RAT RACE ESCAPE PLAN

by Andy Tanner
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About Andy Tanner

Andy is a renowned paper assets expert and successful business owner and investor known for his ability to teach key techniques for stock options investing. He serves as a coach to Rich Dad’s Stock Success System trainers and as the Rich Dad Advisor for Paper Assets.

As a highly sought after educator, Andy has taught tens of thousands of investors and entrepreneurs around the world. Students love Andy’s ability to make investing concepts simple and understandable.

He often speaks to students at the request of Robert Kiyosaki, showing how paper assets can fit into the Rich Dad system of investing. Andy was also key in helping develop and launch Rich Dad’s Stock Success System, which teaches investors advanced technical trading techniques to profit from bull and bear markets.

He is the author of two books: 401(k)aos exposes the hidden pitfalls of the popular 401(k) investing plan, and Stock Market Cash Flow, a Rich Dad Advisor book on how the average investor can use the stock market to generate regular cash flow and not just buy and hold capital gains.

Andy has also created an online investing course called The 4 Pillars of Investing. Investors who want to look over his shoulder as he invests with his own mentors each week will enjoy Andy’s Mentor Club.
What Is The Rat Race?
You've probably heard the term *Rat Race* before. People will reference it when they say things such as, “I'm stuck in the Rat Race,” or “I hope that someday I can get out of this Rat Race.”

But what does this term really mean?

For most of us, the Rat Race is a situation in which one day we wake up and feel as if we're trapped by our circumstances. It’s a frustrating, hard-to-break lifestyle that usually forces us to stay in jobs we don't always enjoy due to the multitude of financial obligations hanging over us: the mortgage, rent, medical bills, filling the car up with gas, braces for the kids, day care, groceries, and so much more.

Even those with seemingly good-paying jobs often feel very close to poverty when they’re caught in the Rat Race. I’m always surprised at how many people I speak to are just a paycheck or two away from financial ruin. As a result, they tend to stick with the same jobs for fear of being poor.

That’s how I describe the Rat Race with words. Now let’s look at what being stuck in the Rat Race looks like with typical financial numbers.

The place to begin is with a **personal income statement** and **balance sheet**. This is where we can see the money flowing into and out of someone’s life. It’s an illuminating (and sometimes painful) method of identifying the real financial situation someone is facing. Once we find the problem, it’s so much easier to find a solution.

For our example, let’s say that every month your expenses total $5,000. This is the amount of money you need to pay to cover the cost of your lifestyle.

So the first thing we need to figure out is this: how will you come up with $5,000 every month?
Active Income vs. Passive Income
Most people solve this problem of paying their monthly bills by getting a job. This is something we call **active income**.

In other words, we actively exchange our work for money. It doesn’t matter if the work is manual labor or more skilled brain work. With a job, you are relying on someone else to keep you employed so the money continues to flow into your bank account. If the job ends, so does your money. And when the money ends, you have no way to pay those monthly bills. Thus, the Rat Race begins.

When we think of retirement, most people imagine the day when they no longer need to go to that job anymore. It usually occurs somewhere around the age of 65. By that time, hopefully enough money has been saved to carry them through the retirement years. For many people, retirement may never come. The nature of their own personal Rat Race has somehow kept them from acquiring enough money to cover their expenses for their remaining days.

On the other hand, you can also cover that $5,000 total of monthly expenses with something called **passive income**. For our discussion here, I want to focus on the type of passive income we can generate by purchasing something called an **asset**.

So instead of working to create cash, we want to explore what it looks like when we purchase an asset that creates ongoing cash for us — every month, every year, for as long as it fits our desires. In the coming chapters we’ll explore this in more detail.

When we buy an asset, we place it in the Asset column of our balance sheet. These assets can include real estate, a business, commodities such as gold or oil wells, and paper assets such as stocks.
There are two basic ways you can benefit from an asset:

1. **VALUE APPRECIATION.** When you buy an asset for $10 and then over time the value increases to $100, you have an opportunity to profit. This kind of value appreciation is called *capital gain investing*. A very common example of this is putting money into a retirement account. Every time you put a chunk of your paycheck in there, you are hoping and praying that it will grow over time enough to pay for your retirement years.

2. **CASH FLOW.** You can also leverage an asset to provide you with regular cash flow. For example, you can buy a house and then rent it to provide you with money every month. This is the idea behind buying assets that can become money machines to work for you.

To get out of the Rat Race, we need to find a way to cover our monthly expenses without the need for active income. When our passive income is greater than our expenses, that’s when we can say that we are out of the Rat Race. This is what financial freedom is all about.
The Forces Keeping You In The Rat Race
If all someone needs to do is buy the right kinds of assets, then why aren’t more people doing it?

What are the forces that seem to be pushing on us to keep us in the Rat Race?

**FORCE #1: EDUCATION**

Let’s back up a few years to see how these ideas are so deeply ingrained into our minds. In school we are taught to follow the rules. We are shown a model of life like this: go to school, get a good job and work hard, have a pleasant retirement, and live happily ever after.

In that scenario, education pushes us into the Rat Race. Additionally, when we follow these rules, we are never taught how to move to the other side. We aren’t given the tools or knowledge to get out of the Rat Race. That’s why most people can never escape — they don’t know how.

This affects people in all walks of life: laborers, desk job employees, and even doctors and lawyers. It’s not about how many monthly bills you have or how much money you make; it’s about how much passive income you can generate.

**FORCE #2: FEAR**

Another force that keeps so many of us from getting out of the Rat Race is fear. The most common source of fear comes when we don’t understand something. When you hear a strange noise in the night, the natural reaction is to be a little scared. Then, when you discover it’s just the cat walking around, you understand what’s happening and the fear is gone.

The same thing occurs when people think about getting out of the Rat Race. If we don’t understand how it can happen for us, or that it’s not that difficult, then of course we will feel a little scared of that unknown.

For people who have jobs, the biggest fear is losing that job. When the job is gone, the flow of cash to pay the bills is also gone. To minimize that risk, we are taught various methods of finding and keeping a good job: learn new skills, be better than the other guy, suck up to the boss, and all those other strategies. Yet we never really control our risk, because as an employee someone else will always have the power to fire us.
Investors, on the other hand, see the situation differently. Since they have learned to have money work for them, they have greater freedom of time and movement than those who hold jobs. That’s why their biggest fear is losing that freedom. It’s a fear of having to answer to a boss. And the fear of having no control of whether or not you’ll have a job tomorrow.

To minimize their risk of losing money, investors also work on gaining skills: they seek greater education about the things in which they want to invest, in how money works, and how to make money even if the world is falling down around them. Investors know that knowledge truly is power – the more they learn, the more they earn.

It’s important to ask yourself this question: Are you afraid of being an investor, or are you afraid of being an employee? Both of these fears can be overcome through understanding what it takes to be successful. But only one of these paths will certainly help you escape the Rat Race.

**FORCE #3: WORK**

All success in life comes from hard work. Don’t be under the illusion that investing is easy and doesn’t require any work from you. Yes, you will learn how to make money work for you. But until you master those skills, you will probably need to work more as you enter the path of investing than you do as an employee.

If you want to truly escape the Rat Race, but you are unwilling to put in the effort of doing what it takes, then I recommend that you stop reading right now and go play the lottery. The business of creating passive income will require that you put in the time and effort. And in due time, it will reward you for that sacrifice.

As I speak to eager students around the world, I find that most are ready to do the work. They just need help getting pointed in the right direction. Most are working full-time jobs, so they figure out how to make time in the evenings and on weekends to learn about creating passive cash flow. Those are typically the ones that taste the success.

These three forces that we have identified are the most typical ones we face. Individually, you may be naturally strong in one area, and weaker in the others. It’s different for everyone, of course. But when you are able to identify the forces that are most strongly working against you, that’s the first step in being able to
overcome those forces. With a good financial education, you can overcome your fear of investing. By learning to see your situation in a new way, you can gain insights that can break down the barriers that have held you back from accomplishing great things. And as you refocus your hard work into benefitting yourself instead of just your employer, you can begin to reap the benefits that are the foundation of escaping the Rat Race.

When you think about it, it’s a little crazy how much we are willing to spend on a college education. Right now in the United States, the average cost of a four-year degree is about $40,000 at the least expensive state universities and colleges. At a private university, the same education will cost nearly $125,000. These are the degrees that put you squarely in the Rat Race. Yet most people aren’t willing to spend any time or money to educate themselves on how to gain financial freedom by creating their own income.
How To Escape The Rat Race
We know what the Rat Race is, and some of the forces that cause us to stay in it. Now let’s move forward and begin discussing how we can break free.

As we saw, escaping the Rat Race requires us to buy assets that produce passive income. It’s important to understand that this passive income is new money coming to us as cash flow from our investments. We are not drawing from our savings accounts or other nest eggs. When the amount of passive income is greater than our $5,000 in monthly expenses, we are free. It’s that simple.

Here are the four main asset classes we can choose from to help us reach our goal of getting out of the Rat Race once and for all:

- Business
- Real Estate
- Commodities
- Stock (and related paper assets)

With a true asset, the cash flow doesn’t deplete the way it does when you draw money from your savings. When you have a good business, a rental property, an oil well, and a solid stock position, these can provide you with reliable income far beyond your initial investment.

This type of investing doesn’t rely on increasing your net worth. Instead, we want to focus on building a solid foundation of new money cash flow that can sustain you over the long run. Not only is this possible, but it’s the exact strategy used by the rich to maintain their lifestyle now and in the future. We’ll begin to explore some of these methods in the next chapter.

Some investors choose just one asset class in which to specialize, and then devote their lives to learning and perfecting their skills to maximize their income. Others choose to participate in multiple asset classes.
Why Stocks May Be The Right Investment Method For You
When people consider investing in the stock market, they typically think of long-term retirement accounts or other buy-and-hold scenarios. Rarely do they think of the stock market as a source of ongoing cash flow. Yet that’s exactly what it can do for an educated investor.

**Start small.** Perhaps the most attractive aspect of stock market investing is that it allows anyone to start small and scale up when you’re ready. Plus, you can get up and running in a short period of time. Starting a business or becoming a real estate investor are also great ways to help you escape the Rat Race. But they usually require a large amount of money to get started. And they also require you to invest a big chunk of time before they begin paying you back. With stocks, you have very little overhead and can start with very little money. Then you can scale it up as you grow.

**Flexible.** When you invest in stocks, however, you can still get started while working a regular job and learning to invest by practicing in your spare time, because I’m NOT talking about day trading or those other risky types of stock investing that force you to be glued to your computer screen. My style of stock investing allows someone to get up early and put in a bit of time before they head out to work. Others prefer doing it after they get home in the evening. Since you don’t have to interact with people as you do with a business or real estate, it’s easy to fit it to your own schedule.

**No people skills required.** With other types of business and investing, some people get nervous because they don’t have the sales skills necessary to succeed. You don’t need that as a stock market investor. Anyone with average intelligence and a desire to learn can gain the right skills and strategies used by successful investors.

**Liquidity.** The liquidity of the stock market means that there are always buyers and sellers ready to act. You only need to learn how to set up your investments to benefit no matter if the market moves up, down, or sideways like top investors you hear about in the news all the time.

**Leverage.** To gain leverage in business or real estate, an investor needs to take on debt. This isn’t a bad thing, but it can sometimes limit your ability to play in those arenas. In the stock market, you can have tremendous leverage through the use of option contracts. These types of option contracts allow you to control large amounts of stock positions for pennies on the dollar. It can be a huge advantage for the educated investor who knows how to safely use options for steady cash flow.
Agility. If the real estate market plunges or the economy goes into recession, there is instantly a lack of buyers and your cash flow can dry up instantly. With stocks, however, there is always opportunity – no matter if the market plunges like it has recently, or if it spikes higher, or even goes in a boring sideways direction. That’s what I mean by agility: the ability to profit in any situation you face.

Free practice. One of my favorite aspects of stock investing is that you can learn how to do it without risking a single penny in a bad trade. Virtually all brokerage firms offer anyone a free account to sign up and learn to trade. It works just as if you had real money in your account — but it’s basically ‘pretend’ money. This is an ideal way to practice the strategies and skills you learn through a proper training program. No other type of investment I know of gives you this type of sandbox to play in and hone your skills.

When it comes to choosing the right type of investment vehicle for you, it’s important to be thoroughly educated on the pros and cons of each. Stock investing offers you many of the advantages shown above. But both real estate and business can offer bigger paydays than stocks – especially if you’re starting with a small stock account. And while there is also more competition in the stock market, that competition also gives you the advantage of always having a buyer or seller in any situation.
How My Wife And I Started Investing
For many years I had very little interest in the money I was investing.

Well, that’s not entirely accurate. I had a lot of interest in the future value of my money. And I had full faith that the Wall Street companies managing our funds were competent to take care of my money. I had full faith in them.

But then something happened...

Remember the Dot-Com Bubble back around 1999-2000? My wife and I sure do. We had some retirement accounts just like most people. And then the market dropped like a rock.

We were dazed.

What in the world happened? Why didn’t those Wall Street geniuses protect our money better?

We sat down and looked at our account statements. Half of our account value was gone overnight. At that moment, we knew that something needed to change. We needed to learn what happened to our money, and how to prevent something like this from happening again.

As we started to learn about investing, we were blown away at what we discovered. It became clear to us that those Wall Street companies weren’t very good at managing our money. Even worse, they were charging us an arm and a leg for their incompetent services.

At that point, we dove in head first. My wife and I learned everything we could about money and investing. And when we had the basics down, we teamed up with a mentor to guide us to make sure we were placing trades properly. It didn’t take long before we were able to do it on our own.

Along the way, I also discovered what I was really good at: teaching! Over the years I have traveled the world teaching tens of thousands of investors how to gain this same knowledge and follow these same strategies.
How Some Of The World’s Best Investors Use The Stock Market
As part of my involvement with Robert Kiyosaki’s book *Unfair Advantage*, he asked me to discuss the difference between amateur and professional investors. The difference is huge.

With their lack of understanding, amateurs generally try to buy low and sell high. They try to time the market with very little training and experience. Amateur investors believe they are diversifying their stock portfolios by acquiring stocks from different sectors of the market, and hoping the overall market continues to go up during the next twenty or thirty years until they retire. But when the entire market drops, it takes all stocks with it. That’s the reality of the stock market we now have.

Yet the typical amateur investor doesn’t foresee that these days the market moves in cycles with regular crashes. These crashes can be catastrophic to an investor’s account. It usually takes many years for an amateur’s account to recover from a big market crash, just in time for the next one. The type of dollar cost averaging made popular by Wall Street and consumer investing publications only benefits the investment companies who manage these accounts. When the crash occurs, it’s the investor who is left with the painful losses.

When we look at how professional investors exploit the stock market to earn profits, we see a variety of behaviors. With their solid understanding of how the market really works, and the knowledge that they can’t control where the market heads, they typically use investing methods with a built-in safety net. The most commonly-used strategy for them is to use the stock market in conjunction with the options market. Stocks become their main investment, while options are like the insurance they buy for that investment. It’s very similar to real estate – you buy the property as the main investment, and then you purchase insurance to protect it. That’s why top stock market investors know how to do the same thing with stocks and options. It’s not difficult at all, but it takes a basic understanding of how it works and how to use it for yourself.

Warren Buffett is widely regarded as the greatest investor of all time. Virtually everything he touches turns to gold, helping him become one of the richest men to ever walk the earth. When you read his name in the newspaper, it’s usually about a new business that his company has acquired. That’s an important part of his strategy. But what most people don’t know is that Buffett is a very skilled stock and option player. He uses them together to ensure that he profits no matter what direction the market heads. And he protects himself so that his losses are minimal compared to the size of his investment.
What I love about Buffett’s approach is that it can also work for any investor, even if you have a very small account. His approach is smart because you can sell options to create income for yourself. It’s very simple to set it up in such a way for you to actually get paid to buy stock. That’s my type of investing!

In a nutshell, here’s how professional investors use options to create income: When they find a stock they want to buy, they set up options trades to lock in the price they want to buy it for. These options also create income for them until they actually buy the stock. As an added bonus, the options also protect their risk exposure just like insurance. If the stock price moves the wrong way, they will still get paid.

As a summary to the difference between amateur and professional investors, in general we can see:

- Amateurs seek to earn their money in stocks from capital gains (buying low and selling high), and to manage their risk by diversification.

- Professionals seek to earn their money with cash-flow strategies, and to manage their risk by using contracts – they sell options for income and they buy options for protection.
What This Can Look Like For You
Now I want you to see how anyone with a good, basic stock market investing education can do this kind of investing for themselves.

Here’s what a typical investing move looks like for me on an average day. It’s a basic strategy called a covered call. Let’s say I find a stock that I want to buy at $100, and I’m willing to sell it when it reaches $105. So I decide to go for it and I purchase the stock.

That’s where an amateur investor would be finished with the investment. Just buy it at $100 and hope the price goes up.

For us, however, we’re just getting started. With the stock in my account, the next thing I do is sell a one-month option to another investor that allows her to buy the stock at $105, even if the stock jumps much higher than that. For this example, let’s say that the going price for this option is $5. So I sell the option for $5 and pocket that money — it’s all mine. And during that month, she can exercise the option at any time to buy the stock at $105. If she doesn’t then I keep the stock. And I always keep the $5 she paid for that option.

At this point, one of three things will happen:

1. The price of the stock could go down – If this happens, I will continue to sell options every month to collect ‘rent’ on my stock. Think of it like a house that you rent out. It doesn’t matter how much the house is worth, there will always be people willing to rent it.

2. The price of the stock could go up – If it does, then I will sell the stock at a profit.

3. The price of the stock could stay about the same – Similar to the price going down, I can continue selling options to collect rent.

That’s a very simple approach that I can teach new investors how to do it properly in very little time. And with a little practice, my students use this strategy for safe and steady gains.

Now let me show you a little more advanced example of how you can do this with even less initial investment:
Instead of buying a stock, I can buy a long term option called a LEAPS. This allows me to control the stock for about $30 — a huge discount over the full $100 price. It's much cheaper than a stock, yet still allows me to sell calls and collect the premiums as rent. So I have less money in the game, yet my amount of profit is the same as if I had bought the full stock. With just that one move, my profit percentage increase from 5% ($5/$100) to nearly 17% ($5/$30). And since it's scalable, I can reinvest my profits to grow the size of my account and how many LEAPS I can purchase. That's one way to grow your ability to create steady cash flow that can help you escape the Rat Race with very little initial investment.

For many investors, including my students, a typical morning involves getting up, buying your stocks for the day, selling your calls, and then managing your risk associated with those positions.

When I first started investing, I really struggled trying to learn the safest and easiest ways to implement these strategies. I went through a lot of trial and error, and made many mistakes. As I eventually found good mentors to help guide me, I became quite proficient at doing my own cash flow investments.

The thing I love most is that it's not difficult. I'm a regular guy with average intelligence. I found that the difference is a willingness to dig in, learn the basics, and follow instructions. It can really be that easy.
What You Can Begin Doing Right Now
I hope you have come to realize through reading this ebook that anyone can learn to escape the Rat Race.

You don’t have to continue working at a job you hate for the rest of your life. You don’t have to be trapped in a situation that doesn’t inspire you.

We have discovered that the key to escaping isn’t to work harder at what you are currently doing. Because the system we are in has created powerful forces that are difficult to escape.

The most important first step is to see that escaping the Rat Race is all about one thing: working to create a passive income that is greater than your total monthly bills. That’s it.

With that as a target, next you can determine what types of investing you want to learn how to do in order to achieve that goal of creating new passive income. It’s not free money, and it will require work. The difference is that you will be creating it on your own, without relying on a job and a boss that can terminate your cash flow at any moment.

If you want to get out of the Rat Race, don’t focus on the investment. Instead, follow this process: BE, DO, HAVE. A lot of people want to race ahead and ‘have’ a certain investment, or ‘do’ a certain investing action. But please follow this wise advice that others have given me. Learn to ‘be’ an investor first. Then you can begin to ‘do’ the work of investing. Finally, that will automatically show you what investment to ‘have.’ You have to be a doctor before you can do surgery and have patients. You have to be a lawyer before you can do law and have clients. You have to be an investor before you can do investing and have money and have cash flowing investments.

Robert Kiyosaki has taught me this lesson many times. The journey out of the Rat Race is really the journey of becoming a better you. It’s about helping you become educated and confident in your future. As you step into this journey, you will answer the question of “Who Are You?”

You have to be an investor before you can do investing. And that comes with time and education. I think the reason people are taught that the stock market is scary and difficult to do on their own is because of Wall Street. They want us to think we’re too dumb to succeed on our own. But we’re not. I have learned this for myself. Now it’s your turn.
Over the next few days I will be sending you some cool videos that I have been working on. They will show you in more detail why I love investing in the stock market. I can do it quickly, easily, and with very little initial investment.

When you get those videos, watch them! I promise you will learn a lot of really valuable things that can benefit your life immediately. I’m here to help make this learning as fun and simple as possible for you.