# Forex Rates – the "*Secret Ingredient*" of Overseas Deals

By Ziv Magen


## THE METAPHOR

Imagine yourself going to a brand new restaurant for the very first time. The chef, an amiable fellow, offers his special of the day - a delicious brew that tantalizes your palate, refreshes your spirit, and leaves you glowing with satisfaction.

A month later you return, all flushed and excited to try your favorite dish once more, only to find the chef apologetic. That same dish isn't available today. The secret ingredient used in it wasn't available at the local fresh produce market this week . Flustered, you demand it, saying you came all this way expecting to receive the same level of pleasure and service. You refuse to take "no" for an answer, and demand to have the same dish, secret ingredient or not. The chef raises an eyebrow, but not wanting to start an argument, goes back into the kitchen and prepares the very same dish.

Only, this time, it's horrible - flat, tasteless, and stale. Frustrated and disappointed, you leave mid-course, throw your money on the table with disgust, and vow never to return. Furthermore, you make sure none of your friends ever make the same mistake you did, by letting them all know what a terrible restaurant this is - all false promises and incompetent staff, you tell them, and even go as far as posting a venomous review on the Internet.

Funny thing is, in the process of posting said review, you notice a multitude of other reviews, all of which are absolutely glowing, glorious and full of praise. All of them with one common theme - all reviewers followed the chef's recommendation, time and time again, and came out completely satisfied. You begin to feel like a complete idiot.

## THE ANALOGY

Foreign exchange and overseas property investing are a little bit like the above story.

The restaurant is your portfolio.

The chef and is your own common sense, advance planning and analytical skills.

The market said chef goes to is none other than the world's global markets and their respective economies.

When you invest only in your own home country, where your income rises and falls with local inflation and market swings only, as do your expenses, you lead a relatively sheltered investment life. You'll have to get creative to make big leaps and bounds, granted. But even if you don't, following the same, sound investment strategy will yield the same, sound, expected results. Nothing too exciting, but no big surprises either. Kinda like your corner burger place or Chinese restaurant - you know exactly what to expect, within reason. You probably won't be blown off your feet, but you won't be fed dog food either.

When you invest overseas, however, things are quite different. Kinda like going to a new, exciting restaurant. Even if you've been following the advice laid out in REI Wealth Monthly and other worthwhile sources out there, built your team, learned the ropes and setup the infrastructure perfectly, there's always an element of unexpectedness - a "secret ingredient", if you will. That secret ingredient, much like the story above, can make or break your portfolio if you don't practice common sense. It can make you an extra few thousands (or tens of thousands, depending on the budget involved) on every purchase, sale or annual income cycle - but it can also cost you the same.

Now, if you treat overseas investments in the same way you treat your "home grown investments" - meaning you put in your funds whenever a good deal comes along, withdraw your income whenever it's required elsewhere, and move exact amounts to and from wherever there's an expense to be paid - it may feel like a gamble. And, like in the restaurant analogy above, gambles sometimes work, and sometimes fail horribly. The reason is, of course, the secret ingredient - exchange rate fluctuations.

## THE PROBLEM

Even if you're investing in one of the world's most financially stable countries and currencies (the last few years should hint to you that there's really no such thing), the very fact that your funds come from a different country already introduce an element of fluctuation. While the Japanese Yen may perform fabulously at any given point in time, the US Dollar may fluctuate wildly, and vice versa. A stable currency may not change by more than 5% against another every year, and if the corresponding currency is similarly stable, it may also not change by more than 5% against the former, as well. But that already spells a potential 10% up or down swing graph, which at its peaks of best and worst cases, can mean differences of up to 20% between the moment you transfer funds from currency A to B and the moment you withdraw them back from B to A. The vast majority of currencies fluctuate more than that over of the course of one year and are even more volatile over the course of a month or six.

Starting to get the picture?

If you liquidate your overseas purchase funds one week pre-settlement day (most international transactions can take up to five business days, so that's the minimum you'll need), you have very little choice as to what exchange rate to transfer them on. You'll have to take whatever the market gives you at the time, or you'll face penalty fees, or even worse, lose the deal and your initial deposit!

And, if you transfer those funds when rates are low, you may find that you haven't liquidated enough. The rate drop "ate" $600 or $6,000 of your funds, for instance and suddenly you need to transfer yet another small sum, at the same rates or worse (because you're even closer to settlement day), and have to pay sending and receiving bank charges YET AGAIN, which normally are fixed and don't change much in accordance with the transfer amount. Imagine paying an extra $80 fee, only because your previous transfer ended up being $300 short!

Similarly, if you insist on withdrawing your rental income from your foreign country of choice back to your home country bank account on a monthly basis (because your annual cash flow plan relies on this income to service your loan back home, or for whatever other reason), you'll once again be faced with the same problem - you'll have to take whatever rate the market offers that week, having no choice in the matter.

And what happens if you've transferred your income back home and then an AC unit or hot water boiler kicks the bucket in one of your properties overseas? That's right, you guessed it, all of the above all over again. You gotta take whatever exchange rate the market offers (or your tenant will leave or, even worse, take you to court and win, plus expenses and fines), you gotta pay bank charges for a teeny tiny amount all over again, and you gotta suddenly find the extra cash to do it all.

Ouch, right? And this is the main reason (aside from failing to properly research your target market and failing to listen to your team, as we've covered in past articles), a great many would-be international investors fail miserably and bag the concept of overseas investing to anyone who'll listen.

However, and this is the secret, they've got only themselves to blame.

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The very same scenarios, with a bit of advance planning and thought, could have netted them extra hundreds, thousands, tens of thousands or even hundreds of thousands of dollars.

The good news is this - the difference between the spectacular, exquisite "daily special" and the stale, tasteless, disappointing one is in your hands. Here's how:

## THE SOLUTION

Now, instead of the horror scenario above, imagine the following:

After having read all of Ziv's articles, talking to some overseas investors, researching your target market, recruiting your team and setting your legal and financial infrastructure painstakingly and perfectly, you do the following, in the following order –


1. Liquidate your purchase funds well in advance - PAD THEM BY AT LEAST 10% - to allow for any last minute fluctuations and unexpected additions. Put them in a short term, small interest bearing account if possible, but DO NOT lock them away!

2. Sign up with a reputable, reliable and responsive foreign exchange dealer. They'll give you excellent rates and minimize transfer charges. Try to get a corporate account if you can. These are even cheaper, and come with a dedicated account manager.

3. Follow exchange rates on a daily basis - REGARDLESS OF WHETHER YOU HAVE A DEAL ON THE TABLE OR NOT. When things are looking good (and it doesn't have to be relative to the last decade - 1-3 months will do) transfer the padded amount across.

4. Keep careful track of the rate you transferred in. This will give you an idea of what to expect when transferring back.

5. DO NOT invest with money you'll need back in a hurry! This is true advice for any property investment, but doubly so for international ones.

6. Keep following exchange rates. Do not withdraw your income "when you need it". Ideally, your overseas investment is a hedge to your portfolio, or at least not over 20-30% of it, and you have other sources of income, so that should never be an issue. Instead, transfer it back home WHENEVER RATES JUSTIFY.

7. ALWAYS leave at least 10% of your income behind, even if you're not planning to purchase anything further at the moment. Not only can unexpected expenses occur, but unexpected things may happen regardless. For instance, your tenant may move out, it may take several months to find a new one, and suddenly your annual property tax bill arrives.

Not really that complicated, is it? Follow all of the above and I guarantee you'll always stay on the upper side of the exchange rate fluctuation swing. Deviate from it and your "daily special" will eventually disappoint you, at least to some degree. The best part is, if you diversify to several of these overseas markets, it usually means that once rates go down in one place, they go up in another. Meaning, once it's advantageous to withdraw your funds from one place, there's now more than one option of where to send that money off to and you get to choose the best one to make a tidy extra profit in the process.

Don't worry too much about interest bearing account setups if that's too difficult. This sort of exchange rate play will always net you far more than these accounts will, if you keep on top of rates and hedge accordingly.

## BACK TO SQUARE ONE

All of the above only holds true, of course, as long as you invest in a stable, documented, regulated environment (see the first article in this series - "The Basics of International Property Investing"). Things may go up and down for shorter or longer periods of time, but you will most likely not lose your entire investment funds as the currency is completely devaluated overnight. Google search "currency of Zimbabwe" to see what can happen if you invest in those kinds of places.

If you're the speculative type, however, who invests in frontier markets, emerging economies or other "adventurous" environments, it's a whole different ball game once again. In that case, I'd highly recommend following investment blogs like "Capitalist Exploits" (http://www.capitalistexploits.at) to keep on top of things, but be warned, while there are great profits to be made in such markets, the pitfalls are also numerous, and volatility is high.

As for me, I'll stick to Japan at the moment (my current "back yard"), and hedge myself in Euros, US and Australian dollar investments, our family's current choice of investment currencies. The interplay between these four gives us ample opportunities to run a tidy profit all year round, and that's exactly where we like to be, ever the opportunists that we are.

And if you're ever in the neighborhood (Asia-Pacific), or just want to have a chat about the opportunities available here, anywhere else in the world, or about any other issue, be sure to drop me a line.  I would love to have a lunch, coffee or even just an online chat - zmagen@nippontradings.com

Happy investing!



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Ziv Magen is an Australian, and has been deeply immersed in Japan's culture and business environment for the past decade. In 2003, he forsake his career as in IT corporate project manager, wishing to spend more time with his family and secure their financial future. Having made the transition to real-estate investment and successfully building his own portfolio, he subsequently established Nippon Tradings International (NTI) together with his Japanese partner, assisting others in capitalizing on Japan's vast and lucrative property market.