano and Chris Knutson. Both are professional engineers who found success early in their careers and now work together to help other engineers do the same. Now, it's show time!

Anthony: Hello! This is Anthony Fasano and this is the show for engineers who want to succeed in both work and life. If you have listened to the show before, you know that I believe that it is up to you to engineer your own success in your career and that's exactly what we try help you do through this show. In today's episode, I'm going to discuss more of a personal topic rather than careers, since we do like to focus on both work and life here. I wanted to tackle this topic because it's one that I haven't paid a lot of attention to in my own life until recently and that is personal finance.

Okay, when I was an engineer, practicing engineer, like most engineers that I know and went to work, worked on projects, worked late off and came home, eat dinner, sit on the couch, watch TV, went to bed, woke up, repeat, repeat, repeat; luckily I did invest in some real estate so I have a couple of properties which probably will be a whole other episode we will do on real estate. But, I never really focused on building wealth and really thinking about future planning, short term, long term.

And so, it's something that recently, I really started focusing on. I've read a lot of books in the past six months and listened to a lot of podcasts like *The Investor's podcast*, the podcast called *Rich Dad* by Robert Kiyosaki and that's what I'm going to focus on today is I'm going to focus on doing a book summary of the book*, Rich Dad, Poor Dad* by Robert Kiyosaki.

It's one of those books that's really, to me, I consider it to be a life-changing book. It was one of the wow-books and I'm just going to dig into this today a little bit and go over the six lessons that he talked about in the book in hopes that somehow, whether you're an engineer or not, somehow you can implement some of these steps into your life to be more cognizant of your personal finance. Maybe be able to build some wealth beyond just taking a paying check every day and converting that into paying expenses. Alright. Again, the book blew me away. I'm going to dig into it in this episode. Before we get in into the main segment of the show though, I'd like to take a moment to recognize our sponsor for today's episode.

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Alright, now I want to give you a quote related to today's topic actually by the author of the book, Robert Kiyosaki and the quote goes as follows: "Intelligence solves problems and produces money. Money without financial intelligence is money soon gone."

Coaching Segment:

Anthony: Alright. So, this is the first time on the show that I'm really going to summarize a book and this might be something that Christian, my co-host and I do a little bit more going forward because we do read a lot of books and we post summaries inside of our community for engineers, which you can check out at engineeringcareerdevelopment.com.

So, let's dive in here to the book review on *Rich Dad, Poor Dad*. The show notes for this show will be at www.teccpodcast.com. Look for Episode 65. That's teccpodcast.com. The show notes will contain a summary of the points that's I'm going to discuss in the book as well as the links to any other resources, websites or books that I might mention during the show. And again, the show notes will be at teccpodcast.com. Look for Episode 65.

Alright. So, the book Rich Dad, Poor Dad, just in general kind of to give you an overview, is the story of this man Robert Kiyosaki. He narrates the book, if you have the audio book, which I have, which is great. He has "two fathers". The first father was his biological father, who he considers the poor dad, who is essentially a professor who had a job in education for most of his life. And the other dad was rich dad, who was the father of his childhood best friend. Both of the fathers tried to teach him how to achieve success but with very different approaches. And it became pretty evident throughout the book and to him that the rich dad's approach made a lot more financial sense. And so throughout the book, he compares the two principles, ideas, values of financial strategies of both different dads and gives a lot of stories throughout. And essentially, he goes over six lessons in the book which is what I'm going to work through.

The first lesson is the rich don't work for money. The second lesson is the importance of financial literacy. The third is minding your own business. The fourth is taxes and corporations. The fifth is the rich invent money and the sixth is the need to work to learn and not to work for money.
You know, I often talk about doing what you're passionate about, not just trying to work for money and not just following the money. I believe in that.

But, I also think at the end of the day, building wealth is important because you want to take what you're doing. You want to take any money that you are earning and you want to build it so that for future generations, your kids, grandchildren, etc, they can have some, I don't want to say luxuries but, they can have some money that they can use for different things, whatever the case may be. Maybe it's going to give them better experiences. Maybe they are able to get better education, whatever the case may be. So, I think that's important. That's one thing that people tend to discount too much.

Alright, so lesson number one. Let's jump right in here. The rich don't work for money. So, what Kiyosaki focuses on in this lesson is he says there is basically two main emotions which prevent people from building wealth and those emotions are fear and desire. Some of the fears might be fear of not being able to pay monthly expenses, fear of losing your money that might keep you locked into a 9-to-5 job whether you like it or not and by doing that, that prevents you from being able to evaluate other investment opportunities and other sources of income.

And then desire, you might have desire to own certain things, you know, buy expensive luxurious things, homes, cars, apartments; that's another emotion that prevents people from building wealth for obvious reasons. They have to stay in a job that's not fulfilling, that's long hours, that's not a lot of pay, just in order to pay those expenses. So, in the first lesson, he focuses along understanding those two emotions of fear and desire and trying to stop them from prohibiting your financial success. His rich dad was more focused on creating passive residual income, money that came to him at all times. He didn't have to necessarily wait for pay raise whereas his poor dad was locked into a job as an educator and if he got a raise, he got a raise. If he didn't, he wasn't getting any more money through any other avenues.

He also gave an interesting story around this lesson of the book, is his rich dad gave him a job, working for him for about 10 cents an hour. And at one point he said, "I'm going to deduct your salary. I'm going to give you a lower salary to zero dollars. I'm not going to pay you for the next few months." And he was upset with it, okay. But ultimately, he realized that he needed the education from the rich dad so he was going to do whatever he had to do to stay with him.

And so, what he and his friend did was they found a woman who was throwing out comic books. They took the comic books. They started a "comic book library" in their basement and they charged people to come in, they pay kind of like a membership fee. They could come in as much as they want and read as long as they wanted to. And the point of the lesson was that, they found a way to create money and we'll talk about that a little bit more later, but they found a way to create money because they got a reduction in their salary. So, they had to be entrepreneurial. So, the essential bottom line of the lesson: one is that, you want your assets to grow on their own without you. That's what rich dad consider financial freedom. And it's not necessarily about how much money you make. It's about how much money you keep. That's for lesson number one.

Lesson number two, learning financial literacy. Kiyosaki said that having this financial literacy is the key to having any kind of success with money. And you know financial literacy is pretty much the ability to manage your own finances and then understand the basics of what finances are. Cash flow, different income levels; he gives a couple of really key terms during this lesson. He talks about income, which is the amount of money that you earn, which is your wages, salaries. He talks about expenses, which are things like taxes, food, rent, leisure, clothing, household items, etc. He talks about assets and asset is something that puts money into your pocket. That's his definition. It puts money into your pocket, stocks, bonds, investments, could be real estate investments. And then a liability is anything that takes money out of your pocket. It could be your own home mortgage, other loans, credit card debts, etc.

So, this is a huge aspect of the book because essentially, what he tells everyone is that you must build assets. He basically says that the key to financial freedom is to knowing the difference between an asset and a liability and to buy assets, to build assets. He said this is the only rule that you need to know if you want to get rich because essentially, people that are wealthy, they live off the returns from their assets and their investments. While someone who is not financially well off is typically using the majority of his/her wages to pay for expenses, someone who is wealthy is increasing their assets with any money that they have and then that's going too build that residual income. The more assets you obtain, the higher your cash flow will be. And if you keep your expenses low, that's where you're going to start to build wealth.

So, instead of getting your bonus at the end of the year and you go and spend it on a vacation or an addition on your existing home or some new carpets on your floor on an existing home, maybe you put a down payment in a small condo, that's a rental property. Or maybe you invest it into a small cap stock that looks promising. Alright. Kiyosaki says in the book, the rich has assets, the poor have expenses and the middle class buy liabilities is that they think are assets. He says it's your home. You buy a home when you're usually young and get married and then that sucks out so much of your money, as in you're keeping up with your mortgage payments, keeping up with repairs, with taxes, all that stuff. He recommends renting, and then taking that money and investing in real estate properties or stocks and bonds. That's a whole of the discussion but that came out as a lesson.

Alright, lesson number three: mind your own business. As mentioned in the previous lesson, lesson number two, he talks about focusing on your asset account. Building the size of your investments rather than just waiting for someone to give you a pay raise or a bonus. This means that you have to keep your expenses as low as possible and reduce any of your liabilities that you have. So, how can you do that? Think about it. How can you reduce expenses? Can you cut things out and then take the savings and invest? That's what you should think about.

So, he classifies a business where you don't have to be present as an asset. A job is not an asset because you have to be there all day. He typically invested in small companies with a plan in being out of the stock in a year and his real estate strategy was to start small to build out to bigger properties so then he would avoid paying taxes when he sold the smaller properties. He used something called the 1031 IRS exchange. He typically hold his real estate properties for about seven years and he thinks of every dollar that he puts into his asset because he says the money will work for you. Rich people buy luxuries last. The poor and middle class tend to buy luxuries first. Think about that statement.

So, the lessons called mind your business is lesson number three because what he says is have a side business, whatever that is. You could do engineering, right? Have a couple of real estate properties on the side. Have a couple of stocks that you manage. That could be considered a business. Or maybe you have another business, an online business where you are earning some revenue or a shopping cart online where you sell some products. I've talked to some engineers that do that.

So, the bottom line is, if you rely only on your paycheck, the odds of you building wealth are very slim. He told an interesting story about the McDonalds CEO who went and gave a talk at one of the local colleges in Texas somewhere. And he went out with some of the students to a bar, having a few drinks and he said, "What is my main business?" And they said to him, "Hamburgers." And he laughed and he said, "That's what everybody thinks it is. But, my main business is real estate and McDonalds at the time was one of the biggest holders of real estate in the world. And that's where they had a lot of wealth."

Alright, lesson four: the history and the power of the corporation. In this lesson, Kiyosaki focuses on the idea of having corporations, that the wealthy use corporations to avoid a lot of taxes. And one of the things that I took out of this book is the amount of information on reducing your tax liability is tremendous and nobody knows anything about it. The average person knows nothing about reducing their tax liability. So, he gave some lessons about this. And listen, this is all the old stuff. There is a lot of ways you could reduce your tax liability on a positive way.

So, for example, what he does is he has corporations for everything he does, whether it's real estate investing, investing in stocks; he invest through the company. And what that allows to do, I'll give you a perfect example for you right here, he's saying that the wealthy people who owns corporations, this is their order of operations. Number one, they earn money. Number two, they spend money on their expenses as their corporation expense or as their business expense, and then whatever's that's left, they pay taxes on it. People who work for corporations, they earn their money. Your paycheck comes. You're paying taxes on your paycheck, the money comes out of it, and then you go and spend that on expenses.

So, with the corporation, you're able to reduce your tax liability. So, if you had your own company, I suppose an engineering company, directly you will be able to reduce your tax liability potentially. You know, I'm not telling everyone to go quit their job and start an engineering company but the point is, maybe if you have a side business, you can incorporate it and reduce some of your tax liability. And the stat that really, really blew me away in the book was that the average American today, this was at the time of the book, the average American today woks five to six months per year just to pay the government taxes, which is just nuts. You think about it. What comes out of your paycheck?

Lesson five: the rich invent money. The idea behind this lesson is that not only does it take financial intelligence to build wealth, but it takes some probate. You got to be willing to take some risk and what holds a lot of people back is the lack of confidence in themselves and you need that confidence to build wealth because it's going to mean investing your money outside of a comfortable area. It's not just going to be putting some money in a forum or paycheck. I know that seems as insecure as well as opening up a bank account. It's not necessarily worthwhile based on the rates, based on inflation, based on all the technical details.

Kiyosaki really falls the logic that if you want to see your investments grow at an exponential rate, you are going to have to put money in a place that shows some risk. Like I said before, he invested in a lot of small cap stocks but real estate was really his foundation. He was really interested in focusing on simple and straightforward investments and simple business opportunities. For example, for his real estate, he always use the management company. To manage real estates, we would have to get involved in changing toilet seats and enact it into his expenses. The greater your financial intelligence, the easier it's going to be to tell if the deal is good or if the deal is not good, by buying your stock, buying your property. So, the rich or the wealthy, they have the guts that it takes to build wealth. That's the essence of lesson five.

And the final lesson in the book that he went over is lesson six, which was work to learn, don't work for money. So, he talks about the acronym for his job being just over broke. Often times, you can get into a job and you stay there for a long time because it's secure. What he says in the book is a lot of wealthy, they use jobs as learning opportunities to develop the other skills that they need to be successful. He said that you should use your job to develop three key skills: the management of cash flow to understand the assets and liabilities, the management of systems and your basic economic theory in politics, and the management of people. And if you can learn these major skills sets, he said you will be on the way to financial freedom.

So, I know what you're thinking. How am I going to learn about cash flow and systems in an engineering company? Maybe you're not, like for example for me, I bought the book recently called *Reading Financial Statements for Dummies*. I just started reading it because I wanted to learn about this stuff. I wanted to start to figure out how maybe there is a way that I could build some wealth. Remember, wealth is not just having some money in the bank right now. It's about having long term money. It's about having that residual passive type of income that can come to you.

So, that's the summary of the book. I mean, at the end of the day, the story that I took away from it is what he says. I'll summarize with this is, typically in America, people do the following. They get a college degree and then they have a lot of loans to pay off there. They graduate from college. They typically meet somebody. They get married. Spend a lot of money on a big wedding. Then, they buy a house. It's a huge expense and maybe, they buy a car. It's another huge expense. They settle into routine and go into work every day, taking their paychecks and paying off those expenses. And in essence, they are building zero wealth. They are living paycheck to paycheck. Whereas, another alternative might be, you stay home with your parents for a few years to build some wealth. And then, you go and rent an apartment that's small, take the money that you're earning through a job and buy a couple of real estate properties and invest in a couple of stocks; then you're building wealth.

They may not always be the sexiest way to go if you're living with your parents until you're 30 or something like that, whatever the case may be. But, I'm just giving you an example of how you could build wealth. And again, I'm not a financial advisor in any shape or form. I'm just an engineer trying to learn a little more about finance, but I picked up a lot on this book and I wanted to share these lessons with you. So, I hope that they were enjoyable for you and now, I am going to jump over to the Take Action Today segment of the show. I'm just going to give you one simple thing that you might be able to try to improve your finances in the near term.

Take Action Today segment:

Anthony: Alright. So now, it's time for the Take Action today segment of the show where I'm going to give you an actionable piece of advice about personal finance. But, before we do that, let me just give you a brief word from today's episode sponsor and I just want to say, the sponsors help us to keep the show free for you so I'm always grateful to the sponsors. Here is a word from today's sponsor, PPI.

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Alright. So, the piece of advice I'm going to give you is another one from the book that Kiyosaki gives. It was very interesting to me, this piece of advice and it really kind of woke me up when I was listening to the book. He said, pay yourself first. Pay yourself first. So, what I mean by that is everyone gets a paycheck. They pay the expenses. They pay the forum. They do all this stuff. At the end of the day, there is no money left. There is no money left for that investment, there is no money left to build wealth. What he said him and his wife used to do was they pay themselves first. And sometimes, they won't even pay some of their bills, which I understand is dangerous, but you always pay yourself first into some kind of account that he used to build wealth and make investments.

So, maybe the simple way to do it is to create an account. You can call up your bank and create a separate account. Call it the occasion account or call it an investment account so that you are not driven towards spending expenses. But, keep this investment account and you can invest $50 a week in it or $100 a week in it and then after a couple of years, maybe have five or ten thousand dollars. Maybe that's enough to put in to some kind of a stock or in some kind of an asset or an intellectual property or pattern or something that can build income and build wealth. So, that's kind of your assignment for this podcast is to think about ways that you could pay yourself every week in a positive way that will allow you to build some wealth.

I know this episode was a little different. I hope you enjoyed it. If you liked it, please let me know. Shoot me an email or if you get my weekly newsletter, just reply to it and let me know because I'm thinking about doing something similar on real estate because I own a couple of properties and I know a couple of other people that do. We can have them on the show and talk about them a little bit. So, if you want to get a summary or a recap of the six lessons that I went over here from *Rich Dad, Poor Dad*, you can go engineeringcareercoach.com/richdad. That's engineeringcareercoach.com/richdad or just look for Episode 65. I'll monitor all the comments on the show notes and if you leave any comments, I'll respond to you. Until next time, please continue to engineer your own success.

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