Why the Rich Get Richer

by Robert Kiyosaki

Fear Can Cost You Money

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Wall Street recently paid out billions in bonuses to its employees. Those bonuses came from investors who believe investing is risky. In other words, there's a giant industry built around investor fears. The more fear, the bigger the bonuses.

A recent *Time* magazine article called "How Americans Are Living Dangerously" makes a number of good points on this reality. I'll look at a few of them.

Illusory Control

We misjudge risk if we feel we have some control over it, even if it's an illusory sense of control. The article uses the example of people who drive rather than fly.

Even though the risks of death are higher driving than flying, many people would rather drive simply because they feel they have more control driving. The facts are that only a few hundred people die a year flying and 44,000 are killed a year driving. After Sept. 11, 2001, many people took to the roads rather than the skies. Not surprisingly, between October and December 2001, there were a 1,000 more deaths.

Today, many people feel they have more control if they have money in savings. Thus the saying, "Safe as money in the bank." But the fact is that savers are the biggest losers of all.

Between 1996 and 2006, the purchasing power of the dollar dropped by 50 percent compared to gold. In 1996, gold was approximately $275 an ounce; by 2006 it was over $600 an ounce. In 1996, oil was approximately $10 a barrel ; in 2006 it was over $60 dollars a barrel. Compare the price of real estate in your area between the same 10 years and you'll notice that the purchasing power of your dollar has slipped.

The point is, in spite of the facts, many people feel safer with money in the bank because they feel they have more control over it. They don't have control over the price of gold, oil, or real estate, so they think investing in these assets is risky.

The Biggest Risks of All

The second point the *Time* article makes is that when we're afraid, we tend to ignore the statistics and listen to our emotions. As I mentioned above, you're over 500 times more likely to die in a car than in an airplane. Yet cars are not the biggest of all killers.

Of the 2.5 million deaths annually in the United States, the No. 1 killer is heart disease. In 2003, there were 685,089 deaths due to heart attack. Auto accidents caused 44,000 deaths. Only 17,732 deaths by murder and 1 death by shark attack occurred in the same year.

Despite these statistics, more people are afraid of sharks and murderers than driving up to a fast food restaurant and saying, "Super-size it." French fries kill more people than guns and sharks, yet nobody's afraid of french fries.

The same is true in the investment world. Since many people believe investing is risky, they go for the second-riskiest investment, mutual funds. As my rich dad used to say, "Mutual funds are like french fries. They may fill you up, but they aren't good for you in the long run."

John C. Bogle, founder of the Vanguard Funds, states in his book *The Battle for the Soul of Capitalism*, "When we have strong managers, weak directors, and passive owners, it's only a matter of time until the looting begins." Bogle has spoken out this way because the mutual funds industry is legally looting money from investors.

To put it another way, since most people think investing is risky and full of sharks, they've turned their money over to some of the biggest sharks in the world -- the managers of mutual funds.

True Expertise Counts

One of the reasons people think investing is risky is because there's an entire industry that wants you to believe so. Trading on your fears is very profitable.

This leads to point number three in the *Time* piece. The magazine quotes the findings of a study in which a panel of 20 communications and finance experts were asked about the risk of human-to-human transmission of avian (bird) flu. These experts said the risk was 60 percent. When the same question was asked of medical experts, their answer was 10 percent.

The point is that you need to be critical of experts. Is the person you seek advice from able to give you a credible answer?

Qualified and Unqualified Advice

There are three experts who are often not qualified to give you sound investment advice. They are:

- Non-investors

  I'm always surprised by the number of people who take investment advice from non-investors -- people such as friends, family, and co-workers. A few years ago, I found a spectacular little condominium for sale for $50,000 in Phoenix, Ariz. All I had to do was put down $6,000 and assume the loan.

  At the time, it was worth about $95,000. Today the units in the same complex sell for $195,000. Best of all, the monthly rent at the time was approximately $1,000 a month and today rents are around $1,500.

  A friend from Portland, Ore., asked if I would let her purchase it. My wife, Kim, and I agreed, thinking at the time that this unit would be a great start for our friend. A few months went by and we asked her how the purchase was coming along. She said, "Oh, I forgot to tell you. I didn't buy the unit." When we asked her why, she said, "My neighbor Marge said it was too risky."

  "How many investment properties does Marge own?"

  "None."

  Clearly, taking advice from someone who doesn't know what they're talking about is the real risk.

- Perceived experts, such as financial planners or stock or real estate brokers

  Most people take financial advice from salespeople, not rich people. Most stockbrokers are not rich nor do they invest in what they sell. The numbers are even worse for real estate brokers.

- Investors themselves

  I've shown several great investments to an investor friend of mine. To this date, he hasn't purchased anything I've recommended. That's because he can always find something wrong with the investment. Instead of looking at what's good about them, he looks for what's wrong and then talks himself out of taking action.

  This is one reason why I invest as part of a team, so that I can consult with other investors rather than talk myself out of great deals.

The *Time* article made it clear that fear is normal. We all experience fear; I admit that I've let it hold me back. I probably would've been a lot richer a lot sooner if I flew more and drove less.

The important thing to remember is to pay attention to what we worry about -- and what we should be worrying about.