The Secrets to His Success

Although coming from modest beginnings, **Michael Lee-Chin** has learned a thing or two about building wealth — and also how to weather a financial storm

by **Kelley Keehn** photo by **Paul Orenstein**

MICHAEL LEE-CHIN SHOULDN'T HAVE BEEN A SUCCESS, let alone a billionaire. But today, he is one of Canada's richest citizens. By his own account, he is a statistical anomaly and is where he is today thanks to "the grace of God. I was born in Port Antonio, Jamaica, in 1951. I own a yacht and a helicopter, but had I been born 250 years ago, I would have been owned."

Lee-Chin may not have been owned in 1950s Jamaica, and may not have owned anything himself, but as the eldest of nine children, he learned the importance of responsibility early. "There wasn't time for sibling rivalry," he says. "Both of my parents worked and we had to be responsible. We looked after each other." Lee-Chin's mother was single for seven years before meeting his stepfather, and both worked three jobs to help support the family. He also appreciated his mother's determination to stay in her

children's lives, at a time when circumstances forced many to leave their families to work abroad. "When she was born, the trajectory for young single moms was to leave their child with his grandmother, go to England to pursue nursing and then send money home to support the child," he says. "But my mom refused to leave. She stuck by me. She could have gone to England and it would have been a very different story."

His mother's high expectations provided the foundation for Lee-Chin's confidence, which took root in childhood and remains today. "My mom will tell you that when I was 10 years old, I'd eagerly look for the ships coming in with bananas to Port Antonio. If she couldn't find me near home, she'd often find me asking the captain questions." That confidence and the direction that a school teacher gave him led to his first successful move, which provided a solid base that would serve him for a lifetime — the decision to become an engineer. Young Lee-Chin showed an aptitude for physics, math and chemistry, prompting a teacher to predict that he would either become a teacher or an engineer. "I thought, I don't want to be a teacher — I don't have the patience for that," he says. "By default, it was engineering."

In 1970, Lee-Chin arrived at McMaster University in Hamilton after working for a year as a lab technician at a bauxite company in Jamaica to raise the money for his first year. But when he realized he didn't have enough money for years two, three or four, he started to panic. "It was July 1971 and come September, I needed $2,000 for the second year, but I had only saved $600. I needed another $1,400 and it wasn't possible to make it in August. I was desperate, so I wrote to the prime minister of Jamaica, Hugh Shearer. With no choice, your risk is low," he jokes. Reminding the prime minister that his government often recruited graduates from the engineering department at McMaster, Lee-Chin implored him to listen to his request, stating, "You cannot harvest if you don't sow. He wrote me and said, 'The next time you come to Jamaica, come and see me.'" He bought a plane ticket with $400 of the $600, showed the permanent secretary to the prime minister his marks and received a three-year scholarship of $5,000 a year. "I was even able to send money back to my family," he says.

Unable to find work as an engineer after graduating, he decided to start selling mutual funds with Investors Group. "When I first got into mutual funds, I had no selling experience," Lee-Chin says. "I had to cold call. It was 1977 and I was only 26 years old. Being so young, and being from Jamaica and having a strong accent, selling mutual funds was intimidating. I joined Investors Group in May of that year and after a five-day training [session], which ended on a Friday, I was supposed to have a prospect list ready by Monday. I didn't know anyone with money; my blood pressure hit 200 over 100 on Saturday and boiled to 250 over 150 by Sunday," he remembers. While waiting for his mother's plane to arrive from Jamaica, Lee-Chin was driving around when an idea hit him. "I saw people tending to their gardens and said, 'Mike, you want to see people — there they are.'" He worked up the courage to approach people in their front yards with a sales pitch of saving on taxes to build their wealth. Out of six approaches he got five appointments.

SUCCESS FRAMEWORK

The framework Michael Lee-Chin developed begins with his five laws of wealth creation:

1. Own a few high-quality businesses
2. Understand those businesses well
3. Make sure they are in strong, long-term growth industries
4. Use other people's money prudently
5. Hold onto the businesses for the long run and intergenerationally

"Success is a function of minimizing mistakes," Lee-Chin says. "You can only minimize mistakes if you have a framework rooted in principles."

He goes a step further with another formula that builds on this for investing, and that works on three principles:

1. Have a framework (see above)
2. Control emotions
3. Have access to illiquid assets

Lee-Chin argues that average Canadians, not only the wealthy, should have access to the same investing opportunities. — *KK*

Lee-Chin had found his passion: serving the clients he met. "I asked myself, how am I going to differentiate myself? Because it's your differences that will remain indelible with people. How am I going to make sure that I build the best possible reputation and how am I going to make sure that I really value my clients? Make them wealthy!" he says. "And is there such a formula that if you apply it consistently the only result is that you become wealthy? If so, that's what I'd be promoting." He called this his framework — how the wealthy invest differently.

Lee-Chin had another major success early in his career. In 1983, when he was 32, he borrowed $500,000 to invest in one company, Mackenzie Financial Corp. By 1987, that investment was worth $3.5 million. The same year, with the proceeds from his Mackenzie investment, he bought AIC Ltd. for $200,000. At the time, the company had assets under management of about $800,000. He developed it into a multibillion-dollar company.

The crises

Lee-Chin spent many years as a rock star in the financial industry, not only to his clients and the media, but to the financial advisers who sold his fund. Then the tech sector grew and the fans fell away. Strangely enough, an article published shortly before the tech bubble bust spurred him to create a foundation to weather a larger crisis nearly a decade later.

"*The Globe and Mail* had written an article titled 'AIC's Disadvantage: No Street Friends' [about Bay Street turning its back on the AIC Advantage equity fund]. In 1999, no one wanted to buy bricks and mortar companies like TD Bank, Loblaw Cos., C.I. Financial Corp., Investors Group," Lee-Chin says, referring to companies that his fund, AIC Advantage, owned. "Everyone wanted what was referred to as the 'new new' thing." The price tags were elevated for companies such as BCE

and Nortel Networks Corp., which were trading at 100 times and 200 times earnings respectively. The stocks he owned were being disregarded and sold for the "new new" thing, and clients were redeeming the Advantage fund to buy those stocks. The article said that eventually Lee-Chin would have to sell those stocks to meet redemptions and unitholder demands. When he sold, his action would drive those stocks down further. The article implicitly advised selling the stocks before Lee-Chin did.

"When I came into work one day, I was greeted by this article and I felt sick," Lee-Chin recalls. "But I remembered the Chinese definition of a crisis — that it's when danger meets opportunity. So I thought, what's the opportunity here? Everybody's assuming that I will have to sell to meet redemptions. What if I start buying?" Because he couldn't use the cash within the funds to buy more (those had to be held to meet redemptions), his only option was to borrow. That afternoon, he called the National Bank of Canada and asked his good friend, director Lawrence Bloomberg, who served as the bank's adviser, to borrow $50 million. Bloomberg checked with head office and came back with an offer to Lee-Chin. "Michael, they tell me if you'll put in $50 million of your own, they'll do it!"

That's just what he did. Lee-Chin used the $100 million to buy Mackenzie Financial Corp. — the company that took him on his original road to success — at $15 a share. A year later, the bidding for Mackenzie was started by C.I. Financial. Mackenzie eventually sold to Investors Group for $30 a share in 2001. "We doubled our money in just 18 months," he says. In 2009, Lee-Chin sold AIC's retail fund operation.

Lee-Chin explains that getting through the next crisis, the global recession of 2008, involved a combination of holding illiquid assets and utilizing his principles and his framework. "What caused the crisis was a mark-to-market issue. Things were cascading down and when they went down even more, there was no bottom in sight. Margin calls were rampant." His illiquid assets, such as the National Commercial Bank, Jamaica Ltd., Columbus Communications Ltd., his real estate holdings and more, saved him from the recession. "I was able to survive because my assets were not mark-to-market. A portfolio should be comprised of assets that are not 100% public securities — public equities and public fixed-income."

The framework

The framework Lee-Chin refers to, which he developed in 1978 and still relies on, begins with five laws of wealth creation: own a few high-quality businesses; understand those businesses well; make sure they are domiciled in strong, long-term growth industries; use other people's money prudently; and hold onto the businesses for the long run and intergenerationally.

In order to build personal wealth, Lee-Chin says, you have to consider your future self in retirement and how you'd like to live.

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“The financial industry’s ecosystem is supported to only sell liquid securities”

“You have an obligation to that person. How do you best fulfil that obligation if you have a long-term, illiquid liability?” He paints the following picture to illustrate. Suppose your client, Bob, has just purchased a shopping mall. Another adviser told Bob that he should fund the purchase with his credit card. Bob knows this is crazy and comes right to your office. He has had, as Lee-Chin calls it, an “allergic reaction.” According to Lee-Chin, Bob needs to apply the first rule of borrowing: match a long-term asset with long-term financing. “Never, ever finance a long-term obligation with short-term financing. Because it’s that gap that is risk,” he says. “The lender may say, ‘I need my money back now,’ and then you’re stuck. You match the term. It’s the matching principle that’s important.”

Liquid versus illiquid

In illustrating long-term, illiquid liability, Lee-Chin gives another example.

Clients Jackson and Trish want to sell their illiquid company. You recommend they hire a business evaluator to help walk them through the process. The evaluator meets with them to assess the value of their business and looks at its qualitative aspects. A week later, you and your clients sit down with the evaluator. He says that he’s studied similar companies on the TSX and if your clients’ company were traded on the stock exchange, it would trade at 10 times earnings, meaning that for every dollar of earnings an investor would pay $10. However, the companies he used as a comparison are liquid, while Jackson and Trish’s business is not; therefore, he must apply an illiquidity discount, which is always applied to a company that’s comparable to a stock traded on an exchange. That illiquidity discount is 25% to 40% of the value of the business. So, Jackson and Trish’s business will be worth between 6 and 7.5 times earnings, not 10 times earnings.

Lee-Chin advises thinking about this scenario from the perspective of an investor who would like to invest in the type of business Jackson and Trish run. An investor has two options: to either buy a business listed on the TSX or to buy Jackson and Trish’s business for $6 for every dollar of earnings.

The second option offers great news for the investor because if he or she pays $6 for the same dollar of earnings, it’s a 16.7% earnings yield. Same quality and no difference in risk. But what is the difference between 10% and 16.7% over the long term? If you invested $100,000 at 10% for 40 years, you’d have $4.5 million dollars. However, if you invested the same $100,000 at 16.7% for 40 years, you’d have $47 million.

“Why isn’t everyone opting for the $47-million option over the $4.5-million choice, and why are those who could amass wealth not able to?” Lee-Chin asks. The answer: because the industry is filled with advisers who don’t offer the option. “The financial industry’s ecosystem is supported to only sell liquid securities. [Average Canadians] were never given a choice,” he passionately states, pointing out that most investors’ portfolios are comprised of 100% liquid securities — bonds, stocks and mutual funds. No one needs 100% liquid assets, he says.

It’s a long-held axiom in Canadian investing that pension funds generally outperform some of the best mutual funds and managers in the industry. However, Lee-Chin states that the needs of a pension fund such as CPP or OMERS (the pension benefit plan for retired local government employees in Ontario) are essentially the same as those of an individual — the need for income, growth, liquidity, preservation of capital and tax minimization. The securities industry is failing the average Canadian because it offers only three options: public fixed income, public equities and cash. Also, most Canadians are investing for their retirement in RRSPs as savings vehicles and they cannot own a long-term illiquid asset within that shelter. “So the average Canadian is forced to take the $4.5-million option. The industry can’t accommodate the $47-million option.”

So strongly does Lee-Chin believe that wealth should be accessible that he’s worked to have the accredited investor rule changed (an accredited investor must have a high net worth, be extremely knowledgeable about investments and more).

What’s next for the boy from Port Antonio who liked to watch the ships come in? In April he was appointed growth czar, chairman of a newly established Economic Growth Council that will advise the government of Jamaica on the adoption of a framework of growth initiatives designed to facilitate and catalyze economic growth. When asked what he’ll do specifically, Lee-Chin laughs, “You’ll have to tune in for a *CPA Magazine* sequel.”

AIC AND THE ONTARIO SECURITIES COMMISSION INVESTIGATION

In 2003, the OSC began an investigation of mutual fund trading practices that included AIC, among more than 100 others. Lee-Chin declined to discuss the topic for legal reasons, but the OSC found no evidence of wrongdoing on the part of AIC employees.

However, it found that AIC allowed some third-party investors to engage in market-timing trades from 1999 to 2003 that led to $127 million in profits. In so doing, the OSC found that AIC failed to protect fully the best interests of some funds and that the frequent trading market timing was “contrary to the public interest.” In December 2004, as part of a settlement, AIC was ordered to pay $58.8 million to investors. AIC cooperated fully with the OSC’s investigation.

— KK

KELLEY KEEHN is a personal finance educator in Edmonton