The contrarian wealth dragon

Wealth Dragons co-founder John Lee advocates wealth building through property investing and forex trading. He shares with *Personal Wealth* his investing principles and motivation for setting up the company.

BY **EMILY CHOW**

When it comes to amassing wealth, John Lee, 34, believes that investing in real estate and trading currencies will help get you there quickly. He himself became a millionaire at the age of 27 by investing in properties.

The lessons he learnt along the way inspired him and his business partner, Vincent Wong, to set up Wealth Dragons, a UK-based wealth education and personal development training company, in 2009. The company focuses on property investments, foreign exchange (forex) trading, business start-ups, online marketing and public speaking.

"[Before forming Wealth Dragons,] my salary [as a computer animator] was about £36,000 (RM201,694) a year. But I wanted to have more time to travel, and I didn't want to work for an employer [anymore].

"I reasoned that if I bought property and made my year's salary very quickly, I could have the rest of the year off as a holiday," Lee tells *Personal Wealth* in a Skype interview, in conjunction with the release of his book, *The Wealth Dragon Way*, published by John Wiley & Sons.

Lee prefers forex trading over other financial instruments, such as stocks or commodities, because he believes it delivers the fastest returns. "Your biggest asset is actually your time. You can't buy back time," he says.

"Forex is good for wealth and asset building because it allows you to make money really fast. But you can lose money really fast as well. That's why you have to learn before you can earn."

PROPERTY INVESTING

Lee's foray into property investing began when he realised the appeal of having passive income instead of drawing a monthly salary as an employee. After quitting his job, he bought a house on the outskirts of London for £85,000 in 2005. Two months later, he sold it for £185,000, or a 118% profit.

"I made [the equivalent of] three years' salary in a couple of months. The property was just outside of London. That was when it occurred to me that if it was this easy, why not do another one? I bought my second property for £200,000 and sold it for £250,000 after a few months."

Lee continued to grow his portfolio. Within six months, he had already invested in 35 properties. Some of these he kept while others he flipped or converted into multiple-let properties (multiple-let, or multi-let, properties are units that are rented to more than one tenant). His strategy was to buy properties below their market value and make quick gains when he sold them.

"Our rule [at Wealth Dragons] is that you make money when you buy, not when you sell. Every single property I buy is below market value. So, if I buy a property valued at RM1 million for RM800,000, I have already made RM200,000," he says. "I don't have to wait for the price to appreciate. I never buy at or above market value."

While the average investor would consider 35 properties within a six-month time frame a high risk or an overleveraged portfolio, Lee doesn't think so, as he is able to manage the risks involved.

"I don't think it was overleveraging. Every single one of my properties brought cash flow. You have to turn [property investing] into a system. I have staff to manage the properties for me," he says, before elaborating on the risks and criteria he considers when venturing into property.

"For every property I have bought, there are only two risks. One is property prices, because what if you buy and it goes down in value? The other is, what if interest rates increase? Your mortgage payments will go up and your passive income decreases. But as long as you can manage these two risks, [35 properties] is not risky.

"There are two criteria [when deciding on a property purchase]: If I rent it, can I make a profit? If I can, then it is not overleveraging. Next, if I buy the property, can I sell it? All 35 properties I bought were in the UK and were 25% below market value."

Today, his portfolio includes property in the UK, the Netherlands and Malaysia.

Lee initially funded his property investments by taking out mortgage loans and then refinancing them. However, he wasn't able to continue doing so after the 2008 global financial crisis. He then started using alternative financing strategies, such as lease options and seller financing (see story on "Alternative property financing methods").

Lee advises against relying on banks for financing, as the growth of an investor's property portfolio will be stunted if the banks decide to stop lending.

"You can use seller financing, where the people who sell you the property also finance it. You can use lease options as an instrument, where you control the property without having to get a mortgage," he says.

"Then you have investor financing. There are a lot of people out there who are equity rich but have no time and want a higher return on investment, so you can do a joint venture and work with that person."

Having alternative financing methods is important to Lee, as one of his biggest mistakes as a property investor was relying solely on one funding strategy. "I bought a lot of properties in 2008, but I focused on one strategy. And when the market changed, my strategy became obsolete. I had to find another way to invest in property," he says.

"My strategy was to buy property, hold it and rent it out for cash flow. But in the UK, where you get £300 for a month's rent, your cash flow is wiped out if, let's say, your boiler [for central heating] breaks. And the moment the banks stopped lending, my strategy became obsolete."

Buying and hoping for the market price of a property to rise is one of the riskiest things an investor can do, says Lee. "Even though it served a lot of people well in Malaysia over the last three to four years, it is still speculation."

Hence, locating undervalued properties is an important part of his strategy. Lee avoids the conventional route of buying through real estate agents, developers or even at property auctions, calling them "the worst places you could go to" in search of property deals, as you are competing with every other buyer.

The ones he buys aren't typically advertised, he says. "In the market, about 20% of sellers are in need of a quick sell because of personal circumstances. Maybe they want a divorce, want to emigrate, or are facing foreclosure. Their situation has left them with a short time frame to sell. So they come to us and we buy their property within 28 days. I buy it faster, but I also buy it cheaper."

Lee gets the word out through various channels, from offline marketing and advertisements to social media, Google and referral marketing. It is important to market yourself in an effective way so that it attracts the right client, he says, adding that it is mostly sellers who approach him to dispose of their property.

The rental income from his properties began to provide him with enough cash flow. People also started seeking his advice on how to invest in property. He soon found himself spending more time mentoring others than focusing on his portfolio. This propelled him to start Wealth Dragons with his business partner, Wong, whom he had met at an investor networking event.

"We started Wealth Dragons by accident. We never set out to teach people, but I loved doing so because I didn't want others to make the mistakes I made. The problem came because I spent so much time speaking with people instead of concentrating on my own [property] business," Lee recalls.

"So, we decided to launch Wealth Dragons to teach people things they were never taught in school, such as how to buy property using leverage or lease options. I don't have any qualifications in property. I am not an agent ... my qualifications come from experience as I learn from trial and error."

Lee estimates that around 20,000 people attend Wealth Dragons' training events each year. In the near future, he hopes to build a property buying fund worth £500 million for his customers.

"Once we raise that, we will go out and start buying properties under Wealth Dragons. We will launch that at the end of the year. We haven't come to [the specifics of the fund,] but it will buy into asset-backed investments that are UK property specific, and it is going to be regulated by the Financial Conduct Authority (FCA)," he says, referring to the UK's financial regulatory body.

Alternative property financing methods

While alternative financing methods can be a viable option for those who are unable to get bank financing, investors should note the pros and cons of each method.

Seller financing takes place when the owner himself provides the financing for the purchase of his property. In doing so, he takes on the role of the bank or lender. The buyer and seller typically sign a promissory note stating the financing terms and conditions, including the repayment schedule, interest rates and payment default consequences.

This method is good for buyers who might not qualify for a housing loan. It is a faster process as there are no bank fees or charges. The down payment can also be negotiated with the seller. The downside, however, is that the seller might impose a higher interest rate than the banks.

Owners who have difficulty selling their property might use this method of financing to make the sale more attractive. But they cannot hold a mortgage on the property and run the risk of the buyer defaulting on payments.

With a lease option, there are two components. One is a lease, where investors or potential buyers can rent out the seller's property to other tenants. The other is an option, where investors can exercise the right but not the obligation to buy the property at a specified price within a particular time frame. Investors can use one or the other component, or both.

According to John Lee, co-founder of Wealth Dragons, this is done by investors or buyers when there is an expectation that the price of the property will rise over time. The idea is that buyers will profit upon purchase if the property value increases after the lease is up.

"On the seller's end, sometimes the property is worth more than what it is currently priced at. So, if you can predict that property prices will decrease, [sellers might opt for a lease option]," Lee says.

"The benefit for the seller is that if he is in a negative equity situation [where the asset is priced less than what it is worth]. He can walk away from the sale without having to go into debt."

The second benefit, he adds, is if the seller does not want the hassle of dealing with or renting property to tenants. "Investors will put tenants in the property to monetise it. Let's say your mortgage payments are RM5,000, an investor will get a tenant and charge maybe RM8,000. When the investor gets the RM8,000, the investor will pay the seller RM5,000 for the mortgage payment and collects the rest as rent."

Investors should note that while this can be a legal process, it is not regulated in the UK.

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Attitudes towards wealth

The son of migrant parents from Hong Kong, John Lee was born and raised in the UK. He grew up around people with different attitudes towards wealth. The Chinese view he grew up with was that wealth does not come without hard work, whereas in Western culture, some view wealth in a negative light.

"Money is the root of all evil is a saying, right? [Society is] more laidback in the UK, for example. People just make enough money to be comfortable. But in Asia, there is a drive and people are proactive," Lee says.

"My parents came to England and opened a Chinese takeaway [restaurant]. Their view was that if you want to make money, work hard and you will be successful. Also, in Eastern culture, you save. But in the West, you spend what you have and live off credit."

Although the advice he was given growing up was to save money, buy a house and pay off the loan, he says paying off one's debt is the worst decision one can make.

"There are a lot of people who are equity rich but cash poor. Let's say someone has been paying off his loan for the last 25 years, so he has £200,000 worth of equity in his house. But the equity is doing nothing for him," says Lee, who reckons he could get better returns if the money was invested elsewhere.

In observing wealth trends, Lee expects to see more billionaires created over the next decade, and more people using less traditional methods to build their wealth, like starting a business.

"When you talk about trends, people are now more open to creating a business for themselves. They are sick of their jobs and not having a choice," he observes.

"I see more and more people starting passion businesses. We are going to see more entrepreneurs than ever before because technology allows us to do so. There is going to be a lot more online businesses. It is about being creative. There is never a lack of resources [online]."

Lee's advice for holistic wealth building goes beyond business and investments. He recommends apportioning your income five ways, beginning with investing in your own education.

"[Invest in] your education to grow yourself. I spend at least 10% of my income on that. I still go to seminars and [seek consultation from experts]. The second [portion of your income] is for living expenses. Then, [allocate] a percentage for giving. If you give more, you will get more," he says.

"Another is [putting your income in] a long-term savings account for a rainy day. And the last portion is for your investments."

"While high net worth investors will form the majority of the market, we won't just target them as we want everyone to have the opportunity to get returns. We will give investors outside of the UK the opportunity to invest as well."

Lee's strategy of buying low and selling quickly may seem like a contrarian or even a high-risk move to the average investor who believes in property as a medium to long-term investment. But he says the strategies used depend on one's circumstances or investment goals, as some investors look for higher returns or quick income, versus consistent returns, so that they can quit their jobs.

Ultimately though, property is a long-term game. "The great news is that property prices increase all the time, and typically double every 7 to 10 years. The market tends to move in a cycle, through booms, retraction, recession and recovery," Lee says.

"I always say Malaysia is a few years behind the UK. It has just gone through a boom period and now you have regulations [to cool the market], so what will eventually happen is that you will hit price-resistance [levels]. Malaysia is going through now what the UK went through in 2008."

FOREX TRADING FOR FAST MONEY

Forex trading became Lee's second way to build wealth after a friend introduced him to it. He prefers trading currencies as he feels it provides the fastest returns on investment (ROI).

"Property investing can be slow [comparatively]. It can take two to three months to sell or acquire a property. But when you trade forex, you can make money now. Depending on your risk profile, you can make £200 to £500 in a day," he says.

"Even with our forex trainers, their worst ROI over three months is 18.6%. The goal is to spend only two to three hours a week trading forex. That is why we teach forex."

Gains made from trading financial instruments such as stocks and commodities could be just as lucrative. But Lee says currencies are a more liquid asset class, and that no other instrument sees so much movement.

"You can understand stocks and commodities, but a lot of it [the price movements] is based on news, whereas currencies are more complex. Let's say you had invested in Apple Inc when Steve Jobs passed away, or in an airline when one of its planes was shot down, [such events] will affect the price of their stocks," he illustrates.

"With currencies, there is so much volume and many different currencies around the world. It is very rare for all currencies to see a drop in price at the same time. It can happen, but [when] one drops, another increases. Currencies are liquid and that is what makes trading them so attractive."

Lee has several guiding principles when it comes to trading forex. Firstly, traders should have some certainty in the market's direction, whether it is going up or down.

"That is what we call a trend," he says. "There are certain indicators we use [to detect trends]. We call these metrics, and that we have to input. Metrics tell us where the trend is likely to move. A lot of forex traders use support and resistance lines [in technical analysis], which is very old school."

Next, traders need to be mindful of risk management and know when to enter the market. Lee warns that one should never risk more than 2% of his investments on a trade or enter the market without knowing when to.

"A lot of people blow all their money on one trade or enter the market randomly. But we have chart setups, where if you see what we call consecutive candles in a certain order, there is a high chance that the market will switch. This is something we call a snapback. Then you have to know how to get out of the market."

Lee also advises against scalping the market, referring to a forex trading strategy where profits are made when buying or selling currencies, but the position is held for a very short period of time. As it is closed for a small profit, traders usually require larger deposits as leverage to make the short and small trades worthwhile.

"In forex trading, there are different time frames you can trade — a minute, a day, a week or a month. When people scalp the market, they are sitting at their computers on really short time frames, waiting ... to get in. And they will keep waiting until it goes above the entry point," he says.

"It is gambling because there is no strategic reason why you are entering and there is no strategic way of getting out. It is not a good strategy, but that's what the internet teaches."

Although some may advocate intra-day trading, Lee says the more times traders enter and exit a trade, the higher the risk of losing their money.

"You need to stay in the trade longer, so the first thing you have to do is identify the trend. The moment you can identify it, it gives you less risk. The goal of our strategy is for every 10 trades [you make], you lose six. But the losses are small and the wins are big, so the wins outweigh the losses."

In forex trading, Lee focuses on the strategies employed instead of having preferred currencies. So, instead of asking which currency one is investing in, a better question to ask is which strategy one should employ in a particular scenario. He favours the snapback, breakout and crossover strategies as "these allow us to enter or get out at the right time, trade every day if you want to, or if you want longer trades".

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> > ***Lee***

The currencies Lee invests in must have high liquidity and enough trading volume. While he declines to reveal the ones he likes, he does recommend looking at those with larger trading volumes. "For example, the Singapore dollar has some trading volume, but it is nothing compared with the pound, euro or US dollar," he says.

"The euro/USD can move 200 to 300 pips [a pip is the smallest price change an exchange rate can make] in a day or more, while other currencies don't move as much. The more frequently [the market moves] or the more volatile the market is, the more chances you have of making money."

Unlike the average investor, Lee isn't particularly concerned about economic outlooks and how they would affect his investments, reiterating that his strategies are recession-proof. "I don't care if the market is going up or down, or is flat. If you invest the way we do, [your investments] won't be affected," he says.

"But if you ask me about properties, there will always be demand. Prices will always increase over time due to supply and demand. I believe it is one of the best asset classes to invest in," he adds.

"If the price increase is so high and people can't afford to buy, they will rent. And vice versa; when prices go down, everybody will start buying and I can sell." E