7 LEVELS OF INVESTORS

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INTRODUCTION

Not all investors are created equal. I see that in their approach to investing and more importantly, in their results. Some investors try to be more than their education has prepared them for and others let themselves plateau.

If you can understand the different levels of investors, you will know what type of investor you are or will be. You will see what your goals will require of you. I have people asking me for advice on investments, but I can tell from the questions they ask their experience level doesn't match the investment they are pursuing. It's like they're trying to race in the Tour De France but still have training wheels on their bike.

Conversely, if you are afraid that investing might be too complicated, don't. If you have a willingness to learn—starting with this eBook, let me assure you that anything is possible. Even if you don't understand everything you will know more about investing than many people who are currently investing. To understand where you are going, you must first know where you are.

That's why understanding the seven levels of investors is so important. Knowing the levels lets you match your education to your investment. It also helps you prepare for what lies ahead. It lets you recognize what experience you will need to become the best investor you can be.

There are countless opportunities available for all experience of levels, but many people may never capitalize on them because they let fear get in the way of moving forward. If you want to change your life for the better and start your journey to financial freedom, take a few minutes, be honest with yourself and determine which investor level you are at.

My rich dad's advice about investing was, "Don't be average." Regardless of whether you invest to be secure, comfortable, or rich, please have a plan for each level. In the Information age, your financial education and investor knowledge is vitally important.

—Robert Kiyosaki

LEVEL ONE: THE "LOTTERY WINNER"

Level One investors are the "lottery winners." These are the unconscious incompetent who don't know what they don't know. This level of investor has spent very little time, if any, understanding money and investing. They rely on the advice of others—often bad advice.

I call the level one investor the "lottery winner" because nearly 70% of lottery winners end up broke within seven years, and nearly a third of lottery winners declare bankruptcy—meaning they are worse off than before they hit the "jackpot." They've found themselves with a large sum of money and because they lack financial education they fall victim to financial advisors who care more about making money than a client's financial well-being.

Many people think that investing is risky—like gambling. My poor dad thought so, and that's all I heard about growing up. My rich dad on the other hand, felt that my poor dad's plan was risky. My poor dad valued comfort, security, a good job. He valued a plan that involved saving not spending. As I grew older I learned that he valued something based on a lack of education. Because he didn't understand investing, he felt it was riskier than saving.

Investing isn't risky, a lack of education is.

My Suggestion: The simplest way to avoid being a Level One investor is to get educated. Without a financial education, you won't necessarily know what to look for to find investments that generate higher yields, and you can fall prey to so-called financial planners that could cost you big bucks.

LEVEL TWO: THE BORROWERS

Level Two investors are the borrowers. Instead of investing, these people solve their financial problems by borrowing more money. These are the people that fall prey to the financial advice of solving their credit card bills by refinancing their home. They roll their high interest short-term debt into low interest long-term debt. They think this makes sense because they tell themselves the government will give them a tax break if it's debt on their house. That's how a borrower solves their money problems. These individuals also use credit cards or they spread their debt.

What people are doing today is taking all of their credit card debt from one credit card company and moving it to another credit card company. These people are the compulsive shoppers. They always have debt. They don't know how to stop. Borrowers are the people that look rich. They have the biggest house, the nice Mercedes, the SUVs, and take expensive vacations. They look good, but if you actually pulled out their financial statement, what you'll see is financial cancer.

My Suggestion: Avoid being a Level Two investor by first, stop spending your hard-earned money on doodads. You have to know that anything that is taking money out of your pocket is bad debt. You're never going to reach your financial goals with this investor mindset and behavior.

LEVEL THREE: THE SAVER

Level Three is the person I call, the saver. What these people do is, they save a small amount of money, each month, instead of investing it. They think by putting their money in a 401k that they are investing it, but a 401k is actually a savings plan more than an investment plan. That's why a 401k is very appealing to them. It provides them the feeling of investing, but feels safe like saving. But savvy investors really know a 401k is a savings plan. A savvy investor looks for higher returns while still preserving the equity or their capital. Savers are also people who work really hard at saving money. I'm afraid my mother fell into this category. She would travel from supermarket to supermarket, spending dollars to save pennies. Not only did she spend dollars in gas, she wasted a lot of time trying to save money.

You hear many retailers appealing to this type of person, "Come in here, shop like crazy, and save money, because things are on sale." People actually get sucked in or blinded by the word "save." They're actually losing money or buying things they don't need, but they justify it in their mind because they think they're saving money. They're saving money on things that are liabilities or doodads, as I call them, They're not saving money on real assets. The strange thing about the investment world is if a grocery store is having a sale on toilet paper and it was half price, everybody would roar in there and they'd buy as much toilet paper as they could. If the stock market has a sale, known as the market crash, and there are blue chip stocks that are half price or real estate below market value, the average person will not run in and buy more.

The average person will run away with what they have. That's one of the mental and emotional differences between the rich and the poor. Professional investors, when the market is high, go into what's called stand aside mode. We're not in the market. We're simply just waiting, counting our cash, waiting for the market to have a "sale," so we can roll in and pick up the bargains when people are very willing to sell. Again, it is a spiritual, emotional, and mental difference to the subject of money. Now, most investors need to save. What most financial planners recommend is an individual keep at least six months of monthly expenses on hand. For example, if your total monthly expenses are $2,000 a month, they recommend keeping $12,000 in savings and not much more than that. You should keep the rest in the market.

If you don't feel secure about the market, then increase that up to twelve months or buy insurance. Insurance is a very important vehicle if you don't have the savings. In other words, if you are a young couple just starting out and you don't have much in savings, that's where life insurance really plays an important role because for a few dollars, in case you should meet an untimely demise, the insurance will cover the gap between what you have not yet accumulated. When I talk to people about money,

insurance is a very important paper vehicle. Always be aware, there are insurance vehicles for the poor, the rich, and the middle class. Each one performs differently, so insurance is a very important asset, also. Knowing about the different types of paper assets is an important step in the seven levels of investors.

My Suggestion: When you look at money advice like I cited above, the real tragedy is that it perpetuates a poor mindset about money. For instance, deal hunting like couponing, sales, and discounted gift cards take a lot of time and energy. Do you save money? Yes. Does your financial intelligence grow? No. The only knowledge that grows is the knowledge on how to save more money-not make more money. Identify what your financial goals actually are then seek a financial education to help you achieve those goals

LEVEL FOUR: THE SMART INVESTOR

Level Four is a smart investor. The smart investor is a person who is aware of the need to invest. They participate fully in a 401k or mutual funds. They have a solid education. They're often very middle class, but unfortunately, have very little financial literacy. They have good allocation and budgeting abilities. They put the money in the "safe" places. They take a long-term view on the subject of investing and they're very solid.

For most people, becoming a Level Four investor would be a high ideal. Unfortunately, at least 50% of the population is below that and that's what concerns me. The smart investor is a person who does not gamble. They don't speculate. They don't jump into IPOs. They don't buy derivatives, day trade, or do things like that. They're very solid. The Millionaire Next Door is really about the level four or the smart investor.

My Suggestion: The Smart Investor should find Intelligent people to work with or hire people who are more intelligent than they are. The lack of financial literacy could be causing the smart investor to leave money on the table. When you need advice, make sure you choose your advisors wisely.

At the end of the day, what you know is your greatest wealth. And what you don't know is your greatest risk. But there is always risk, so learn to manage it instead of avoid it. Invest in your financial education so that you can then grow to be a rich investor through creative investing.

LEVEL FIVE: THE LONG-TERM INVESTOR

Level Five is the long-term investor. From Level Five on, we're talking about professional investors. They're what I would call insiders. When somebody asks, "How do you become an inside investor?" I say, "Start with real estate." The reason for that is if they buy a share of IBM or Microsoft they'll never be an insider. They're so far away from the decision making process of IBM or Microsoft. But with a piece of real estate, you need to become financially literate. You need to understand financial statements, pro formas, due diligence reports, and you become a little bit more sophisticated. They actively invest. They cut their own deals.

A Level Five investor is becoming more sophisticated. They're doing their own deals. They negotiate, so when people say, "Well how do you find these good deals," a major part of it is being able to read a financial statement and negotiating the buy/sell price. A Level 5 investor is somebody who is fairly sophisticated and invests on his or her own.

For me, personally, I had to learn to first be a Level Four, which is, "Be safe, secure, and comfortable," and then I started doing my own real estate deals. After that, my rich dad then sent me to what they call business brokers. At that point, I would go to somebody who was selling their business. I wasn't going in there to buy anything, because I didn't have any money. I was going in there to analyze the deal. I was reading financials, analyzing the companies, looking for what I call "the twist." In other words, is there something the owner of this business does not see that I can exploit and make more money from? To be able to do that requires financial literacy. You have to be able to read financial statements.

Level Five investors are the people who wanted to cut their own deals, build their own businesses. In other words, they make deals for themselves. It's a higher degree of sophistication. You're often an insider of the deal versus an outsider, which is where most people from Level 4 and below are.

To be a Level Five you need a very important skill, sometimes it's called "negotiation," but my rich dad called it knowing how to sell. Selling is knowing how to hopefully, peacefully, and tactfully change somebody's mind, because every seller wants the highest price and every buyer wants the lowest price. Somewhere along the line you've got to find the point of discussion. That's why the ability to negotiate points, to put up red herrings, to get a person to change their mind, is a very important skill. One of the first businesses I bought was a little laundromat. It didn't make much money, but I learned more negotiating that deal, analyzing the company, figuring out what price to pay, what I could sell it for, and what terms I could get for it.

It was one of the best exercises I ever did as a young person. What I learned more practicing on that deal has ultimately paid me millions in the long run. Although I didn't make money on that laundromat, I learned more in education and experience by practicing on it. Today, I can analyze that kind of deal in less than a minute, where it took me a week when I was in my 20s.

A lot of people say, "Well, what about intuition?" To be a good investor, intuition plays a very important role, but you still need the fundamentals. I still remember one of the best investments I ever made was an apartment house in Scottsdale, Arizona. The sellers wanted $1.2 million for the property, 18 units. The price was okay and the cash flow supported it. The neighborhood was good, highly desirable, and nothing was out of line. I read the numbers and put in an offer for $1.1 million and it was rejected. About 3 months later, I'm driving down the road, the building is still for sale. Again, I read the numbers, I read the pro forma, and I call another meeting. I make another offer for $1.1 million and they reject my offer. Three months goes by again, I'm driving the neighborhood, and there's the building still for sale.

Now, there was an interesting thing about that property. It had a 35% vacancy factor and it still made sense financially. That's how good of a property it was. My idea was to get the vacancy rate down 10%, but this time when I looked at the numbers, that's when intuition kicked in. When I looked at the sellers, I knew something was wrong. Something was deeply wrong. There were 5 of them sitting in front of me. I started wondering, what's different about this picture? The numbers are the same, the players are same. "Ah, there's something different. One guy is missing."

At that point you leave the numbers and you start going with your gut, your intuition. I started asking, "Where's Joe?" They started hemming and hawing and stammering and starring. When I didn't get an answer, I said, "Thank you very much," closed the books, and walked out the door. This time I didn't make any offer at all and all of a sudden, I saw the panic in their eyes. I called the broker up, and I said, "Where's Joe?" He said, "Joe had a stroke."

Now, as a human being, in my heart, I felt bad. As a capitalist, I told myself, "There's a deal here." I asked the broker, "How many kids does Joe have?" He said, "He has 5 children." I knew if Joe died before the property sells, Joe's piece of that property goes into a ward called probate, and instead of having 5 partners, there'll now be 10 partners with Joe's children. At that moment, I knew there was a high need to sell. The property had been on the market for too long. Their mistake was they should have taken my offer at $1.1 million. They should have sold when there was a good deal. Now, you play to win. I went in there and said, "I'll offer you $500,000 cash, now." They stammered. They hemmed and they hawed, but Joe could still sign. They eventually signed at $690,000. They just wanted to get Joe to sign so they never had to go to probate.

These were very sophisticated investors. They understood the game and they knew how the game was played. Two of the men came out to me and said, "We should have taken your offer at $1.1 million. We got greedy and tried to hold out for the full price. That's what cost us the money eventually." That's part of the game. If you really understand the game, you don't get upset if you make the mistake. Their mistake was holding out too long. That's how you play the game. It's a matter of patience, timing, and really understanding the numbers, as well as the human factor of a transaction.

My Suggestion: The story above shows you some of the importance of negotiation, financial literacy, or as my rich dad said, "Your profit is made when you buy, not when you sell." That's a very important lesson, because many people say, "I want to buy a piece of real estate, and when it appreciates, then I'll sell it." That's gambling or speculation. That's a very amateurish way of investing.

LEVEL SIX: THE SOPHISTICATED INVESTOR

We're now into Level Six. Level Six is the sophisticated investor. A sophisticated investor can afford to seek more aggressive investment strategies. They can do this because they have good cash flow management skills. A sophisticated investor does not diversify. He or she is very focused. A sophisticated investor is very aware of tax laws, corporate laws, and business laws. What many people fail to realize is that most of your money is made in what the lay person calls the "loophole."

The sophisticated investor knows the way that real money is made. They have the ability to read financials as well as a very good team of accountants and attorneys. They know how to structure the deal so they maximize their returns. A lot of times the average investor says, "I'm going to buy a stock at $50 and it's going to go to a $100, so I'll make $50." A sophisticated investor is not concerned with the capital gains. They are concerned with the cash flow and how much of that money can flow from the investment into his or her pocket with the least interference with taxes as possible. Those are some of the things a sophisticated investor knows that other investors don't.

Another thing this level of investor understands is the volatility of the market. In other words, if the stock prices are going up, they're happy. If the stock prices crash or real estate prices crash, they're also happy. For example, if a stock is at a $100 and they're afraid it might go to $50, they might short a stock. This is what makes most average investors crazy. An average investor will say, "What do you mean short a stock?" A short means you sell shares that you don't own.

Here you are, you have no money in the market. XYZ stock is at a $100. You go to the broker and you say, "Would you mind shorting that stock for me?" What that means is they take somebody else's stock, and they sell a thousand shares at a $100. You now have a $100,000 in your account and you owe the broker a thousand shares. If the stock price drops to $50, then you buy back those shares with the $100,000 and you give the broker back the thousand shares, which only cost you $50,000. You keep the difference. What you're doing is literally making money with nothing. When somebody says, "It takes money to make money." I say, "Well, that's because you don't know how to play the game."

Now, I've shorted a stock and it went up. That was one of the most painful days of my life, because not only do you have to buy it back, you have to buy it back with money you don't even have. I tell you, that learning experience was priceless because it really woke me up and all it did was inspire me to learn more.

If I could summarize a sophisticated investor, they have great personal cash flow management and fundamental skills. They also understand how to handle volatility and use shorts, calls, straddles, put options, etc., in the market. Also, the big difference is they will not diversify. Diversification is an investment strategy of the average.

To become rich, you have to be smarter than the average investor. It is a game of winners and losers out there and if you're second best, you're the loser. That's why you have to know if you're playing the game to become rich or are you investing to become secure and comfortable? If it is secure and comfortable, then it's okay to diversify. In fact, it's recommended you diversify. But, to become rich, you've got to be smart, you've got to be focused, and you take a very narrow, narrow look at the marketplace.

I have a friend who is the 10% in fifteen city blocks. In other words, he found fifteen city blocks and he controls 90% of that real estate in that fifteen-city block area. That's why, for the average investor, diversification works. But if you want to be rich, you have to focus. For example, Starbucks focuses on a cup of coffee and they're the best in the cup of coffee world. McDonald's is the best in the average hamburger world. That's why to be rich, you need to be in the top 10%, which means focusing. That the way you take 90% of the money. That's one of the financial principles.

Regardless of what business you're in, you can find a niche as a businessman right now. I'm in a niche in some of the smallest oil companies, some of the smallest mining companies, some of the smallest real estate companies, and I'm growing them. That's my niche. You take a small niche and you make it big. That's why I say, "You dream big, start small, think small, have good fundamentals, and make it grow in to a huge asset."

My Suggestion: When it comes to being rich, there's the 90/10 rule. What that rule means is that you have to be in the 10% to make 90% of the money. The 90/10 rule is true in almost all the way across the board. Ten percent of the golfers make 90% of the money. Ten percent of the movie stars make 90% of the money. Ten percent of the network marketers make 90% of the money. Ten percent of the investors make 90% of the money. If you want to play the game, that's why you have to focus. To win the game, you need to be in the top 10% to make 90% of the money, which is why I say, "Dream big, but start small."

LEVEL SEVEN: THE CAPITALIST

The seventh and last level of investors is called the capitalist and I love this level the most. My rich dad pushed me so I could ultimately become a capitalist. What's the difference between a capitalist and everybody else? Very simply, a capitalist is so good at what he or she does that people give them money to do what he or she does. In other words, Warren Buffet is such a great investor that people will gladly give their money to him to invest. So that's why I scoff when somebody says it takes money to make money. That has not been my experience. When somebody has a hot-hand, they don't need any money. People will throw money at them to do their deals with them.

The ultimate goal of becoming financially literate is to get to the point where you don't need to use your own money. In fact, all you need to do is create and think and people will give you money to do things. For example, when I announce that I'm about to start another company, people literally line up to give me money because I have a track record. Now it doesn't mean that we always make money. The same can be said when I write a book. Many authors ask, "What is your secret to becoming a great author?" I tell them, "I'm a capitalist. I don't look at writing a book as an author. I look at writing a book as a business owner."

If I don't think I can make money selling a book, why would I write the book? Again, the reality is 10% of the authors make 90% of the money. The reason is the mindset. It is the difference between being an author (i.e. employee) and a business owner. A capitalist is so good at what he or she does, they have the ability to use other people's time or other people's money. They can hire people or people volunteer to work for them. Capitalists have one major skill and that is the ability to take money and make more money with it.

If you know how to take money and make it grow, that attracts more and more money. That's called being a good steward. The greater your financial intelligence is the easier it is to not only make more money but to attract more money. Now, many people think the word "capitalist" is bad as the word "communist" is to other people. But, let me explain something about the two systems. A communist system is fundamentally devoid of capitalism. A capitalist knows how to own businesses or make money with money. The communist says capitalists are bad. So, they ban capitalists and then the government builds all the houses and controls all the industries. And, we all know what has happened to communism. It has basically failed. Communism was a system designed to not exploit the worker, which was a good idea in theory. The problem was most bureaucrats really do not know how to run a business.

In the movie, "Wall Street," Gordon Gecko said, "Greed is good." Well, there's good

greed and bad greed. If you incentivize somebody to go out and make money in a healthy way, then they do a lot of good. For instance, a lot of people didn't like Henry Ford but his mission statement was to democratize the automobile. In other words, he wanted to make the automobile available to everyone and that's what he did. It raised the standard of living for everybody. It made the workers rich. It provided jobs. It provided tax revenue for the government and America boomed because of it.

I receive tax breaks because the government incentivizes me to provide jobs and housing. That's why the tax laws are written in favor of the rich. Rich dad told me it was a no lose world because even if you lost money, the government allowed you to write off those losses and use it to your advantage. For those who are willing to take the risk, the government really wants the capitalists of society to do what they do best so the government doesn't have to do it.

All the tax laws, from my point of view, are fundamentally written to make you become rich. The people who lose with taxes are the people who think you need job security and play it safe. People who want to do everything on their own because they don't trust anybody, the government will not write incentives for them because they don't do much for that many people. My poor dad's fundamental idea was that the capitalist exploited people. While that may be true in some situations, the capitalist also does a lot of good to raise the standard of living.

WHAT KIND OF INVESTOR DO YOU WANT TO BE?

After seeing my poor dad struggle, and my rich dad look for the next investment opportunity, I made up my mind. I was mentally prepared to become an investor, and I wanted to become a very successful one.

My rich dad asked me, “What kind of investor do you want to be?”

“A rich one,” I replied.

My rich dad often said, “If you are a true investor, it does not matter if the markets are going up or coming down. A true investor does well in any market condition.” In other words, your success is not dependent on the market, but on you.

As you can see everyone falls within one of the seven investing levels. Some levels keep the poor and middle class where they’re at and other levels will help people become rich. My intent is not to say one level is better than another. Where you want to be is your decision. My point is this, whichever type of investor you choose to be will depend upon your willingness to get the financial education necessary to succeed. ou have just learned about the first two parts of gaining your own financial After seeing my poor dad struggle, and my rich dad look for the next investment opportunity, I made up my mind. I was mentally prepared to become an investor, and I wanted to become a very successful one.

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KNOW THE SIX BASIC RULES TO INVESTING

Regardless of how young or old you are, learning the basics of anything is important. People who play golf have most likely taken a golf fessing to learn the basics. I'm sure Michael Phelps took a swimming lesson before he became a world champion swimmer. Unfortunately, most people never learn the basics of investing before investing their hard-earned money.

Rule #1: Know what kind of income you're investing for
Most people think only of making money. They don't realize that there are different kinds of money to work for. For years, rich dad drilled into me that there are three kinds of income. Ordinary earned income, portfolio income, and passive income. Rich dad said, "If you want to be rich, work for passive income."

Rule #2: Convert ordinary income into passive income
Most people start their life out by making ordinary earned income as an employee. The path to building wealth then starts with understanding the types of income and then converting your earned incomed into other types of income as efficiently as possible.

Rule #3: The investor is the asset or the liability
It's not always the investment that's risky, but the investor. As I stated earlier, with a lack of financial education, the investor is more likely to make costly mistakes that they might not have made if they were financially literate.

Rule #4: Be prepared
Most people try to predict what and when things will happen. A true investor is prepared for anything to happen.

Rule #5: Good deals attract money
One of my big concerns as a beginning investor was how I would raise money if I found a good deal. Getting money is the easy part. The hard part was finding the good deal.

Rule #6: Learn to evaluate risk and reward
As you become a successful investor, you must learn to evaluate risk and reward. Investing is not the same as gambling. Gambling is blindly handing your money over to someone else to make your investment for you. Good cash flow investments are based on having a financial education.

CONCLUSION

You have made an important investment just by taking the time to read this eBook, regardless of whether you agree or not. In today's world, the most important investment you can make is an investment in yourself and education. Success or failure, wealth or poverty, depends solely on how smart the investor is. A smart investor will make millions. An amateur will lose millions.

Once you decide what type of investing you're passionate about, there are so many ways to get going with your education. You can take online courses, attend local workshops, and/or attend seminars. Reach out to people in the industry and pick their brains. We all had to start somewhere; we had to ask help from mentors too. If they're good people, and they have the time, they'll be happy to talk with you on getting get started.

Next is the crux of getting financially educated: Taking action. You can take all the classes you want, listen to all the speakers, talk to mentors, and attend all the seminars you want. Your education will never truly take hold unless you apply what you've learned. Get out there and look at the deals. Make offers. Sign that contract. Only then will your education be truly underway.