8 SCAMS TO AVOID TO CREATE A RICH LIFE

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scam [skam] n. **1.** *a dishonest scheme; a fraud synonyms: fraud, swindle, racket, trick*

No matter what you call it, there is financial advice consistently being thrown about disguised as conventional wisdom. It comes from schools, co-workers, financial planners, and worst of all, the financial uneducated.

On the surface, there appears to be a kernel of wisdom, but dig deeper. Look where the money actually flows and you'll find a different story. A story designed to keep the poor poor and make the rich richer.

To help free you of the financial scams that too many buy into, we've identified eight of the most common. We're sure you've heard them all before, but do you know the real reason why they're scams? Read on to understand the 8 Scams to Avoid to Create a Rich Life.

Scam #1: Go to School

Most of us have been told that the best path to success was going to school. The rich, on the other hand, know a financial education, not a degree, is what counts.

The idea that school will make you a success is perpetrated everywhere and all the time. What makes you rich is not going to school but rather a financial education. Learning how money works and how to make it work for you is what makes you rich, and, unfortunately, you can't get that education in school.

This doesn't mean an academic education isn't important. The basic education you get in your K-12 years is important to everything that comes after. And if you want to be a teacher, a lawyer, or a doctor, then obviously you're going to need to go to college.

But what you won't learn in school is how money works. Today's schools, particularly in America, don't teach students how to invest or be self-sufficient. Instead, schools teach us to be employees instead of our own bosses. It makes us workers instead of innovators.

"But I studied money in college!"

People often say they learned about money in school. While you may have learned how to balance a checkbook in school, you don't learn how money really works.

All schools do is train people to be good employees. Students start out being told what to do, and are rewarded for compliance. It then becomes very easy to transition from a school to a company where you're told what to do and rewarded again for complying with your superior's wishes. And that leads to trusting and handing things off to the government and the rich bankers who handle our 401(k).

Unfortunately, Higher Education robs us of the independence to think for ourselves, to think like an entrepreneur, an innovator, and an investor. It instead teaches us to be dependent.

True independence, however, is found in becoming financially educated. Financial education opens up a completely new world where you can succeed on your own terms.

Today, it's time to start thinking for yourself. Don't fall for the scam of higher education. Instead, start your financial education today, and begin your journey to financial freedom.

Application Suggestion:

Becoming financial educated requires you to take responsibility for your learning. Traditional education spoon-feeds answers to students—the answers they want them to believe. To become financial educated, you need to go out and find the answers. Read and think critically about what you are reading. Attend classes, seminars, and work with a Rich Dad Coach.

Scam #2: Get a Job

The idea that a job is an important part of your personal security is a big part that flows out of "go to school." The reality is that having a job does not make you secure. You only need to look at the last economic downturn to see how quickly hundreds of thousands of people can lose their jobs in a relatively short time. In an economy where people are losing their jobs, the more secure position is to own the company that is firing people.

The poor and middle-class are conditioned and taught from the day they are born to be employees. Those who become rich break away from that thinking and become entrepreneurs. The rich put their money to work. So how do you make that break?

The first answer is simple. You do it by increasing your financial education and beginning to think like an entrepreneur instead of an employee. When you do that, you break out of the rat race. You realize that everything you've been taught about getting a job and finding success is a lie, and that there is another way—a better way that actually works. And that's the secret to becoming rich.

Application Suggestion:

Needing a paycheck to cover one's expenses is what keeps people trapped in their jobs. To escape the scam of "get a job," you have to exit the Rat Race and you can only do this when the passive income from your investments covers your monthly expenses. Start your exit from the Rat Race by determining your monthly expenses to the penny. Once you know your expenses, you can begin building an investing plan that will help you cover your expenses and free you from the Rat Race.

Scam #3: Work Hard

It seems like a simple math equation: effort=reward. You work hard, you earn more, you get more for your effort, and it seems like it should work.

Once upon a time, it may have worked that way.

Now, there are two problems. First, if you're an employee, working harder may get you more money but it also means you'll be taxed more. So working harder can actually result in you being punished financially.

The second problem is that you're working hard for something in particular: Money. And that money is worth less and less every day.

During the 21st century, average income after inflation has fallen. And continues to fall. If you've been working hard at your job for ten years, the money you're making now is actually worth less than it was when you earned it. Practically speaking, that probably means you're either making the same amount now as a few years ago, or maybe even making less! Rather than work hard for money, you should be working smart by having money work hard for you. That is what the rich do.

Every week most people just hold on until Friday because they hate their job. And when Sunday rolls around, they're miserable because they know they have five days of work to trudge through.

It's a lousy way to live, but it's not the only way. We've just been trained to think it's the only way.

The rich avoid the scam of "work hard" by using the power of leverage. In other words, the rich know how to use other people's time and money to accomplish more than they ever could through their own efforts. In physics, leverage lets you lift a weight using a lever and a fulcrum greater than you could without. When you harness the power of leverage in your investing, you don't have to work harder because you are working smarter.

Application Suggestion:

A mindset that contributes to "work hard" and limits investors' and entrepreneurs' growth is mistakenly believing that they are the only one that can do the work. The rich know that creating processes builds an environment where other people can be leveraged into a step-by-step system and produce similar results. In your investing, seek to establish a process for as many activities and functions as you can. This will allow you—when the need arises—to hire others and grow your business all while working less.

Scam #4: Live Below Your Means

On the surface, living below your means, seems to make sense. Unfortunately, the only people who live below their means are poor people. The rich don't live below their means. Rather, they make better means.

Poor people say, "We can't afford that."

Rich people say, "How can I afford that?"

"Live below your means," is a poor mindset because it teaches you to think too narrowly. Rather than teach you to be creative in making more money, it teaches you to be merciless on what you spend your money. You balance the dollars you bring in from your job against your needs and wants. And no one likes finding things you can live without so you can afford something else. It's awful.

When the rich want to splurge on a luxury like a new car or exotic vacation, they don't look at where to cut costs to afford it, they acquire an asset to offset the cost of what they want. So, instead of always looking for what to cut in order to afford something, they're always looking to expand their wealth to cover the cost of what they want. It's a completely different mindset, and it's how you need to think if you want to become rich.

This is the core of thinking like the rich instead of thinking like the poor. If you live within your means, you can never add assets, so you'll never break the chain of cutting costs and budgeting to afford something.

Application Suggestions:

Often, knowing is half the battle. So to break free of "living below your means" unleash the power of goal setting. By identifying what you want and working out a plan to get there in a smart way through assets, you will become more aware of possibilities and start thinking more creatively. Denying yourself the luxuries of life doesn't require any smarts. Creating a goal and a plan does.

Scam #5: Save Money

"If you save money, you will have money."

"Save money for a rainy day."

"A penny saved is a penny earned."

These are common lessons parents teach their kids about money. Unfortunately, there's one big problem with them: they're lies.

The big problem with “save money,” is that it used to be true. A generation or two ago, saving money made sense. You could set aside a certain amount of money and retire on it. Your parents or your grandparents might have done just that, and it worked. But what worked for them cannot work for you in today’s economy. To understand this, you must understand the history of money.

In 1971, Richard Nixon took the United States off the gold standard, the system where every dollar in the US economy was based on a dollar’s worth of gold that the country owned. When Nixon did this, it destabilized the economy and kick-started inflation and a number of other factors that affect the power of your dollar. Before 1971, money was money, backed by the value of gold. If you saved 10 percent of your income every year, it could turn into enough to retire on. After 1971, money became a currency that could go up and down in value with nothing of value backing other than the good faith and credit of the United States. That is why there have been so many fluctuations, peaks, and valleys, in the economy.

Money is something that holds its value, which is a different concept from currency, which is a representation of that value. When the US went off the gold standard, US dollars really stopped being money and became a currency. Money is something that keeps its value. Currency fluctuates in value, and the US dollar has kept losing value since 1971.

Today, savers are losers. Why? The bank pays you a lower interest rate on your savings than the inflation rate. In essence, this means that your money in the bank loses more value than it gains over time. It’s a losing proposition to save. The dollar you save today will be worth less a year from now.

Application Suggestions:

So, if you can’t put your money in the bank, what can you do? The answer is to get aggressive. Putting money in the bank is passive. Putting your money out in the world is putting it to work. Why put your money in the bank where it will lose value when you can put it to work for you in assets where you can turn your money into more money?

Scam #6: Your House is an Asset

Your financial planner, real estate agent, and accountant all call your house an asset. But in reality, an asset is only something that puts money in your pocket. Your house, even if it is paid for, takes money from your pocket in the form of maintenance, taxes, and other expenses. That’s the definition of a liability.

When Robert Kiyosaki first wrote Rich Dad, Poor Dad, in 1997, everyone’s home values were climbing. So it was easy to assume that your house was an asset because it was potentially making money for you in the end through appreciation.

People bought into the scam hook, line, and sinker, taking out home equity loans to buy cars, vacations, TV's, and more. Today, those same people are so underwater that many of them are defaulting and going into foreclosure. Most people aren't saying their home is an asset any longer.

Many Americans got a fast, ugly financial education when the real estate market turned around. They realized very quickly that their homes were not assets.

Rather than invest for appreciation, invest for cash flow and treat appreciation like icing on a cake.

Application Suggestions:

When it comes to real estate, you make your money when you buy, not when you sell. Knowing whether a property will cash flow should be your primary concern when evaluating an opportunity. One of the biggest numbers affecting a property's financials is how much you can charge in rent for the property. To that end, begin familiarizing yourself with rents in the areas in which you are looking to invest. This will be the first step in knowing whether a property has the potential to cash flow and be an asset.

Scam #7: Get Out Of Debt

Just like all the other scams, the idea that you have to get out of debt and stay out of debt to be successful is a lie, and it is repeated because people don't have a financial education. They simply don't really understand what money is, how it works, and how to put it to work.

The rich carry debt. They generally carry a lot of debt. But they have assets that more than make up for the debt they carry. In fact, the rich not only carry debt, they also use it to get richer. When it comes to debt, the rich understand the difference between good debt and bad debt.

Bad debt is debt that makes you poorer, such as credit card debt, car loans, and more. This is the type of debt used to buy liabilities.

Good debt is debt that makes you richer, such as a loan for an investment property or to purchase equipment for your business that will make you a return. This is the type of debt that is used to buy assets.

Say you have $100,000. Maybe you inherited it, or sold something valuable. But you have this money. You can put it into a mutual fund, which is a little better than saving it. The return on it would be a bit more than just putting it in savings, but it won't be a lot.

However, if you use that $100,000 as a down payment on a $500,000 property, then you've actually bought $500,000 in value with just $100,000! The difference, that $400,000, is good debt.

From there, the tenants pay the mortgage and the taxes on it for you. You can then use the same practice repeatedly, and keep putting that money to work.

Application Suggestions:

To understand how good debt can accelerate your investing, try playing the CASHFLOW game with two different styles. First, limit your investing to only those deals for which you have enough cash on hand with which to invest. For the second style, borrow all you need for those deals that are good investments. How long did it take you to exit the Rat Race using the first style? The second style?

Scam #8: Invest Diversely for the Long Term

If there's anything to be learned from the last recession, it's that nothing is guaranteed. And that includes all the long-term investments that your financial planner encouraged you to buy, such as mutual funds, stocks, and bonds.

It's worth noting that financial planners didn't exist until about forty years ago. Financial planning became a profession when people were forced to take control of their own retirement funds through vehicles like the 401(k). Financial planning is an industry created by the banks to make money off the financially illiterate. It takes only thirty days of training to become a financial planner. You have to go to school for more than a year just to become a massage therapist.

Nearly every financial planner will tell you that in order to be financially secure, you must diversify. Unfortunately, investing in just stocks, bonds, and mutual funds is not true diversification. Rather it is diversification in only one asset class, paper assets—the class where banks make big money in the form of fees. Most financial planners ignore the other asset classes of real estate, commodities, and business.

But, you say, my financial planner helped me plan wisely. We invested in lots of different things, so that if one company's stock or one mutual fund takes a hit, there are others that will go up. This is one of those scams that make sense on paper. Of course, the more spread out you are, the more protected you are from losing money.

Except for the fact that everything you're invested in is still on paper, it's based on the same fragile economy, and the same investment model. When the stock market goes down, it goes down everywhere, not just in certain places. Investing in Microsoft and McDonald's won't make any difference if the market tanks and everything goes down. Widely investing in different mutual funds spreads that risk around even more, but the risk is still the same and the hit will be the same when things go south.

True diversification is investing across different asset classes, not different stocks. This holds true with any of the asset classes. If you're invested in condos, apartments, and houses, your portfolio looks diverse, but they're all still real estate assets. So educated investors have real estate assets, commodities assets like gold and silver, business assets like owning companies, and yes, some have paper assets as well.

Application Suggestion:

If you want to truly diversify your investment portfolio, it will require financial intelligence, which comes from financial education. If you don't have the desire to increase your financial intelligence, then continue using your financial planner and investing in only paper assets, as those investments are set up so that even a monkey could do them. If, on the other hand, you want to be rich increase your financial education and begin working towards true diversification.

The Bottom Line

At their best, scams trick you into doing the wrong thing. At their very least, they confuse you into doing nothing. However, as soon as you can see the scam for what it really is, the power shifts and you are in control. By learning about the 8 Scams to Avoid to Create a Rich Life, you now have the power to create the life you want.