Conspiracy of the Rich

The 8 New Rules of Money

by Robert Kiyosaki

Introduction – The Root of All Evil

The Root of All Evil

Is *the love of money* the root of all evil? Or, is *the ignorance of money* the root of all evil?

What did you learn about money in school? Have you ever wondered why our school systems do not teach us much—if anything—about money? Is the lack of financial education in our schools simply an oversight by our educational leaders? Or is it part of a larger conspiracy?

Regardless, whether we are rich or poor, educated or uneducated, child or adult, retired or working, we all use money. Like it or not, money has a tremendous impact on our lives in today's world. To omit the subject of money from our educational system is cruel and unconscionable.

> **Robert's Note:** Tell me about the level of financial education including in your schooling and note what part of the country or the world in which you attended school. Does anyone think there are schools out there which are actually doing a good job teaching this incredibly important subject to its students? **Let's Discuss ▶**

Changing the Rules of Money

In 1971, President Richard Nixon changed the rules of money: Without the approval of Congress, he severed the U.S. dollar's relationship with gold. He made this unilateral decision during a quietly held two-day meeting on Minot Island in Maine, without consulting his State Department or the international monetary system.

President Nixon changed the rules because foreign countries being paid in U.S. dollars grew skeptical because the U.S. Treasury was printing more and more money to cover our debts, and they began exchanging their dollars directly for gold in earnest, depleting most of the U.S. gold reserves. The vault was being emptied because the government was importing more than it was exporting and because of the costly Vietnam War. As our economy grew, we were also importing more and more oil.

In everyday terms, America was going bankrupt. We were spending more than we earned. The United States could not pay its bills—as long as our bills were to be paid in gold. By freeing the dollar from gold, and making it illegal to directly exchange dollars for gold, Nixon created a way for the U.S. to print its way out of debt.

In 1971, the world's rules of money were changed and the biggest economic boom in the history of the world began. The boom continued as long as the world accepted our funny money, money backed by nothing but a promise by U.S. taxpayers to pay the bills of the United States.

Thanks to Nixon's change in the rules of money, inflation took off. The party was on. As more and more money was printed each decade, the value of the dollar decreased and the prices of goods and assets went up. Even middle-class Americans became millionaires as home prices kept climbing. They received credit cards in the mail. Money was flowing freely. To pay off their credit cards, people used their homes as ATMs. After all, houses always went up in value, right?

Blinded by greed and easy credit, however, many people either didn't see or ignored the dire warning signs such a system created.

In 2007, a new term crept into our vocabulary: *subprime borrower*—a person who borrowed money to buy a house he could not afford. At first, people thought the problem of subprime borrowers was limited to poor, financially foolish individuals who dreamed of owning their own home. Or they thought it was limited to speculators trying to make a quick buck—flippers. Even Republican presidential candidate John McCain did not take the crisis seriously in late 2008, trying to reassure everyone by saying, "The fundamentals of our economy are strong."

Around the same time, another word crept into our daily conversation: *bailout*—saving our biggest banks from the same problems that faced subprime borrowers: too much debt and not enough cash. As the financial crisis spread, millions of people lost their jobs, their homes, their savings, their college funds, and their retirements. Those who so far have not lost anything are afraid they might be next. Even states felt the pinch: California Governor Arnold Schwarzenegger began talking about issuing IOUs instead of paychecks for government lawmakers because California, one of the biggest economies in the world, was going broke.

Now, as 2009 begins, the world looks to a newly elected president, Barack Obama, for salvation.

A Cash Heist

In 1983, I read a book by Buckminster Fuller entitled *Grunch of Giants*. The word *grunch* is an acronym standing for Gross Universe Cash Heist. It is a book about the super-rich and über-powerful and how they have been stealing from and exploiting people for centuries. It is a book about a conspiracy of the rich.

Grunch of Giants moves from kings and queens of thousands of years ago to modern times. It explains how the rich and powerful have always dominated the masses. It also explains that modern-day bank robbers do not wear masks. Rather, they wear suits and ties, sport college degrees, and rob banks from the inside, not the outside. After reading *Grunch of Giants* so many years ago, I could see our current financial crisis coming—I just did not know exactly when it would arrive. One reason why my investments and business ventures do well, in spite of this economic crisis, is because I read *Grunch of Giants*. The book gave me time to prepare for this crisis.

Books about conspiracies are often written by someone from the fringe. Dr. R. Buckminster Fuller, although ahead of his time in terms of his thinking, was hardly a fringe person. He attended Harvard University, and although he didn't graduate from there, he did quite well (like another famous Harvard dropout, Bill Gates). The American Institute of Architects honors Fuller as one of the country's greatest architects and designers. He is considered to be among the most accomplished Americans in history, having a substantial number of patents to his name. He was a respected futurist and inspiration for John Denver's lyric "grandfather of the future" in his song "What One Man Can Do." Fuller was an environmentalist before most people knew what the word meant. But most of all, he is respected because he used his genius to work for a world that benefited everyone . . . not just himself or the rich and powerful.

I read a number of Dr. Fuller's books before reading *Grunch of Giants*. The problem for me was that most of his earlier books were on math and science. Those books went right over my head. But Grunch *of Giants* I understood.

Reading *Grunch of Giants* confirmed many of my unspoken suspicions regarding the way the world worked. I began to understand why we do not teach kids about money in school. I also knew why I was sent to Vietnam to fight a war we should never have fought. Simply put, war is profitable. War is often about greed, not patriotism. After nine years in the military, four attending a federal military academy, and five as a Marine Corps pilot who served in Vietnam twice, I could only agree with Dr. Fuller. I understood from firsthand experience why he refers to the CIA as Capitalism's Invisible Army.

The best thing about *Grunch of Giants* was that it awakened the student in me. For the first time in my life, I wanted to study a subject, the subject of how the rich and powerful exploit the rest of us—legally. Since 1983 I have studied and read over fifty books on this subject. In each book, I found one or two pieces of the puzzle. The book you are reading now will put those many puzzle pieces together.

Is There a Conspiracy?

Conspiracy theories are a dime a dozen. We have all heard them. There are conspiracy theories about who killed Presidents Lincoln and Kennedy, and about who killed Dr. Martin Luther King, Jr. There are also conspiracy theories about September 11, 2001. Those theories will never die. Theories are theories. They are based on suspicions and unanswered questions.

I am not writing this book to sell you another conspiracy theory. My research has convinced me that there have been many conspiracies of the rich, both in the past and the present, and there will be more conspiracies in the future. When money and power are at stake, there will always be conspiracies. Money and power will always cause people commit corrupt acts. In 2008, for instance, Bernard Madoff was accused of running a $50 billion Ponzi scheme to defraud not only wealthy clients, but also schools, charities, and pension funds. He once held the highly respected position of head of NASDAQ; he did not need more money, yet he has allegedly been stealing it for years from very smart people and worthy organizations, dependent upon competence in financial markets.

Another example of the corruption of money and power is spending over half a billion dollars to be elected the president of the United States, a job that pays only $400,000. Spending money like that on an election is not healthy for our country.

So has there been a conspiracy? I believe so, in a way. But the question is, "So what?" What are you and I going to do about it? Most of the people who caused this latest financial crisis are dead, yet their work lives on. Arguing with dead people would be rather futile.

Regardless of whether there is a conspiracy, there are certain circumstances and events that impact your life in profound and unseen ways. Let's look at financial education, for instance. I've often marveled at the lack of financial education in our modern school system. At best, our children are taught how to balance a checkbook, speculate in the stock market, save money in banks, and invest in a retirement plan for the long term. In other words, they are taught to turn their money over to the rich, who supposedly have their best interest at heart.

Every time an educator brings a banker or a financial planner into their classroom, supposedly in the name of financial education, they are actually allowing the fox to enter the hen house. I am not saying bankers and financial planners are bad people. All I am saying is that they are agents of the rich and powerful. Their job is not to educate but to recruit future customers. That is why they preach the doctrine of saving your money and investing in mutual funds. It helps the bank, not you. Again, I reiterate this is not bad. It's good business for the bank. It is no different than Army and Marine recruiters coming on campus when I was in high school and selling students on the glory of serving our country.

One of causes of this financial crisis is that most people do not know good financial advice from bad financial advice. Most people cannot tell a good financial advisor from a con man. Most people cannot tell a good investment from a bad one. Most people go to school so they can get a good job, work hard, pay taxes, buy a house, save money, and turn over any extra money to a financial planner—or an expert like Bernie Madoff.

Most people leave school not knowing even the basic differences between a stock and a bond, between debt and equity. Few know why preferred stocks are labeled *preferred* and why mutual funds are *mutual*, or the difference between a mutual fund, hedge fund, exchange traded fund, and a fund of funds. Many people think debt is bad, yet debt can make you rich. Debt can increase your return on investment, but only if you know what you are doing. Only a few know the difference between *capital gains* and *cash flow* and which is less risky. Most people blindly accept the idea of going to school to get a good job and never know why *employees* pay higher tax rates than the *entrepreneur* who owns the business. Many people are in trouble today because they believed their home was an *asset*, when it was really a *liability*. These are basic and simple financial concepts. Yet for some reason, our schools conveniently omit a subject required for a successful life—the subject of money.

In 1903, John D. Rockefeller created the General Education Board. It seems this was done to ensure a steady supply of employees who were always financially in need of money, a job, and job security. There is evidence that Rockefeller was influenced by the Prussian System of education, a system designed to produce good employees and good soldiers, people who dutifully follow orders, such as "Do this or be fired," or, "Turn your money over to me for safe keeping, and I'll invest it for you." Regardless of whether this was Rockefeller's intent in creating the General Education Board, the result today is that even those with a good education and a secure job are feeling financially insecure.

Without a basic financial education, long-term financial security is almost impossible.

In 2008, millions of American baby boomers began retiring at a rate of ten thousand a day, expecting the government to take care of them financially and medically. Today, many people are finally learning that *job security* does not ensure long-term *financial security*.

In 1913, the Federal Reserve was created, even though the founding fathers, creators of the U.S. Constitution, were very much against a national bank that controlled the money supply. Without proper financial education, few people know that the Federal Reserve is not federal or American, it has no reserves, and it is not a bank. Once the Fed was in place, there were two sets of rules when it came to money: One set of rules for people who *work for money*, and another set of rules for the rich *who print money*.

In 1971, when President Nixon took the United States off the gold standard, the conspiracy of the rich was complete. The rules of money were completely changed and heavily tilted in favor of the rich and powerful. The biggest financial boom in the history of the world began, and today, in 2009, that boom has busted.

> **Robert's Note:** Pertaining to the gold standard and the President Nixon discussion, is it clear as to what exactly the gold standard is and why its abandonment in 1971 has profoundly impacted our current economic condition on a global basis? **Let's Discuss ▶**

What Can I Do?

As mentioned, the conspiracy of the rich has created two sets of rules when it comes to money, old rules of money and new rules of money. One set of rules is for the rich and another set is for ordinary people. The people who are most worried by our current financial crisis are those playing by the old set of rules. If you want to feel more secure about your future, you need to know the new set of rules—the eight new rules of money. This book will teach you those rules, and how to use them to your advantage.

Following are two examples of old rules of money versus new rules of money.

Old Rule: Save Money

After 1971, the U.S. dollar was no longer money, but rather a currency (something I talk about in my book, *Rich Dad's Increase Your Financial IQ*). As a consequence, savers became losers. The U.S. government was allowed to print money faster than it could be saved. When a banker raves about of the power of *compounding interest*, what he or she fails to also tell you about is the power of *compounding inflation*—or in today's crisis, the power of compounding deflation. Inflation and deflation are caused by governments and banks attempting to control the economy by printing and lending money out of thin air—that is, without anything of value backing the money other than the "full faith and credit" of the United States.

For years, people all across the globe have believed that U.S. bonds are the safest investment in the world. For years, savers dutifully bought U.S. Bonds, believing that was the smart thing to do. At the start of 2009, thirty-year U.S. Treasury bonds are paying less than 3 percent interest. To me, this means there is too much funny money in the world, savers will be losers, and in 2009, U.S. bonds could be the riskiest of all investments.

If you don't understand why that is, don't worry. Most people don't, which is why financial education (or the lack of thereof) in our schools is so important. This subject of money, bonds, and debt will be covered more fully later in the book—unlike in your high school economics class. It is worth knowing, however, that what used to be the safest investments, U.S. bonds, are now the riskiest.

New Rule: Spend, Don't Save

Today, most people spend a lot of time learning how to earn money. They go to school to get a high-paying job, and then they spend years working at that job to earn money. They then do their best to save it. In the new rules, it is more important that you know *how to spend your money*, not just earn or save it. In other words, people who spend their money wisely will always be more prosperous than those who save their money wisely.

Of course, by spend I mean *invest* or convert your money into long lasting value. The rich understand that in today's economy you cannot become wealthy by sticking your money under a mattress—or even worse, in a bank. They know that the key to wealth is investing in cash-flowing assets. Today, you need to know how to spend your money on assets that retain their value, provide income, adjust for inflation, and go up in value—not down. This will be covered in more detail throughout this book.

Old Rule: Diversify

The old rule of diversification tells you to buy a number of stocks, bonds, and mutual funds. Diversification, however, did not protect investors from a 30 percent plunge in the stock market and losses in their mutual funds. I thought it odd that many of the so-called "investment gurus," people who sang the praises of diversification, began shouting "Sell, sell, sell!" as the market fell. If diversification protected you, why sell all of a sudden at near market bottom?

As Warren Buffett says, *"Wide diversification is only required when investors do not understand what they are doing."* In the end, diversification is a zero-sum game at best. If you are evenly diversified, when one asset class goes down, the other goes up. You lose money in one place and make it in another, but you don't gain any ground. You are static. Meanwhile, inflation, a topic we will also discuss in detail later in the book, marches on.

Rather than diversify, wise investors focus and specialize. They get to know the investment category they invest in and how the business works better than anyone else. For example, when investing in real estate, some people specialize in raw land and others in apartment buildings. While both are investing in real estate, they are doing so in totally different business categories. When investing in stocks, I invest in businesses that pay a steady dividend (cash flow). For example, today I am investing in businesses that operate oil pipelines. After the stock market crash of 2008, the share prices of these companies dropped, making the cash flow dividends bargains. In other words, bad markets offer great opportunities if you know what you are investing in.

Smart investors understand that owning a business that adjusts to the ups and downs of the economy or investing in cash-flowing assets is much better than owning a diversified portfolio of stocks, bonds, and mutual funds—investments that crash when the market crashes.

New Rule: Control and Focus Your Money

Don't diversify. Take control of your money and focus your investments. During this current financial crisis I took a few hits, but my wealth remained intact. That is because my wealth is not dependent upon market values going up or down (a.k.a. *capital gains*). I invest almost exclusively for *cash flow*.

For example, my *cash flow* decreased a little when the price of oil came down, yet my wealth is strong because I still receive a check in the mail every quarter. Even though the price of the oil stocks, *capital gains*, came down, I'm not worried because I receive cash flow from my investment. I don't have to worry about selling my stocks to realize a profit.

The same is true with most of my real estate investments. I invest for cash flow in real estate, which means every month I receive checks—passive income. The people who are hurting today are real estate investors who invested for capital gains, also known as *flipping properties*. In other words, since most people invested for *capital gains*, counting on the price of their stock investments or their home to go up in price, they are in trouble today.

When I was a boy, my rich dad would play the game of Monopoly over and over again with his son and me. By playing the game, I learned the difference between *cash flow* and *capital gains*. For example, if I owned a property with one green house on it, I got paid ten dollars a month in rent. If I had three houses on the same property, I received fifty dollars a month in rent. And the ultimate goal was to have one red hotel on the same property. To win at the game of Monopoly, you had to invest for cash flow—not capital gains. Knowing the difference between cash flow and capital gains at the age of nine was one of the most important lessons my rich dad taught me. In other words, financial education can be as simple as a fun game and can provide financial security for generations—even during a financial crisis.

Today, I do not need *job security* because I have *financial security*. The difference between *financial security* and *financial panic* can be as simple as knowing the difference between *capital gains* and *cash flow*. The problem is investing for *cash flow* requires a higher degree of financial intelligence than investing for *capital gains*. Being smarter about investing for cash flow will be covered in greater detail later in this book. But for now, just remember this: It is easier to invest for cash flow during a financial crisis. So don't waste a good crisis by hiding your head in the sand! The longer this crisis lasts, the richer some people will become. I want you to be one of them.

Today, one of the new rules is to *focus* your mind and money, rather than to *diversify*. It pays to focus on *cash flow* rather than *capital gains* because the more you know how to *control cash flow* the more *your capital gains increase*, and so does your financial security. You might even become rich. It's basic financial education taught in the game of Monopoly and my educational game, **Cashflow**, which has been called Monopoly on steroids.

These two new rules, *learn to spend rather than save* and *focus rather than diversify*, are just two of the eight new rules that will be covered in this book, and they will be covered in more detail in future chapters. The point of this online book is to open your eyes to the power you have to control your financial future if you have the proper financial education.

Our educational system has failed millions of people—even the educated. There is evidence that our financial system has conspired against you and others. But that is ancient history. Today, you control your future, and now is the time to educate yourself—to teach yourself the new rules of money. By doing so, you take control of your destiny and hold the key to playing the game of money according its new rules.

Robert's Note: When discussing the old vs. the new rules of money, what type of information are you looking for which will help you advance your financial well-being? **Let's Discuss ▶**

My Promise to You

After President Nixon changed the rules of money in 1971, the subject of money became very confusing. The subject of money does not make sense to most honest people. In fact, the more honest and hardworking you are, the less sense the new rules will make. For example, the new rules allow the rich to print their own money. If you did that, you would be sent to jail for counterfeiting. But in this book, I will describe how I print my own money—legally. Printing your own money is one of the greatest secrets of the truly rich.

My promise to you is that I will do my very best to keep my explanations as simple as possible. I will do my best to use everyday language to explain complex financial jargon. For example, one of the reasons why there is a financial crisis today is because of a financial tool known as a *derivative*. Warren Buffett once called derivatives "weapons of mass destruction," and his description proved true. Derivatives are bringing down the biggest banks in the world.

The problem is that very few people know what derivatives are. To keep things very simple, I explain derivatives by using the example of an orange and orange juice. Orange juice is a derivative of an orange—just like gasoline is a derivative of oil, or an egg is a derivative of a chicken. It's that simple: If you buy a house, a *mortgage* is a *derivative* of *you* and the *house* you buy.

One of the reasons we are in this financial crisis is because the bankers of the world began creating derivatives out of derivatives out of derivatives. Some of these new derivatives had exotic names such as *collateralized debt obligations*, or *high-yield corporate bonds*, a.k.a. junk bonds, and *credit default swaps*. In this book, I will do my best to define these words by using everyday language. Remember, one of the objectives of the financial industry is to keep people confused.

Multilayered derivates border on legal fraud of the highest order. They are no different than someone using a credit card to pay off a credit card, and then refinancing their home with a new mortgage, paying off their credit cards, and using the credit cards all over again. That's why Warren Buffett called derivatives weapons of mass destruction: Multilayered derivatives are destroying the world's banking system just as credit cards and home equity loans are destroying many families. Credit cards, money, collateralized debt obligations, junk bonds, and mortgages—they're all derivatives, just going by different names.

In 2007, when the *house of derivatives* began coming down, the richest people in the world began screaming "Bailout!" A bailout is used when the rich want the taxpayers to pay for their mistakes or their fraud. My research has found that a *bailout* is an integral part of the conspiracy of the rich.

One of the reasons I believe my book *Rich Dad Poor Dad* is the bestselling personal finance book of all time is because I kept financial jargon simple. I will do my best to do the same in this book.

A wise man once said, "Simplicity is genius." To keep things simple, I will not go into excessive detail or complex explanations. I will use real-life stories, rather than technical explanations, to make my point. If you want more detail, I will list a number of books that explain subjects covered here in greater depth. For example, Dr. Fuller's book *Grunch of Giants* might be a good book to read.

Simplicity is important because there are many people who profit from the subject of money being kept complex and confusing. It's easier to take your money if you're confused.

So, I ask again, "Is the love of money the root of all evil?" I say no. I believe it is more evil to keep people in the dark, ignorant about the subject of money. Evil occurs when people are ignorant of how money works, and financial ignorance is an essential component of the conspiracy of the rich.

Robert's Note: In keeping with the Rich Dad philosophy of keeping financial education as simple as possible, so far, have I succeeded in this intro chapter in presenting concepts, thoughts, and data, in an easy to understand format?

Let's Discuss ▶

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