



# THE Sovereign Individual

ACCESS to International Asset Protection and Investment Opportunities

## Dubai: Make the Most of Your Money in The City of Gold

### Zero Taxes, Zero Restrictions, and Busybody Bureaucrats Be Damned

By W. William Woods

On September 26, 2005, Dubai opened the Dubai International Financial Exchange (DIFX)—and opened a world of opportunity for offshore investors.

The DIFX offers benefits such as...

- A zero tax rate on income and profits
- 100% foreign ownership
- No restrictions on foreign exchange or capital/profit repatriation
- World-class operational support and business continuity facilities

Sure, other offshore centers offer these things. However, Dubai has some extraordinary qualities that set it apart. It is a strong economic state and part of the United Arab Emirates. As such it cannot be pushed around by the Organization for Economic Cooperation and Development (OECD) and the European Union (EU) in the way that smaller offshore financial centers have been in the last few years.

Dubai offers a stable regime that is not subject to the EU savings tax directive, the OECD's tax harmonization pressures or the increasing intrusions on financial privacy from the U.S. and others.

#### Dubai—the Jewel of the Middle East

When you think of the Middle East, the first words that come to your mind might not be “business friendly” or “moderate” or “peaceful.” But all those words describe Dubai.

Dubai is part of the United Arab Emirates, a political union that was

formed in 1971 when Abu Zaby, Ajman, Al Fujayrah, Ash Shariqah, Dubayy (Dubai), and Umm al Qaywayn merged. They were joined a year later by Ra's al Khaymah. The UAE is a small nation nestled between Saudi Arabia and Oman, but oil wealth helped put its per capita GDP on par with Western Europe.

The far-sighted leaders of the UAE are not content to live and die on oil wealth—the country's oil and gas are due to run out in about 10 years. So the government has been busy investing its current wealth in new wealth creation initiatives, with a goal of creating an environment for growth, progress and economic development. It's already a success—oil and gas now contribute just 6% of economic output.

Having achieved one goal, the government is moving the goalposts. Now, the aim is for Dubai to become a successful onshore capital market that is designated as a sort of “offshore zone” in the hope of dominating financial services in the world's biggest oil producing region.

Today, Dubai boasts 272 hotels with 30,000 rooms, 30 shopping malls and almost 5 million foreign visitors a year. Its airport has become a major hub with capacity to handle 60 million passengers a year. Dubai has an open-skies policy and over 100 airlines link Dubai to 145 destinations. Emirates Airline has non-stop services from key U.S. cities, including New York, which gives Americans access to countries in the Gulf and in Africa without having to change flights in Europe. Dubai boasts the world's

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#### Website Password

The password for the members-only section of The Sovereign Society's website at: [www.sovereignsociety.com](http://www.sovereignsociety.com) is: “patriot” (no quotes).

*“The war for freedom will never really be won because the price of freedom is constant vigilance over ourselves and over our government.”*  
—Eleanor Roosevelt

## Publisher's Note

The holiday season is upon us...and many of us are focusing on last minute shopping, parties, holiday performances, and spending time with family and friends. If you are like me, your time is at a premium this month. But take 15 minutes right now to focus on your wealth protection and investments needs. You'll be glad you did because our last issue of the year is a great one.

This month, I've turned to financial expert, W. William Woods, to give you the inside scoop on the opening of Dubai's stock market. William tells you what this new market will mean for investors and what Dubai can offer as a potential offshore haven.

And, did you know that the money in your wallet is as good as counterfeit? Our Chairman, John Pugsley, highlights the money game Washington plays with the dollar and stresses the value of holding on to real wealth.

Plus, what if I told you that you could invest in a basket of the best global indices or currencies while having your principle guaranteed with the added bonus of iron clad asset protection? Well, don't worry, it's not a dream...this is all possible with a new investment-linked protected annuity—our man in Switzerland, Marc Sola, tells all.

On the investment front this month, J. Wayne Burritt discovers a way to profit from mother nature's recent wrath by investing in a solid Singapore company—Asia's markets are still going strong. Our Investment Director, Sean Brodrick, gives you an end of year look at our portfolio.

Plus, we share our top 8 asset protection tips for the coming year, reveal the truth about the offshore asset protection trust—it's still alive and well—and expose the latest U.S. attempts to decrease your right to privacy.

From all of us at The Sovereign Society, we wish you a very happy and healthy holiday.

In wealth and prosperity,



Erika Nolan



*Erika Nolan has been Managing Director of The Sovereign Society since its inception. She travels extensively and focuses on the development of new business partnerships and marketing opportunities in order to strengthen and expand the Society's network.*

## Dubai: Make the Most of Your Money in The City of Gold

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largest man-made harbor at Jebel Ali, another tax-free zone, which is now the cargo hub of the Middle East with over 2,500 companies operating there.

In the sea, they are building three enormous man-made islands, designed in the shape of palm trees, with new homes for some of the world's wealthiest individuals. In the desert, they have built Dubailand, a US\$19 billion theme park twice the size of Disney World. Dubai has the world's tallest building and the world's most expensive hotel—the Burj Al Arab—designed to resemble a billowing sail. So when Dubai says it will build an international financial center and stock exchange, the chances are that they will succeed.

### A Bull Market in New Markets

The opening of the DIFX is just the start. The Dubai Gold & Commodities Exchange (DGCX) launched on November 22. The DIFX is already listing international securities and both the DIFX and DGCX have several trading members.

The DIFX forms the centerpiece of the Dubai International Financial Center (DIFC), a state-run financial free zone, with its own laws and regulations, designed to create a unique financial services cluster economy for wealth creation initiatives. The DIFC itself was launched in September 2004 and has already licensed over 70 companies including Merrill Lynch, Credit Suisse, Barclays Capital, Standard Chartered, Deutsche Bank, and AIG.

The DIFC Authority is charged with developing the overall strategy and providing direction and supervision to the DIFC, including attracting licensees to operate in the DIFC and the creation of laws and regulations that govern non-financial services activities.

All financial services activity conducted in or from the DIFC is regulated by the Dubai Financial Services Authority (DFSA). The DFSA is an independent body responsible for licensing, authorizing and registering businesses to conduct those services. The DFSA's regulatory framework has been developed by a team of experienced regulators and legal experts drawn from

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# An Instrument of Plunder

By John Pugsley

The perception seems to be that Fed Chairman Greenspan will go down as the greatest central banker in history. As for Greenspan's replacement, *The Christian Science Monitor* proclaimed that Ben Bernanke is possibly the "smartest [Fed Chairman] ever."

To most, the Federal Reserve System is the protector of the nation's economy and the Chairman is the knight on a white horse. Only a minute fraction of the population understands what the Fed really does, where money comes from, and what role the central bank plays in market movements. This ignorance is shared by well-educated and highly successful financial professionals. Even the majority of economists fail to perceive central banks for what they truly are: *instruments of plunder*.

Plunder? Without question. Imagine a counterfeiter coming into a small town with a suitcase filled with counterfeit cash. He dines extravagantly, buys new suits, cars, furniture, computers, etc. Local business owners are ecstatic. He then leaves town with his purchases, and quickly the money is discovered to be counterfeit and is declared worthless. Those who accepted the fake bills have been duped. Defrauded. Plundered. The counterfeiter is a thief. It's a crime, right?

Why is it different when the bills are printed by the Federal Reserve? When the Fed or the government prints currency (known as 'fiat' money) and exchanges it for goods and services, the citizens who accept those notes are victimized every bit as completely as those who accepted money from the counterfeiter. Only in the case of "legal" currencies, the freshly printed bills aren't immediately discovered to be worthless. Instead, they circulate, are generally accepted by the other citizens, and only gradually lose purchasing power (to inflation) as more and more of the bills are printed.

The central bank game is the greatest sting in history. The technique has been copied by virtually every government on the planet, and the take is enormous—hundreds of billions of dollars in goods and services looted every year—all plundered from hardworking, trusting, middle-class citizens.

Every sting, to be effective, depends on three elements: the ignorance of the victims, their greed, and a series of maneuvers clever enough to defy detection.

As for ignorance, the masses believe economics to be unimportant and too complex to grasp. Consequently, they willingly leave it to the politicians, bankers, and their hired economists.

As for appealing to the public's greed, the politicians have designed a clever scheme to make it look as though the public is getting something for nothing. The

government passes out benefits without raising taxes high enough to pay for them.

The politicians spend more than they can possibly extract by taxes, so they pretend to borrow the difference. When government borrowing depletes the banks' loan funds, the Federal Reserve buys up those government IOUs from banks with freshly printed "Federal Reserve Notes" (dollars). Simple, yet too complex a sting for most to grasp.

As a sovereign individual, your personal future depends on whether you understand how you are being victimized and protect yourself. What is a sovereign individual to do?

First, repeat this mantra to yourself every morning:

- Government will not get smaller.
- Government will not become fiscally responsible.
- Government will not cut spending.
- Government will not increase taxes to cover expenditures.
- Government will not balance the budget.

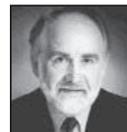
Therefore, no matter how brilliant a central banker is put in charge of money creation, he or she will never be able to stop the printing presses.

The second thing every sovereign individual should do is understand the difference between virtual wealth and real wealth.

Real wealth is comprised of all of the goods and services that we use. It is those things with "utility value." Cars, carrots, houses, gold, copper, etc. have real utility. On the other hand, virtual wealth includes those things like cash, bonds, and other IOUs that only have value because people have confidence that they do. You know, confidence, as in "confidence game."

At some point, the confidence game will self-destruct. Virtual wealth will vanish, just like virtual reality disappears when the computer is shut off. Those holding real wealth will prosper, and those holding wealth in the virtual world of fiat currencies will lose. The surest way for a sovereign individual to survive in the long run is to place high confidence in real wealth.

That's why we here at The Sovereign Society place so much emphasis on natural resources such as gold, silver, and energy, as well as the companies that produce them, and remain skeptical of the ability of any Federal Reserve Chairman, no matter how highly respected or credentialed, to continue the game



*John Pugsley is Chairman of The Sovereign Society and the author of many books on economics, investing and politics. ✦*

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internationally recognized regulatory bodies and major financial institutions around the world, and is based on the best practices and the laws of the world's leading financial jurisdictions.

### DIFX—A Regional Stock Market with Global Appeal

As a wholly owned subsidiary of the DIFC Authority, the DIFX has been created to provide investors and issuers with a larger and more liquid securities market than currently exists in the region. Based on the Euronext technology, this fully integrated electronic market place is capable of trading a wide range of financial instruments, including equities, bonds, funds, and derivatives.

The DIFX market opened with the listing of five Deutsche Bank securities. These are index tracking certificates, which will cover the U.S. S&P 500, the German DAX 30, the Japanese Nikkei 225, the EuroStoxx 50, and the Stoxx 50.

The international mobile telecommunications company, Investcom, this month became the first company to list on the DIFX. The company, which has operations in the Middle East, Europe and Africa, raised US\$740.94 million in an IPO of 59.99 million Global Depository Shares (GDSs). These are listed and traded on the DIFX and also on the London Stock Exchange. The company intends at a later stage to issue ordinary shares on the DIFX as its primary listing.

Investcom's IPO is the first of some 10 to 15 offerings that the DIFX believes will be brought to its market in 2006, by companies based in countries across the region and beyond.

The DIFX aims to become the leading exchange in its region for equities, bonds, funds, Islamic products, and other securities. It will be a gateway for international and regional investment. It is the first exchange in its region that has been created to list securities from many different countries. It also aims to be the first to attract large numbers of international brokers, including some of the world's biggest investment banks.

The DIFX already has five trading members, including Deutsche Bank and Citigroup Global Markets Ltd., which has joined as an individual clearing member and a trading member.

### The Gold Exchange at the Heart of the India Trade

The Middle Eastern culture places a high value on physical gold. No wonder, then, that Dubai is the self-styled "City of Gold." In fact, you can find gold linked on the Dubai city guide on the web at <http://www.dubaicityguide.com/theguides/gold.asp>.

Gold in the United Arab Emirates is sold in gold

"souqs" or gold centers dedicated to the precious metal (there are also individual stores in upmarket malls). At the souq, you will find row upon row of shops displaying gold in kilo bars, 10-tola bars (the tola is an Indian unit of weight, and 10 tola is equivalent to 3.75 ounces or 116.64 grams), and more. The basic cost of the gold is set by weight daily. But the real star of the souq is gold jewelry in incredibly intricate designs. You can buy gold jewelry in 18- and 22-carat, even 24-carat, though be aware that high-carat gold is a deep yellow, and may not be what you're used to.

Looking at the individual pieces, you might think you'd be able to buy them at cheaper prices in other global markets. But pick them up—most gold jewelry made in Dubai is solid. Figure in the world-class craftsmanship and you're getting gold at a good price.

Dubai is already a trading hub for 10% of the world's gold. That is set to increase with the launch of the DGCX. The DGCX is a joint venture between the Dubai Metals and Commodities Centre, Financial Technologies (India) Limited and the Multi Commodity Exchange of India. The DGCX will be located in the Gold Tower, built just for that purpose.

DGCX opened its membership last June and received an overwhelming response. Some 200 applications have now been approved in principle by the DGCX Board, and about 50 have been formally admitted to membership.

The exchange expects to be trading several thousand gold futures contracts a day by the end of next year, with four to six products on the market, according to chairman David Rutledge. "This is a very natural market for gold. Dubai is the conduit in many cases for the physical flow of gold to India," he said.

Will the global commodities boom continue, ensuring the success of the world's newest commodities exchange? Global commodities guru Jim Rogers, author of the best-seller "Hot Commodities" notes that the shortest commodity bull market lasted 14 years and that the current one is only five years old. So the DGCX looks set to succeed on the back of the combined waves of a commodities bull market and the overall growth of Dubai as a new offshore center.

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*W. William Woods is the CEO of WWoods & Co. Limited and a member of The Sovereign Society's Council of Experts. He serves as an independent director on a number of offshore hedge funds. Having lived and worked in Hong Kong and Bermuda, he specializes in advising on offshore financial centers and is the author of the blog [www.bizoffshore.com](http://www.bizoffshore.com). Email: [www@wwoods.com](mailto:www@wwoods.com); Tel: (416) 644-4939. ✉*

## The Best Way to Play Asia Right Now

By J. Wayne Burritt

Take a cruise around your favorite department or discount store and you'd be hard-pressed to find something that *wasn't* made in Asia. From textiles to electronics to big ticket items like cars, the marketplace is chock-full of Asian products. And the trend is for Asian products to grab a bigger share of the marketplace, not less...

Just a few of the reasons why: relatively inexpensive, but educated, labor forces...easy access to commodities and other raw materials...free-market economies, young, but blooming.

But investors who go running off to Asia with bags of money should be careful—there are hidden financial landmines everywhere. Corruption...lousy corporate governance...infrastructures that are mediocre at best...questionable capital markets. The fact is it's not all fun and games investing in Asia.

Each country has its own positives and negatives. Without a solid guide helping you sort through the fact from the fiction, you might as well just throw your money out the window. On the other hand, if you know what you're doing, the opportunities are too tempting to ignore.

Case in point: **Keppel Corporation** (ISIN code SG1E04001251) of Singapore ...

The company's biggest division—Offshore and Marine—is the world leader in building harsh environment jackup rigs (mobile offshore drilling units). In fact, *Keppel has built most of the jackup rigs over the last decade*. In other words, it dominates its market.

Now, figure in these U.S. government facts: In the Gulf of Mexico, Hurricanes Rita and Katrina destroyed 109 platforms, severely damaged another 51, and set-adrift, damaged, or destroyed 43 drilling rigs. That means big demand for Keppel's services as these energy assets get back online.

And don't forget: The offshore oil and gas industry was already hurting from lack of investment before the hurricanes ripped through the Gulf. Translation: Still more demand for Keppel.

In fact, by mid-year 2005, Keppel's order book ballooned to S\$6.7 billion from S\$5.1 billion at the end of the first quarter. That's an increase of 31% *in a single quarter*. And that doesn't even figure in the increased business due to the recent hurricanes! (S\$ means Singapore dollars. S\$1=US\$0.59.)

But don't get me wrong: Keppel is no niche player in the offshore marine business. It's one of the biggest players around in all facets of rig building and marine services. It can build, design and repair just about

*(Editor's Note: If there's one place to make money in the next decade, it's Asia. Not only China, but the entire Pacific Rim is experiencing an economic boom that is reshaping the world. Still, it's a tricky business—if you don't know what you're doing, it's easy to get burned. However, for those willing to roll up their sleeves and do bottom-up analysis, the potential rewards are the stuff an emperor's dreams are made of.*

*We've asked J. Wayne Burritt, head of Burritt Research, an independent equity research firm, headquartered in Hendersonville, N.C., to share his insight.)*

anything.

The company's new vessel building includes a wide range of small to medium-sized vessels, including multipurpose support vessels, cable ships, and other customized ships. Its wholly owned subsidiary, Keppel Singmarine, has 22 vessels under construction. Add to that, the company recently received orders worth S\$78 million for four offshore support vessels (OSVs) and two tugboats. And it's so busy that those orders won't be completely filled until the first half of 2007.

In the offshore marine business, location and reach are everything. Keppel has a global network of 16 shipyards and more than 10 support operations. Plus, it boasts an excellent track record of on time and on budget deliveries, advanced proprietary designs, and compliance with stringent safety standards.

And Keppel isn't a one trick pony. In addition to its Offshore and Marine division, the company also boasts Property and Infrastructure divisions. Its Property division—which invests in real estate ranging from office towers to industrial buildings to residential properties—is one of the largest property companies listed on the Singapore Exchange. Meanwhile, Keppel's Infrastructure division is engaged in power generation and network technology solutions, another plus for certain.

Not only do these smaller divisions provide business synergies and sales support, they also generate earnings protection when times get rough in the company's Offshore and Marine division. That's what I call intelligent diversification.

When it comes to profitable operations, Keppel shines: During the first half of 2005, Keppel's sales jumped 27% to S\$2.3 billion compared to the year-ago period. Operating profit—or the profit Keppel earned from its core business activities—rose 12% to S\$255 million and profits were up 24% to S\$341 million. Meanwhile, cash flow ballooned 188% to S\$391 million.

That's nice work, no doubt about it. But it's not always been easy for Keppel: The company's sales tum-

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## The Best Way to Play Asia Right Now

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bled 33% between 2003 and 2004. Yet, it still managed to boost its bottom line by 18%. My take: This company knows how to take the good with the bad and still squeeze out profits.

And when it comes to value, Keppel's shares are poised for a move up. In fact, my Historical Value Model—a proprietary analytical tool I use—puts fair value for Keppel's shares at S\$16.68, 29% more than their recent S\$12.90 price! My Historical Value Model is based on recent past performance—and doesn't take into account any new business coming down the road. This is good news indeed!

Now, factor in Keppel's future potential—including the company's robust demand factors, massive order book, and industry dominance I've already talked about—and you get my New Value Model. Here, the news is even better: My New Value Model puts fair value for Keppel's shares at S\$18.35, 42% more than their recent S\$12.90 price! No matter how you slice it, those are outstanding potential returns.

Technically, the outlook for Keppel's shares is bullish as well...

Between Oct 17, 2004 and Oct 17, 2005



As you can see from this chart, shares of Keppel are in a solid uptrend. After a healthy pullback, the shares started a new upside run. I'm looking for them to break above S\$13. Above that, the sky's the limit!

Bottom-line: Massive demand, strong fundamentals, outstanding value, and an attractive technical picture are telling me Keppel's shares are headed higher.

I recommend buying Keppel directly on the Singapore Stock Exchange: They trade under the trading name KepCorp with ISIN code SG1E04001251 and a recent price of S\$12.90. We will track 300 shares for *The Sovereign Individual* Portfolio; you can adjust the

number of shares to fit your own portfolio and trading style.

Keppel also trades here in the U.S. on the pink sheets under symbol KPELY with a recent price of US\$14.70. (The higher U.S. price is due to ADR and currency conversion.) However, the volume is thin, so I would recommend buying it on the Singapore exchange. Good investing!

*J. Wayne Burritt is the head of Burritt Research, an independent equity research firm, headquartered in Hendersonville, N.C.. Wayne has over 24 years of experience in financial analysis, investment analysis, and business development. His team of analysts and economists dig deep, going directly to foreign capital markets to find the best opportunities before the big money finds out. Tel: (828) 697-2886; Fax: (828) 697-6633; Email: [wburritt@burrittresearch.com](mailto:wburritt@burrittresearch.com). Web: [www.burrittresearch.com](http://www.burrittresearch.com).* ❄️

## Offshore Center's Future Seems Rock-Solid

Rumors of Gibraltar's demise as an offshore financial center may have been exaggerated.

The introduction of the European Savings Tax Directive in July this year was supposed to signal the death-knell of Gibraltar as an offshore center and tax haven. But Peter Caruana, Chief Minister of Gibraltar, told members of the financial and legal community that his government is working to ensure the Rock will remain a competitive low-tax jurisdiction for some time to come. Also, rocky relations between Gibraltar and Spain are also softening, holding out the potential for an economic boom.

Caruana explained that Gibraltar has diversified its financial offerings to include new, more sophisticated areas. He hopes this will transform the jurisdiction into a "truly on-shore off-shore international and European finance center."

In fact, Gibraltar's banking industry continues to flourish. Meanwhile, the insurance sector is growing, with the number of locally licensed companies having grown to 45 from 13 in four years. And new legislation will allow Gibraltar to become a major player in the establishment of pan-European corporate pensions.

Caruana said: "We remain committed to the principle of 'no' or 'low' tax. With the help of so many leading financial services institutions, we will provide an environment for the safe and prosperous provision of financial services throughout the EU and the world." ❄️

# Annuities on Steroids: Your Principal is Guaranteed, and Your Upside is Unlimited!

By Sean Brodrick

Offshore annuity and insurance policies are very appealing to high net worth individuals in the US and elsewhere. They allow investors to “wrap” their investments into an insurance policy to take advantage of attractive tax savings and other features these policies offer. Now, offshore annuities are getting even better.

For example, Marc-André Sola, Managing Partner of NMG International Financial Services and a member of The Sovereign Society Council of Experts, has a new annuity product, the investment-linked protected annuity (IPA). It offers all the advantages of a normal offshore annuity combined with the potential for high returns and guaranteed return of principal.

“It’s a mixture between a fixed and a variable annuity,” Sola explains. “Basically, it’s an annuity contract that is linked to certain investments like a global index basket or betting against the U.S. dollar. At the same time, it guarantees you the return of capital after a certain period of time, like a fixed annuity.

“The great thing is not only that you can invest without risk...it’s even better. You may get more than just 100% of the return of the index basket performance, perhaps 120% or so.”

## Safety AND The Potential for Hefty Returns

The annuity has a five-year term, and you are guaranteed the return of your capital after five years. Buying these structured products without the annuity structure would be difficult and perhaps impossible for Americans due to SEC regulations...and because most foreign providers would not allow Americans to purchase the investments. And that’s too bad. The structured products within the annuity holding structure may provide one or more of...

- Access to different asset classes
- Greater diversification for investment portfolios
- Higher yield potential than you can find in domestic markets
- An attractive risk/return profile

An example of one of the structured products that can be held in the annuity is the Protected World Note (PWN), a five-year principal protected note issued by a bank with a credit rating of AA- or higher. PWN’s return is linked to a basket of global indices including the U.S., Europe, United Kingdom, and Japan.

Part of the principal is invested in zero-coupon bonds and part in futures, options and other instruments that can power up returns. The note is issued at

par, or 100% of the principal amount, and has a participation ratio of anywhere from 115% to 122%.

What’s that mean? Upon maturity, the profit on the futures and options, if any, will be added to the redemption price (100) of the zero-coupon bond, using something called the “participation ratio,” which is defined by several factors: the price of the options, the interest rate of the U.S. dollar, etc. In other words, the cheaper you can structure the product, the higher the participation ratio, and higher is good.

In the worst case scenario, global indices are flat or go down in the next five years. Your return on investment would be zero, but you would receive back 100% of your capital investment in U.S. dollars. PWN has a minimal investment of US\$10,000.

If, on the other hand, the market goes up, you can reap big rewards. Here’s an example of how it works: Let’s say the participation ratio is 120%. If the basket of global indices goes up just 10%, clients get repaid according to the participation ratio ( $10\% \times 120\% = 12\%$ ). In other words, if global stocks go up, you should receive more than the actual increase in the price of the underlying global indices.

If global indices go up 30%, clients get repaid  $30\% \times 120\% = 36\%$ , or a redemption price of 136.

And PWN is just one example.

“An annuity wrapper can be invested in stocks or other products,” Sola explains. “We assist the clients in picking the best suitable investments. It’s not always the same product—we use new products all the time. Mainly stocks, but it could also be metals, could also be other things. One we’re looking at in the future is betting against the dollar.”

Sola adds: “Americans have to buy it through an annuity—that’s the only way it’s available to them because of SEC regulations. But through the annuity they can access all these products.”

## It’s a Sure Way to Beat The Market

“Many people believe that their asset manager can’t beat the indexes over time,” Sola says. “If you go into this, you outperform the indexes over time and you don’t pay any asset management fees.”

There are some fees. You pay 1% of the premium up front, and there are the standard (small) management fees. There is also a charge for early withdrawal, but one good thing is there is a secondary market for these annuity products, so you can sell if you have to. Remember, the guarantees are only effective at maturity.

*(Continued on page 10)*

# More Shocking Ways Government is Invading Your Privacy

## Nosy Bureau-rats Want to Read Your Email and ‘Outsource’ Intelligence Gathering—Here’s How to Protect Yourself

By Mark Nestmann

If you’re like me, your personal computer and the Internet are indispensable tools, both personally and professionally.

Why bother with a letter when you can dash off an e-mail and send it, virtually effortlessly? Who wants to buy something at a store, in person, when you can shop online, in the comfort of your own home? And why set foot in a library when there are so many good online research services?

Unfortunately, governments—particularly the U.S. government—view the incredible convenience facilitated by these technological marvels as an opportunity to snoop into your private affairs. It’s not enough to have every aspect of your financial affairs under continuous scrutiny, courtesy of the USA PATRIOT Act and similar laws. Now, they’re pressing for “back door” access to your e-mail messages, your Internet browsing habits and the precise location of your cell phone. And they’re doing it in a very sneaky way.

### Internet Crime Fighting Treaty Opens Your Computer to Foreign Snoops

A treaty you’ve probably never heard of could force you to hand over to the government every secret document on your PC, *without* a warrant! And that’s just the beginning!

The treaty is called the Council of Europe Convention on Cybercrime. Deep-pocket entertainment companies want it in force so they can crack down on “file sharing” and other supposedly nefarious activities carried on (mostly) by teenagers. Law enforcement authorities in the United States and Europe say that it’s essential to fight the “War on Terror”. And the Bush administration has endorsed its ratification by the U.S. Senate.

However, there are serious reasons to question the assertion of one of the treaty’s leading backers, Sen. Richard Lugar (R-IN), who states, “Prompt ratification...will help advance the security of Americans.” That assertion is particularly questionable since the treaty both lacks a requirement for “dual criminality” (i.e., that an offense be illegal in both countries in order for an investigation to take place) and also permits one country to conduct covert surveillance on Internet users in another country. If the Senate ratifies the treaty, foreign governments could legally conduct covert

*(Editor’s Note: Under the noble guise of “law enforcement,” the government is stripping you of your personal freedoms—and the courts refuse to stop them. What should sovereign individuals do to protect themselves? Mark Nestmann reports in the second part of a series.)*

surveillance on Americans’ Internet use and even require the U.S. government to prosecute U.S. persons for violations of foreign laws!

In China, for instance, strict Internet censorship laws apply. A reporter was recently sentenced to 10 years imprisonment for posting a news report on a “blog” without prior approval from the Communist Party Propaganda Department. The news item wasn’t sensitive information about China’s nuclear weapons program. The journalist, Shi Tao, was imprisoned for sending foreign websites a copy of a message from Chinese authorities warning domestic journalists about reporting on sensitive issues. The Justice Department could also be required to prosecute someone in the U.S.A. pressing for women’s rights in Saudi Arabia or better treatment for Christians in Sudan, if these countries eventually ratify the treaty.

There’s more...

Article 14 requires countries to place a law into effect that would require disclosure of decryption keys. In other words, if you use a program like PGP on your PC to protect your files or e-mails from unauthorized access, the treaty would empower the government to order you to release them. No probable cause, no warrant...just give up your keys (thus giving investigators *carte blanche* to your files), or risk fines and imprisonment. Whatever happened to the Bill of Rights with its provision protecting your right to avoid self-incrimination?

Finally, the treaty contains *absolutely no limits* on the authority governments have to conduct coercive investigations of Internet users. If this treaty goes into effect, you will have absolutely no right to contest any investigative technique the U.S. government—or a foreign government—takes to seize your computer files, decryption keys, e-mail messages, or any other electronic communications.

The opinion pages of every newspaper in the U.S. should be howling about this treaty—but the silence is deafening. Sadly, in an era where Americans are more interested in Katie Holmes’ pregnancy than gross

incursions on their civil liberties, perhaps it's not that surprising.

I urge every Sovereign Society member to contact the Senate Foreign Relations Committee to express your outrage over this treaty (designated Treaty 108-11):

U.S. Senate Committee on Foreign Relations  
Dirksen Senate Office Building  
Washington, DC 20510-6225  
Majority Phone: (202) 224-4651  
Minority Phone: (202) 224-3953

See for yourself how politically untouchable bureaucrats want to eliminate your right to electronic privacy through the back door: read the treaty at <http://conventions.coe.int/Treaty/en/Treaties/Html/185.htm>. Read the official explanation of this treaty at: <http://conventions.coe.int/Treaty/en/Reports/Html/185.htm>.

### **Big Brother Outsources to Little Brother**

Doesn't it make you feel warm and tingly to know that the U.S. government is vigorously guarding your civil liberties? Yes, the laws to defend your privacy seem, at first glance, to provide a bulwark of protection:

- **Fair Credit Reporting Act.** This law, enacted in 1970 and significantly modified through amendments, prohibits government agencies from obtaining information about you from a credit bureau without your consent.
- **Privacy Act.** A legacy of the Watergate era and the Nixon administration's "Enemies List," this 1974 law prohibits government agencies from releasing information about an individual to any other person, or other government agencies, without the written consent of that individual.
- **Right to Privacy Act.** After the U.S. Supreme Court ruled that bank customers have no legal expectation of privacy for financial information held by financial institutions, Congress enacted this 1978 law. It requires government agencies to provide notice and an opportunity to object before a bank or other institution can disclose personal financial information to a government agency.

These all sound good—but there is a teensy-weensy loophole in these laws large enough to fly a 747 through: if the agency (such as the IRS or FBI) seeking information issues an "administrative subpoena," these laws fold like a house of cards.

An administrative subpoena is a document signed by an investigator that requires the recipient to disclose any relevant information about the person or company being investigated. Administrative subpoenas are issued with no prior judicial, prosecutorial or grand jury approval, without probable cause and without a warrant. In some cases (such as the USA PATRIOT Act), a business receiving an administrative subpoena is prohibited from notifying its customer of the existence of the subpoena, and the entire process is carried out in secret.

But in recent years, government agencies have begun to complain about the burden of issuing administrative subpoenas, because the targets of their investigations sometimes have the temerity to challenge them.

For instance, you may have read about the libraries in Connecticut who challenged the FBI's authority under the USA PATRIOT Act to issue a type of administrative subpoena called a "national security letter." The libraries—the identity of which has been sealed at the insistence of the FBI—protested the fact that they weren't able to speak out about the use of such national security letters during the recently-concluded debate over reauthorization of the USA PATRIOT Act.

A federal appeals court upheld the gag provision, and forbade the library from speaking out. But the poor dears at the FBI were monumentally inconvenienced by the libraries' courageous stand.

In response, the FBI and other agencies have come up with a way to avoid the messy paperwork necessary to obtain an administrative subpoena: get private companies to do the FBI's job for them!

For over 30 years, laws like the Bank Secrecy Act have required banks to report details of their customer's cash transactions to the Treasury Department. More recently, banks, brokers, real estate agents, money services businesses, casinos, and many other businesses have been required to report "suspicious transactions" to the Treasury's financial intelligence unit, the Financial Crimes Enforcement Network (FinCEN).

But now, outsourcing intelligence gathering has taken on a whole new dimension. When you send a package by FedEx, for instance, you fill out the paperwork, pay for the shipment, and that's the end of it, right? Well, not exactly. Indeed, FedEx and an increasing number of other companies now keep your personal information in a database and make it available to the FBI for "homeland security" purposes. No warrant, no probable cause...not even an administrative subpoena is required for the FBI to access the information.

"Outsourcing" intelligence gathering to private companies has many benefits from a government point of view. First, there are no messy laws or regulations to worry about because the customer consents to having the information released to the government under whatever contractual conditions apply. Second, private companies tend to do a much more efficient job than the U.S. government at spying on their customers. It gives "privatization" a whole new meaning!

But that's just the beginning. A growing number of companies act as brokers for your personal information and sell it to the highest bidder. The most notorious of these is ChoicePoint, because its lax security recently allowed fraudsters to steal the identity of more than 145,000 persons whose records are in its databases.

(Continued on page 10)

## More Shocking Ways Government is Invading Your Privacy

(continued from page 9)

Among ChoicePoint's largest customers are law enforcement agencies. And, while you're legally entitled to a free copy of a limited number of reports that ChoicePoint provides to insurance companies, landlords or prospective employers, you're not permitted to review the potentially much more damaging information provided to law enforcement agencies.

### What You Can do to Protect Yourself

- *Use encryption programs to protect your e-mail and confidential files.* A good one is PGP (<http://www.pgp.com>).
- *If you think you might be on one of ChoicePoint's insurance, tenant or employee databases, get a copy of your record at <http://www.choicepoint.com/factact.html>.*
- *Review the contracts of Internet Service Providers, shipping companies, etc. to determine if you are giving them permission to share information with the government.* If you are, consider using another company. (Incidentally, the U.S. Postal Service provides much stricter privacy protections than does FedEx, particularly for first-class mail.)
- *Avoid the use of credit cards or checks for all but the most routine transactions.* Financial transactions are among the most sought-after by government investigators.
- *When in doubt, use cash.* Begin stockpiling cash at home to use in place of credit cards and checks. But beware of large cash transactions (over US\$3,000), which may, in some circumstances, be subject to mandatory reporting to FinCEN.
- *Finally...if you haven't done so already, begin transferring assets to offshore havens such as Switzerland and Austria with strict bank secrecy laws, where privacy is taken seriously.* The Sovereign Society offers "Convenient Account" programs in both countries. For more information, see <http://www.sovereignsociety.com/vmembers.php?sec=convacct>.



Mark Nestmann is president of The Nestmann Group, Ltd., a consultancy assisting high net-worth individuals to achieve wealth preservation solutions. He is the author of many books and reports on privacy and asset

protection, including *The Lifeboat Strategy: Legally Protecting Wealth and Privacy in the 21st Century*. The former editorial director for *The Sovereign Society*, Mark now serves as a consultant to the Society. You can contact him at [assetpro@nestmann.com](mailto:assetpro@nestmann.com) or visit his website at <http://www.nestmann.com>. †‡

## Annuities on Steroids

(continued from page 7)

### A Word About Risks...

It's always wise to go into an investment with both eyes open, and as with any investment, there are risks with this one. Risks include...

**Currency risk:** If the U.S. dollar is not your base currency, your payout on an instrument linked to global stock indices could be limited (relative to your own currency) by a falling U.S. dollar. On the other hand, if the dollar rises, the return would be proportionally larger when converted back into your currency. And if one of the instruments in your annuity wrapper is designed to bet against the falling dollar, that's a whole different deal.

**Capital risk:** The minimum return due to investors is 100% of the original capital investment in dollars, less 1% in up-front fees. Basically, you're insulated from capital risk. Nice!

**Investment Risk:** Global indices could go up, but they could also go down. That's pretty obvious, but it needs to be pointed out.

### All This and Annuity Advantages Too

The fact that it's more available to U.S. investors isn't the only reason to put this in an annuity. Offshore annuities have advantages all their own...

**Virtually ironclad protection from creditors.** Properly structured, Swiss and Liechtenstein annuities are not attachable and cannot be included in any bankruptcy proceeding or seized by creditors (though it is not protected in criminal cases). This applies even if a judgment or court order has been issued that specifically orders the seizure of your policy or its inclusion in the estate in bankruptcy settlement.

**Separate and simple estate planning:** Beneficiaries get immediate access to the funds according to the payment method chosen by the policy owner.

**Confidentiality and privacy.** Liechtenstein, the country where the insurance carrier of the annuities that Sola offers is domiciled, has an insurance secrecy law as tightly buttoned as Switzerland's.

**Tax advantages.** You won't pay local Liechtenstein taxes and, in some non-self-directed portfolios, you can defer U.S. income taxes as well.

If you're interested, contact Marc-André Sola at NMG International Financial Services, Ltd. Tel: +(41) 1 266-2141; Fax: +(41) 1 266-2149; E-mail: [marcsola@nmg-ifs.com](mailto:marcsola@nmg-ifs.com); Link: [www.nmg-ifs.com](http://www.nmg-ifs.com).



Sean Brodrick is Editorial Director for *The Sovereign Society*, with 25 years experience as a financial analyst and journalist. Sean backs up every article he writes with in-depth fundamental research and expert technical analysis. You may contact Sean at [seanbrod@bellsouth.net](mailto:seanbrod@bellsouth.net). †‡

## 8 Asset Protection Tips

### How to Keep From Putting Your Wealth at Risk

By Sean Brodrick & Robert E. Bauman, JD

If you have some money and assets saved up, you need protection. How much depends on how big your bank account is. A competent lawyer, financial planner or accountant should be able to help you decide how far to go in building your asset protection plan.

And just a few simple steps—plus some offshore advantages—can make sure that your hard-earned wealth remains yours and can be passed on to your family and loved ones.

**#1) Keep a low profile.** A flashy lifestyle is like chum in the water for the circling schools of lawsuit-happy lawyers and litigants. If people think you are rich, your chance of being sued skyrockets. One way to lower your profile is to not title your assets directly in your own name. Instead, use privacy-protected offshore corporations, family foundations or an asset protection trust (APT).

**#2) Shrink the pot.** Let's say you own a number of rental properties. A tenant slips and falls at one of these places and decides to sue you. Unless you take precautions, total damages could amount to the value of ALL your rental properties.

Whether it's a rental property, a restaurant, or something else, segregate risks—consider creating a separate corporate entity for each liability generating asset. Also, never mix liability generating assets. For example, an apartment house should not be owned by the same entity that owns a restaurant.

**#3) Going offshore adds another layer of protection.** Whether it's in an insurance wrapper, retirement annuity or asset protection trust, placing your assets offshore puts them out of reach of most frivolous lawsuits. Even lawsuits with an ax to grind may be ready to settle for pennies on the dollar when they find out how difficult it is to collect your money offshore.

For example, if you invest your retirement plan in a suitable jurisdiction—Switzerland, for instance—it can be configured to be essentially claim and judgment-proof.

Another alternative is a self-settled asset protection trust. As long as they are irrevocable, have an independent trustee, provide for distributions that are subject to the discretion of the trustee, and meet some other requirements, there's little chance they can be revoked absent criminal or fraudulent activity.

**#4) Avoid general partnerships.** In this form of business, you're personally liable for all debts or other business liabilities the partnership incurs. Any general partner can commit the partnership (and hence every

other general partner) to any legal contract (like taking out a loan). In today's litigious society, it's a high-risk way of doing business.

**#5) Protect assets from taxes, too.** If you form a foreign corporation that generates "active" income from foreign trade or business (not passive income from investments), and the business is also managed offshore, in most cases, you don't need to pay taxes on the profits until you repatriate them.

**#6) Get Good Advice.** Avoid offshore scam artists—the ones promising that you can lower your tax bill to zero if you just put all your money in their "pure trust," a "constitutional trust" or a "corporation sole." Well, you might not pay any taxes, but only because these hoodwinkers will take all your money and run with it.

Instead, work with carefully vetted bankers, investment advisors, financial experts, and legal professionals from select tax and asset haven jurisdictions. Always check references and do your homework on a service provider before sending them a single penny.

**#7) Pass on your legacy with an offshore trust.** In most cases, while an offshore trust will protect your assets, it won't reduce your tax bill.

However, an offshore trust can incorporate provisions that can reduce future estate tax liability. It can protect your wealth, notwithstanding efforts by the U.S. or other governments, to discourage legal offshore financial transactions and investments. Frivolous litigation, expensive legal defense costs, outrageous jury awards, and government privacy invasions all create an urgent need to protect your family and business wealth. An APT can do all that and more.

One important point to keep in mind; offshore trusts are effective only if the creator relinquishes all control over the trust, its assets and the trustee. Otherwise the APT may be declared to be a sham by a court or by the IRS or both. (See Bob Bauman's article, page 12).

**#8) File those returns and reports.** A certain path to asset loss is ignoring U.S. tax filing and reporting requirements or giving inaccurate or partial information. Virtually every nation now has "know your customer" laws that require bank account applicants to prove their identity, the source of their funds and their life story. Cash transfers of US\$10,000 or more are reported electronically to the U.S. government. U.S. persons, on their IRS Form 1040, must say if they have an offshore account, and if activity therein exceeds US\$10,000, a U.S. Treasury Form TD F 90-22.1 must be filed. Lying and failure to file these reports are separate felonies. ❖

# Offshore Trusts: Very Much Alive & Well

By Robert E. Bauman, JD

For most of the last decade the U.S. Internal Revenue Service's target shooters have slapped a big red bull's eye on one of the most venerable of all estate planning and asset protection devices—the trust, especially the best ones—trusts located in offshore jurisdictions. The eager IRS seems to presume guilt if one dares to go offshore for any financial activity, but especially if it involves what might be a “sham” trust.

Topping the IRS target list are “people selling fraudulent trusts that they claim will eliminate or reduce income or estate taxes.” The IRS warns both sellers and buyers of “fraudulent trusts” that they face fines and jail, and if intent is proven, “criminal prosecution for tax evasion.”

## 20 Year Battle Against Offshore Trusts

IRS saber rattling against trusts goes back to 1997 when that agency issued a warning to U.S. persons to shun what they described as “abusive trust arrangements...that are not permitted under federal tax laws.”

The warning came shortly after Congress clamped down on foreign trusts created by U.S. grantors. (A *grantor*, also called a *settlor*, is the person or entity that creates and funds a trust.) That law required, for the first time, extensive reporting of offshore trust “events” including creation, annual income and distributions to trust beneficiaries, as well as appointment of a U.S.-based “limited agent” to respond to IRS inquiries. Beneficiaries for the first time had to report income received from an offshore trust.

The lure of supposedly tax-free income is a powerful one. But U.S. taxpayers can't say they weren't warned about these restrictions. Even before the IRS issued its threats, the American Bar Association and several state attorneys general issued similar warnings. The IRS only was restating established rules that good U.S. tax planners already follow.

As far back as 1976, Congress tried to restrict the ability of U.S. persons to form an offshore trust and obtain related tax benefits during their lifetime. In the interim, many schemes, some illegal, were developed to try to avoid the increasingly strict IRS rules. These now defunct schemes included:

- Creation of an offshore trust by a foreign national as both its grantor and beneficiary who later became a U.S. resident and reaped tax-free income from the trust. Now, any trust created within five years of a foreign citizen taking up U.S. permanent residence is treated as a U.S. “grantor trust” with all trust income attributed to the grantor and taxed annually as personal income.

- Loans by U.S. persons to offshore agents who would turn around and secretly finance a foreign trust. This was designed to make the trust fall under rules that permit U.S. persons to obtain tax-free income from certain trusts financed from outside the United States. Now, all trust loans must be “at arms length” with strict documentation and regular repayments. Failing that, the IRS treats the “loan” to a trust as reportable personal income. And anyone who claims they are receiving tax-free payments from a foreign trust they didn't establish must document from whence comes the money. A trust established by a “secret agent” won't pass muster.
- Converting a U.S. trust holding highly appreciated assets to a foreign trust. This tactic sought to avoid U.S. domestic capital gains and other taxes due when the transfer occurred. Now, capital gains taxes are imposed at the time of transfer.
- Using offshore trusts with various combinations of bogus offshore business entities alleged to allow the grantor/owner to avoid or defer U.S. income tax. International business companies (IBCs) established in the British Virgin Islands, the Cayman Islands or The Bahamas were popular for this purpose and made lots of money for their shady salesmen.

## Is the Offshore Trust Dying?

The Sovereign Society and I, as an attorney, emphatically disagree that trusts are on the way out as an estate planning tool. There still is great utility in offshore trusts as asset protection devices and they certainly are worth the efforts required to create and maintain them. Trusts have been around since ancient Egypt and Rome. They have survived because of their unique and useful qualities and will endure, notwithstanding all the world's eager tax collectors.

But the IRS anti-trust campaign has sown dissension among some professional offshore planners in America and elsewhere. In this sense, the IRS won ground because many planners now advise clients that establishing an offshore trust could trigger automatic IRS audits. That's not really true, but for timid souls it's scary.

These IRS initiatives are part of a wider global attack on legal tax avoidance. In past issues of *TSI*, we exposed the conspiracy by the U.S. and U.K. governments, the United Nations and the European Union to restrict asset havens globally to end “harmful tax competition” and promote “tax harmonization.”

In the forefront of these nefarious efforts has been the U.K. Labour government that forced changes in the laws of its overseas territories requiring them for the

first time to enforce foreign tax claims. The jurisdictions affected include Anguilla, Bermuda, the Cayman Islands, the British Virgin Islands, the Turks and Caicos Islands, Gibraltar—and even constitutionally independent U.K. jurisdictions such as Jersey, Guernsey and the Isle of Man.

### **False Claims on Offshore Trusts Lead to Real Trouble**

Beware of false claims of offshore trust tax savings. In truth, offshore trusts offer few tax savings during a U.S. grantor's lifetime, but they do provide effective asset protection against civil creditors. In pursuing a properly configured offshore trust, a creditor has to bring his claim in a foreign court that is much less receptive to various "deep pocket" theories popular among U.S. contingency fee lawyers.

An offshore trust can also qualify as a "non-U.S. investor" avoiding regulations by the Securities & Exchange Commission that prohibit U.S. persons from purchasing many types of profitable offshore investments.

Under U.S. tax rules, during a grantor's lifetime, he or she must pay tax on annual income generated by trust assets and investments. No honest professional trust advisor ever claims that an offshore trust can pay for a taxpayer's personal, living, or educational expenses or make them into tax deductible items. Nor will they try to avoid tax liability by hiding either the true ownership of income and assets or the true substance of trust transactions.

For Americans, a domestic or offshore trust is "income tax neutral." That's because all trust income is treated as the U.S. grantor's personal income, reportable annually on IRS Form 1040 and taxed accordingly. That the trust is "offshore" does not negate the U.S. grantor's personal obligation to report trust income.

Even with these restrictions, a citizen of a foreign nation is free to create an offshore trust with U.S. citizens or residents as beneficiaries. Income received by U.S. beneficiaries from such trusts is tax-free. Thus, American citizens or residents can receive tax-free income from trusts established by wealthy relatives who themselves are neither U.S. citizens nor U.S. resident aliens. But the foreign grantor must not be acting as an agent or nominee for those U.S. beneficiaries.

As you might imagine, the IRS is highly suspicious of offshore trusts set up by foreign citizens who U.S. beneficiaries claim are such "loving relatives"—especially if your "loved one" turns out to be your offshore attorney.

### **Offshore Trusts Can "Disconnect" from U.S. Taxes**

There is one legal method to cut U.S. taxes using an offshore trust formed by a U.S. grantor, but the generous grantor won't be around to enjoy the fruits of this legal tax avoidance.

At your death, your estate must pay any U.S. estate tax on assets remaining in an existing offshore grantor trust. But when estate taxes are calculated, all exemptions, such as your lifetime estate tax exemption amount, can be applied to reduce overall estate value.

Assets you place in a foreign trust under the terms of a last will and testament are also counted once for estate tax purposes as part of your estate, but afterwards the trust and its assets may be free of most U.S. taxes.

Once estate taxes are paid, if the trust is structured properly, its assets will escape future U.S. taxation as they pass to succeeding generations. Only income distributed to U.S. beneficiaries will be subject to U.S. taxation. Taking advantage of these provisions requires careful planning and expert advice on structuring an estate.

In spite of the continuing IRS campaign against what they consider "abusive" trusts, there are good reasons why hundreds of thousands of people worldwide are grantors and/or beneficiaries of valid trusts. This most ancient of asset protection devices should not be abandoned simply to appease the likes of IRS bureaucrats.

The Sovereign Society has published a special report I authored. *Offshore Trusts: Your Key to Flexible Asset Protection*. Go to <http://www.agorainc.com/reports/190STRUD/W190F714/>

We also recommend trust attorneys and trust services, including the following:

**Michael Chatzky, JD, LLM**, Chatzky & Associates, 6540 Lusk Boulevard, Suite C121, San Diego, CA 92121; Tel: (858) 457-1000; Email: [mgchatzky@aol.com](mailto:mgchatzky@aol.com).

**David Melnik, QC.**, 350 Lonsdale Road, Suite 311, Toronto, ON M5P 1R6, Canada; Tel: +(416) 488-7918; Fax: +(905) 877-7751; Email: [dml1976cp@netcom.ca/](mailto:dml1976cp@netcom.ca/).

**Gideon Rothschild, JD, CPA, CEP**, Moses & Singer LLP, 1301 Avenue of the Americas, New York, New York 10019; Tel: (212) 554-7806; Fax: (212) 554-7700; Email: [grothschild@mosessinger.com](mailto:grothschild@mosessinger.com).

**Derek Sambrook**, Trust Services Panama, P.O. Box 08321630, World Trade Center, Panama, Republic of Panama; Tel: +(507) 269-2438 or +(507) 263-5252; Fax: +(507) 269-4922; Email: [sambrook@trustserv.com](mailto:sambrook@trustserv.com).

**Christoph Zollinger JD**, Mossack Fonseca & Co., ArangoOrillac Bldg. 54th Street, P.O. Box 08320886, W.T.C., Panama, Republic of Panama; Tel: +(507) 263-8899 / 264-2322 Fax: +(507) 263-9218; E-mail: [rrodriguez@mossfon.com](mailto:rrodriguez@mossfon.com).



Robert Bauman is Legal Counsel for The Sovereign Society and editor of The Sovereign Society Offshore A-Letter. A former member of the U.S. House of Representatives from Maryland, he is a graduate of the Georgetown University Law Center (1964) and the School of Foreign Service (1959). ✠

# The World of the Sovereign Society



## Happy Holidays

The holidays are upon us, and another great year draws to a close. We wish you and your family a very happy and healthy holiday season and a successful 2006.

### Follow the Money...to Ecuador

Gary and Merri Scott leave their Blue Ridge Sanctuary every December for Ecuador. This year, they will conduct a "Super Learning Spanish Fluency" course in the Andes, Jan. 27- Feb. 2; and an "International Investing and Business Course" in Quito, Ecuador, Feb. 24-26. Thomas Fischer of Jyske Bank will be involved in this course that explains how to borrow low cost currencies, make international investments and how to set up overseas corporate structures.

### Travel Tip From Eric Roseman...

Along with delivering winner after winner for the subscribers of *Commodity Trend Alert* and *Renegade Investor*, Eric Roseman travels the globe. He books five-star hotels at a discount by visiting Leading Hotels of the World at <http://www.lhw.com>.

### COMING NEXT MONTH

In January, we have some red-hot stories to take the edge off the winter chill. We'll tell you how to energize your mutual funds the offshore way. There are also great articles on how to use tax swaps to boost your portfolio...beating identity thieves at their own game...and offshore predictions for 2006. It's going to be a great issue, so join us, won't you?

## MEMBERS' MAILBAG

# The Best Little Banking Haven You've Never Heard of

### Warming Up to Icelandic Bonds

Dear Sean:

I was at a seminar and heard of a program purported by Sovereign that shows how to invest in a Swiss bank, take a loan and leverage it and buy Iceland Bonds with high yields. I am 71 and am looking for income. Do you have any info on this program?

I appreciate your response.

— Pat H.

Sean Brodrick responds:

I wish I had a Krugerrand for every money-making scheme that people think is a Sovereign Society program that isn't. You might be thinking of the "Multi-Currency Sandwich" that Gary A. Scott has written about previously in both *The Sovereign Individual* and *The Offshore A-Letter*. Most recently, he wrote about it in the October 5 *A-Letter*. You can find it by pointing your web browser to <http://www.sovereignsociety.com/vmembers.php?nid=1428>. Read the details of that investment carefully and, if you think it's for you, follow Gary's instructions to the letter.

An Icelandic bond was recommended in the October issue of *The Sovereign Individual*. For more on that bond, follow this link: <http://www.bonds.is/bonds.asp?OrderBookId=12435&cat=96>. You can also e-mail [bond@bonds.is](mailto:bond@bonds.is) for more information.

### Banking on the Land of the Remote and Tax-Free

Dear Bob Bauman:

I recently read an excellent article by you referencing the best countries in which to open a bank account. Even for non-millionaires! What do you think of the little country of Andorra, which fits snugly between Spain and France? It seems to have all the perquisites to fit into your roster. Have you any comments on the banks there?

Thank you.

— C.A.A.

Bob Bauman responds:

I heartily recommend banks in tax free, remote Andorra, if you have enough to deposit to meet their requirements. Usually, any one of the six Andorran banks or the three foreign banks will open an account if you have justification for it, such as establishing your local residence or buying a condo. But a large deposit will waive such conditions, and with a personal visit, you'll be in, joining many thousands of non-Andorrans, Brits, Spaniards, and other EU tax exiles.

Andorra has no exchange controls and bank secrecy is very strict. Numbered and coded accounts are available, with only top bank officials knowing the true owner. But they do have anti-money laundering laws and they are enforced if proof can be shown of criminal acts. As in Switzerland, Andorra does not enforce foreign tax laws.

## Rocky Market Road Leads to Opportunity

October was a wild and woolly month for the markets, including commodity markets. Even though gold trended up, gold stocks were lucky to keep their heads above water, and some of your precious metals portfolio positions went down. Don't worry too much—this is just a temporary consolidation in a bigger bull market, and good buying opportunity for select stocks. Likewise for energy stocks—oil prices pulled back in October, but it's short-term only. Pick up the bargains while you can. They include Goldcorp (GG), Bonavista Energy Trust (BNPUN), Merrill Lynch Energy Fund (LU0122376428), and Western Canadian Coal (WTN.TO).

For example, you should have been able to pick up one of last month's recommendations, the closed-end fund Canadian General Investments Limited (CGI.TO) at a bargain price.

Well, if commodities pulled back, international value should have done well. Problem is, it was a tough month for everybody—you'd be hard-pressed to find a sector that did well in October. However, this makes stocks like Aegon (AEG) and Icici Bank (IBN) short-term bargains. Scoop them up if you don't already own them.

Also, two global equities funds are real bargains—ASA Ltd. and Canadian General Investments Limited. If you don't own them already, feel free to add them to your portfolio.

What did do well? Your bond positions and some of

the international funds in the Sovereign portfolio held up very well. If we're going to see a rocky road ahead for the broader markets—and there's every indication we might—bonds aren't a bad place to ride it out.

One final note. In the November issue, Larry Grossman recommended BOA.F, a 6% minimum return-linked notes linked to the Nikkei 225 Index. It turns out the BOA.F is not liquid at all. Not to worry. Larry has another great pick for you, CAX - 100% Capital Protected Notes Based on the American Stock Exchange China Index. The CAX notes were just listed on September 26, and they traded as high as 10.11. The average volume was 6,700 shares.

Larry says: "They guarantee US\$10.00 at maturity with the upside of the Chinese market. Now I don't know about you but I am willing to bet in the next 4 years the Chinese market is going higher, a lot higher. So I can play that market for the next 4 years with no fear of losing my money, unlimited upside potential and since it is trading at about 9.51, I am buying it at a 5% discount today."

We'll recommend the Cax notes at up to 9.70. Add them to your portfolio immediately.

Remember, if you already own a position on our "Best Buy" list, there's no reason to add it again.

Stay tuned for more great recos coming your way soon. 🍀

**"I don't know about you but I am willing to bet in the next 4 years the Chinese market is going higher, a lot higher."**

### TSI Portfolio Best Buys

| Investment  | Symbol                 | Exchange  | Added     | Buy Price | Recent Price | Gain/Loss |
|---|------------------------|-----------|-----------|-----------|--------------|-----------|
| <b>COMMODITIES</b>  |                        |           |           |           |              |           |
| Goldcorp  | GG                     | USA       | TSI 1/05  | 14.20     | 19.38        | 41%       |
| Bonavista Energy Trust  | BNPUN                  | Toronto   | TSI 3/04  | 14.33     | 34           | 73.22%    |
| Merrill Lynch Energy Fund   | LU0122376428           | Lux       | TSI 9/05  | 20.40     | 18.98        | -6.96%    |
| Western Canadian Coal   | WTN.TO                 | Toronto   | TSI 9/05  | 4.90      | 4.05         | -17.35%   |
| <b>INTERNATIONAL VALUE</b>  |                        |           |           |           |              |           |
| Aegon   | AEG                    | USA       | TSI 1/05  | 13.66     | 15.05        | 10.18%    |
| Icici Bank  | IBN                    | USA       | TSI 9/05  | 23.38     | 22.59        | -3.4%     |
| <b>GLOBAL EQUITY FUNDS</b>  |                        |           |           |           |              |           |
| ASA Ltd.  | ASA                    | USA       | TSI 2/00  | 14.96     | 45.5         | 204.5%    |
| Canadian General Investments Limited  | T.CGI                  | TSX       | TSI 11/05 | 22.75     | 19.3         | -15.16%   |
| <b>BUY these new positions</b>  |                        |           |           |           |              |           |
| Keppel Corporation  | ISIN code SG1E04001251 | Singapore | TSI 12/05 | 12.90     |              | NEW       |
| 100% Capital Protected Notes Based on the American Stock Exchange China Index | CAX                    | AMEX      | TSI 12/05 | 9.51      |              | NEW       |

## Offshore Opportunities Seminar in Cancun Cancelled!

Unfortunately, The Sovereign Society has received word from the CasaMagna Marriott in Cancun that the damage they received from Hurricane Wilma is more severe than they originally thought. Therefore, the hotel has informed us that they will not be able to host our Offshore Opportunities Seminar, January 7-12, 2006 and we will have to cancel this event.

We will be working on rescheduling this event for sometime next year and will let all of our members know once we have a new location and date in place. We are very sorry for any inconvenience this may have caused you.

Should you have any questions, please do not hesitate to contact us.

## The 8th Annual Investment U.

March 15-19, 2006  
Marriott Hotel and Resort  
Delray Beach, Florida

Investment U's top advisors are about to host their most revealing, enlightening conference ever.

This year, it gets personal. Every single speaker will reveal the #1 technique they believe will personally make them the most money in their investment career.

In just four days, attendees will cull over the most proven investment advice available at any price, worth millions of dollars. Your hosts will include new Investment U Chairman, Dr. Mark Skousen, Julia Guth, Alex Green and Dr. Steve Sjuggerud and the entire cadre of advisors and experts who will show us how to make a killing each and every year no matter what the market is doing. Space is limited.

For information about special Early Bird discounts and to reserve your spot, please call Agora Travel at 1-800-926-6575 or 561-243-2572 right away.

FEEL THE FREEDOM  
OF  
*Total Wealth*

Total Wealth Symposium  
May 17-20, 2006  
InterContinental Playa Bonita Resort  
Panama City, Panama



## Just Announced: Total Wealth Symposium

May 17-20, 2006  
InterContinental Playa Bonita Resort & Spa  
Panama City, Panama

We are very excited to announce the dates for our next offshore event, the **Total Wealth Symposium**, May 17th-20th, 2006, at the brand new InterContinental Playa Bonita Resort and Spa in Panama City, Panama!

The Sovereign Society and their top experts are about to host their most revealing, most unique, seminar ever. You won't want to miss this one...every single speaker will reveal their number one solution for achieving Total Wealth. Some may focus on a haven, others on the best asset protection vehicles, yet others on unique investment strategies and opportunities.

Whatever their strategy, know that in just four days, you'll benefit from over 700 years of collective wisdom and professional offshore experience and most profitable and unique investment strategies available. Your hosts will include *A-Letter* Editor and Sovereign Society Legal Counsel, **Robert Bauman**, currency experts and *Money Trader* editors, **Kathy Lien** and **Boris Schlossberg**, commodities and offshore fund expert, **Eric Roseman** and the entire team of advisors and experts who show members how to protect and grow their wealth. Mark your calendar now...this event is sure to sell out. Be sure to watch future issues of *TSI* for more information.

For more information, contact Patricia Goltry, Tel.: 1-410-230-1243, e-mail: [pgoltry@sovereignsociety.com](mailto:pgoltry@sovereignsociety.com)

**Please note:** While investing or doing business offshore is perfectly legal for U.S. citizens and residents, there are a few legal formalities you should keep in mind. The most important of these is that you are responsible for paying taxes on your worldwide income. In addition, many types of offshore investments are subject to separate reporting requirements. Also, transfers of US\$10,000 or more in cash or cash equivalents across U.S. borders must be reported, as well as the formation and funding of a foreign corporation, trust or partnership. While it's easy to comply with some of these requirements—such as the annual filing of the “foreign bank account reporting” (FBAR) Form TD F 90-22.1, other forms (such as those necessary to report a foreign trust relationship) are more complex. To assist you in complying with these more complex reporting requirements, we recommend the services of a qualified tax attorney.