

# Why Doctors Need to Understand the Cashflow Quadrant

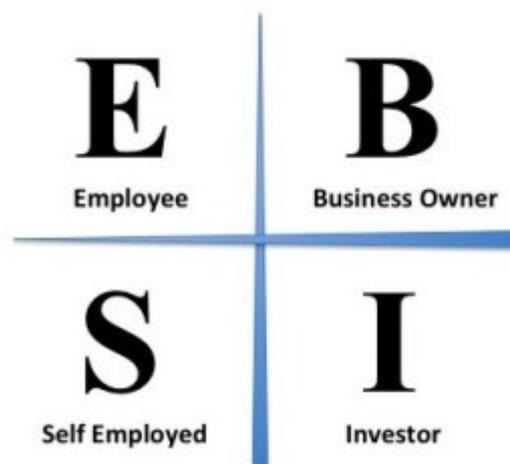


*[Editor's Note: The following is a [republished post](#) from Passive Income MD, a member of the WCI Network. This is the first post in a two-part series on the "cashflow quadrant." This one explains what the cashflow quadrant is and the second goes into [how doctors can apply the cashflow quadrant](#) to achieve financial freedom. I'm not a huge fan of Kiyosaki, for reasons probably best expounded on by [John T. Reed](#). But I've got to admit, I think the cashflow quadrant is a concept worthy of your time and understanding.]*

I owe a lot to Robert Kiyosaki. His book, [Rich Dad Poor Dad](#), actually helped start me on my path to financial freedom, and his other writings have all taught me very valuable lessons.

While I don't agree with everything he says in every book, one thing that really cemented the idea of passive income in my mind was the concept of the "cashflow quadrant."

This concept is so important and fundamental that I believe every doctor needs to read and understand it as much as possible (for more detail, check out his book, [the Cashflow Quadrant](#)). But since none of us have much free time, let me break down a quick summary for you.



## The Cashflow Quadrant

Using the concept of quadrants, Kiyosaki talks about different careers and how our current tax structure plays into them. He even talks about the mindsets of different careers and I think he's pretty spot on.

[In the book](#), Kiyosaki breaks it all down using four key areas (hence the quadrants) and labels them with a letter:

When it comes to jobs, careers, and business, some people fall into multiple "quadrants," but everyone fits into at least one of these categories. To break it down even further, here are some details on what each of those categories means.

### **E – Employee**

The majority of the population lives in this quadrant. An employee makes money by putting in their time and performing their job, and collects a wage or salary. Their income is tied to their time and they are essentially trading time for money. The only way to earn more money is to work more hours—or jump to another company that pays more per hour.

However, you're still trading time for money even with a salary increase—if you don't work, you don't get paid. More

and more, doctors are finding themselves in this quadrant as private practice continues to diminish. How many of you are employees of a large health system and paid a salary based on a set number of hours a week?



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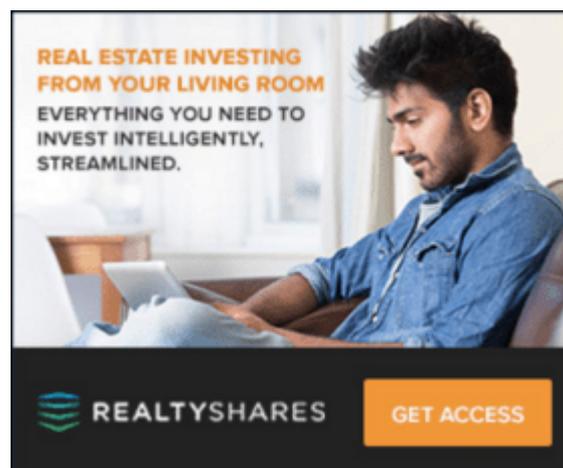
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Self-employed people may feel like they're in a better position than employees but are still essentially trading time for money. To make more, you still have to put in more hours. Kiyosaki states that for the self-employed, the business actually owns them.

As a self-employed physician, you might have a little more control over your time. But even so, if you don't work you still won't get paid. Furthermore, how much you get paid may or may not be under your control, depending on whether you

accept insurance or not.

## B – Business Owner

Being a [business owner](#), in this sense, means that you own or run a system that produces income not proportional to the time you put in. You may have a large number of employees who work hard for you to help you build your business.

This is where the concept of scale comes in, and your income isn't linked to your time. Because of this, your time becomes much more valuable. There are very few physicians who make it into this category, but some savvy entrepreneurial doctors have figured out a way to live in this space.



## I – Investor

As an investor, your money works for you to create [additional, passive income](#). Examples of these types of investments include stocks, real estate, royalties, and owning portions of businesses. From these investments, you're able to receive the cash flow necessary to be financially free.

This is how physicians can find true financial independence and freedom. Once they reach this stage, practicing medicine is for fun—a [well-paid hobby](#). This is accomplished by

having [multiple streams of income](#).

## Active Income vs. Passive Income

Let's look at the quadrants again. Another way to divide them is by the level of effort. The two quadrants on the left are considered active income. As an employee, or if you're self-employed, you are actively trading your precious time for money. In short, time in = money out.

The two on the right are considered categories of [passive income](#). With these quadrants, your income is not proportional to the time you put in—money is coming in even when you're not actively working.

## Quadrants and Uncle Sam

As a side note, it's important to discuss taxes. Our current tax system is designed to favor the right side of the quadrant – Business Owners and Investors.

Using legal provisions in the tax code, you're able to lower your effective tax rates. The Business quadrant in particular also causes the formation of jobs, which the government encourages using the tax code.

Unfortunately, there just aren't as many tax breaks for the left side of the quadrant. That helps explain why so many highly-paid employees or self-employed doctors end up getting crushed when it comes to taxes.

## Wrap Up

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As doctors and high-income professionals, we're taught one thing throughout our educational path: work hard and you'll be appropriately compensated. Unfortunately, as many of us have discovered, that doesn't necessarily sit true in the real world.

I receive tons of emails from physicians saying the same thing: "I've reached what I believe is the pinnacle of my career, and worked so hard to get here. Why, then, do I feel like I just can't get ahead?"

Well, taking a deep look at the cash flow quadrant and realizing which one you're in can help explain a lot. As physicians, our goal should be getting on that right side.

It doesn't necessarily mean leaving medicine, but it does mean building [additional streams of income](#) and investing smartly, ultimately making it so that your income isn't dependent on your time in the hospital. The last thing we want is to be a well-paid hourly worker with a huge tax burden.

As high-income professionals, we have a unique opportunity. With smart spending and strategic investing and savings, we can quickly move to the right side of the diagram—specifically, the Investor square, where true financial freedom is found. It doesn't need to take forever, either. In fact, the [White Coat Investor](#) and [Physician on Fire](#) believe that most of us can get there in about 10 years

after training.

In the next post, we'll go into further detail on some of the ways to move to the right side of the cashflow quadrant and move towards financial freedom.

*Which side of the cashflow quadrant do you sit mostly on?*