Private Placement Programs & Trade Platforms

[PPPs] and [Trader's Desk];

What, Where and Who Are They . . .

*A white paper entitled "Private Placement Programs & Trade Platforms; What They Really Are . . ." as an informative dedication to sincere high-yield alternative investment opportunity seekers who are simply fed up with the falsehoods and deception cast over the entire **Private Placement Program** space by ill-advised non-principal parties.*

INTRODUCTION TO TRADING WITH MID-TERM NOTES [MTN'S]

This brief account aims at educating and helping you to better understand some of the obscure, unclear, aspects relating to the Private Placement Opportunity Programs [PPOP], also known as Private Placement Programs [**PPP**], or under other acronyms like Private Placement Investment Programs [PPIP], etc. There are lots of people who know a little about this specific technique, but cannot grasp the whole picture.

The following account is based on our personal experience of several years in this business. To explain the involved matter, we will study it mostly from an Investor's standpoint and then onto a Broker's angle.

TOPICS

Before speaking of Private Placement Opportunities (as aforementioned PPO), we need to realize some basic reasons for the existence of this business. This includes a need to learn some basic concepts about what money really is and about how money is created; to understand how the demand for money/credit can be controlled, and that someone can issue a debt note which can be discounted and sold, then resold in an arbitrage transaction (the basic system for running most of these programs), etc.

THE BASIC REASONS

To fully grasp what it's all about, there are some basic principles that you must understand:

MONEY CREATION

The primary reason why this business exists is to create money. The fact is that money is created by generating debt. For example, you as an individual can lend out USD100 to a friend and you can make an agreement where the interest for that loan is 10%, so that he must pay you back USD110. What you have done is to actually create USD10, even though you don't see that 10 dollars. Don't consider the legal aspects of such an agreement, just the facts. Now, the Banks are doing this every day, but with a lot more money. Banks have the power to create money out of nothing. Since PPO involves trading with discounted bank-issued debt instruments, money is created due to the fact that such instruments are deferred payment obligations (debts). Money is <u>created from debt</u>. Theoretically, any person/company/organization can issue debt notes (don't look at the legal aspects of it). Debt notes are deferred payment liabilities and/or debts.

<u>Example</u>:

A lawful person (individual/company/organization) is in need of USD100, so he writes a debt note for USD120 that matures after 1 year. He then sells it for USD100 (this is called "discounting"). Theoretically, the issuer is able to issue as many such debt notes at whatever face value he wants – – as long as there are those who believe that he's financially strong enough to honor them upon maturity, and thereby are interested in buying such debt notes. Debt notes like Medium Terms Notes (MTN), Bank Guarantees (BG), Stand-By Letters of Credit (SBLC), etc., are issued at discounted prices by some of the major world banks in very large amounts; Billions of USD and/or Euros every day.

In general, they do "create" such notes (debt notes) "out of thin air", so to speak. That is, they only have to write the documents. It's as easy as if you, as an individual, write a debt note. Now, the core problem: to issue such a debt note is very simple, but the issuer would have definite problems in finding a buyer, unless that buyer "is confident" that the issuer is financially strong enough to honor that debt note upon maturity. Any bank can issue such a debt note, sell it at discount and promise to pay back the full face value at the time the debt note matures. But would that issuing bank be able to find a buyer for such a debt note without being financially strong enough?

Another example: If you had USD1 Million, and had the opportunity to buy a debt note with the face value of USD1 Million issued by one of the largest banks in Western Europe for let's say USD 800,000 a debt note that matures in 1 year, wouldn't you then consider buying it if you had the chance to verify it? Now, if a "Mr. Smith" approaches you on the street and asks you if you want to buy an identical debt note issued by an unknown bank, would you consider that offer? As you see, it's a matter of trust and credibility only. And now, maybe, you will also begin to understand why there's so much fraud, and so many bogus instruments in this industry.

LARGE DEBT INSTRUMENTS MARKET

As a consequence of the previous statements, there is an enormous daily market of discounted bank instruments, *i.e.,* MTNs, BGs, SBLCs, Bonds, BPNs, SKR, and etc. involving issuing banks and long chains of exit-buyers (Pension Funds, large financial Institutions, etc.) in an exclusive <u>Private Placement</u> arena.

All such activities on the bank side are done as “Off-Balance Sheet Activities” and as such, the bank can benefit in many ways. Off-Balance Sheet Activities are contingent assets and liabilities, and therefore, the value depends upon the outcome upon which the claim is based, similar to that of an Option.

Off-Balance Sheet Activities appear on the balance sheet <u>ONLY</u> as memorandum items, and it’s when they first cause a cash flow that they will appear as a credit or debit in the balance sheet. The bank does not have to consider binding capital constraints, as there’s no deposit liability.

NORMAL TRADING vs PRIVATE PLACEMENT

All programs in the <u>Private Placement</u> arena involve trade with such discounted debt notes in one way or another. And to bypass the legal restrictions, this can only be done on a <u>Private level</u>. This is the reason why this type of trading is so different from the “normal” trading, which is highly regulated. In other words, this business can be done and restricted on a Private level only, hence, the Private Placement.

The <u>normal trading</u> known by the Public is the “open market” (as the “spot market”), where discounted instruments are bought and sold with bids and offers like an auction. To participate here, the traders must be in full control of the funds; otherwise, they cannot buy the instrument and sell them off to buyers. Also, there are no arbitrage buy-sell transactions on this market, because all participants can see the instruments and their price.

However, besides this “open market”, there’s a “Closed-Ended, Private Market” where a restricted number of “Master Commitment Holders” are the *inner circle*. These master commitment holders are Trusts with huge amounts of money that enter contractual agreements with banks to buy a massive number of new issue *(fresh-cut)* instruments at a specific price during a specific period of time. Their job is to sell these instruments on, so they contract sub-commitment holders, who, immediately contract Exit-Buyers.

These programs are all based on arbitrage buy-sell transactions with pre-defined prices, and as such, the traders <u>never</u> need to be in control of the Investor’s funds. However, no program can launch, unless there’s enough money behind each buy-sell transaction.

It’s at this point that the Investors are needed, because the commitment holders and the involved banks and are not allowed to trade with their own money, unless they have reserved enough funds on the market - - money that belongs to the Investors which is <u>never spent</u> and <u>never at risk</u> [**Riskless Principal**]. This is the Master Key***!***

The involved banks (the Trading Banks) can lend out money to the “Trader”, and it’s typically 1:10. So if the Trader can “reserve” USD100M, then the bank can lend out to a Trader’s Standby Letter Of Credit portfolio valued at USD1B. Actually, the bank is giving the trader a line of credit [LOC] based on how much money the trader &/or commitment holder has, since the bank doesn’t lend out that much money without collateral, and not depending on how much money the Investors have.

So, if a trader says that he must be “in control” of the Investor’s funds, then it means that he’s not one of the “big boys”, but plays on the open spot market. Lots of different “instruments” are traded, *vs.* if the trader only needs to reserve the Investor’s funds, and doesn’t need to be in control of the funds, then he’s trading in this “private market”.

It’s because many bankers and others in the financial world are well aware of the open market, as well as being aware of the so-called “MTN-programs”, but because they are closed out from the private market, they doubt that the private market exists.

ARBITRAGE AND LEVERAGE

The real core of the trading and its safety is due to the fact that they arrange the buy-sell transaction as arbitrage, which means that the instrument will be **bought and sold** at the <u>same time</u> with a <u>pre-defined price</u>; to accomplish this a chain of buyers / sellers are contracted, including the <u>exit-buyers</u> who often are institutions, other banks, insurance companies, big Secondary Market companies, or other wealthy individuals. The issued instruments are never sold directly to the exit-buyer, but to a chain of 3 to 7, or even perhaps 50 Investors. The involved banks cannot, for obvious reasons, directly participate in this as in-between buyers and sellers, but they are still profiting from it indirectly, because they are lending out their money (with interest) to the trader, or to the Investor as a line of credit.

Furthermore, the banks profit from the commissions involved in each buy-sell transaction of debt bank instruments in the trading circle.

Now, **the Investor’s principal doesn’t have to be used for the transactions, but is only reserved as a compensating balance “mirrored”, if you will, against this credit line**.

And . . . this credit line is then used to back up the arbitrage buy-sell transaction.

Therefore, . . . since the trading is done as arbitrage, the money (or the credit line) doesn't have to be used, but it must still be there available to back up each and every buy-sell transaction. Such programs <u>never fail</u> because they don't start before all actors have been contracted, and each actor knows what role to play and how they will profit from the transaction. This would embody a true representation of PPO's***!***

A Trader who is able to do leverage *(or Ratchet Up as the British say)* is able to control a credit of typically 10 times that of the principal, but even though he's in control of that money, he's not able to spend the money.

The Trader only needs to <u>show</u> (or 'screen') that he has the money and that he's in control of the money, and that the money is not used (or encumbered) somewhere else at the time of the buy-sell transaction.

The money is never spent.

The reason is that the trading is done as an arbitrage transaction.

Let's keep it simple:

Let's say that you're offered the chance to buy a car for USD30K, and that you also find another buyer who is willing to buy it from you for USD35K. If the buy-sell transaction is done at the same time, then you don't have to spend USD30K, and then wait to earn the USD35K since it can be done at the same time you cash in USD5K in profit. However, you must still have that USD30K and prove that you're in control of it.

Arbitrage transactions with discounted bank instruments are done in a similar way. The involved traders <u>never spend the money</u>, but they must be in control of it.

And the Investor's principal is reserved directly for this, or indirectly, in order for the trader to leverage.

Confusion is rife because most observers seem to believe that the money must be spent. And even though this is the traditional way of trading – buy low and sell high, and also the common way to trade on the open market for securities and bank instruments, it's possible to set up arbitrage transactions if there's a chain of contracted buyers.

RISKLESS PRINCIPAL

You can also realise now the reason that in these Private Placement Programs, the Investor funds are always safe <u>without any trading risk</u>, or **whatever other risk**, except for the normal bank system risk (a bank can still virtually go bankrupt, though very rare, it is possible.)

HIGH YIELD

Usually these programs get a very high yield if compared with the common yield reachable with the traditional investments. Most people do not believe that a yield of 20%+, even reaching a gross of 50% per month is possible. The problem again, is having the knowledge of working programs and this example can shed some light on the matter:

Assume a leverage effect of 10:1, which means that the trader is able to back each buy-sell transaction with 10 times the amount of money that the Investor has in his bank account. Let's say that the Investor has USD10M, so the trader is able to work with USD100M. Now let's assume that the trader is able to do only one buy-sell transaction per day for only 4 days per week for 40 banking weeks (that's considered a 1 year), and that the profit is 3% in each buy-sell transaction. That makes 3%X4=12%, and with the leverage effect, the profit will be 10 times as high, or 120% per week. This return will be equally divided among the Investor, Investment Manager and the Trading Group (for projects), and the final net Investor's profit will still be a double-digit monthly gain***!***

Bear in mind, also that the above example can be still seen as conservative because tier one level Trading Groups can get a much higher single spread for each transaction as well as a markedly higher number of weekly trades which considerably enhances the final yield - - "through the roof"***!***

INVESTOR

The contracted Investors in the programs are not the end-buyers in the chain, but the real end-buyers are financially strong companies who are looking for a long term and safe investment, like pension funds, trusts, insurance companies, etc. And because they are needed as end-buyers, they are not permitted to participate "in–between" like Investors. The Investor who participates in a Private Placement Investment Program is just an actor in the picture amongst many other actors (bank funds / insurance, etc, trading groups as traders / commitment holders, intermediaries, and broker/dealers) who gets the advantage to benefit from this private trading. The Investor rarely does not see most of the actors involved in the process, because he will only be dealing with the Investment Manager*/Facilitator, Trading Groups and his depository Bank/s.

PROGRAMS STRUCTURE

A trading program is nothing other than pre-arranged buy-sell transactions of discounted banking instruments designed as an arbitrage transaction. Virtually, an Investor with large amounts of funds (on the level of 100M to 1B USD) could arrange for his own program by implementing for himself the buy-sell transaction, but in this case he needs to gain control of the whole process, making contract with a *Investment Manager with contacts with the Provider banks for the bank instruments and their exit buyers. This is not a simple task at all considering that there are many FED restrictions to be passed, and at the same time, it is very difficult to get the strong necessary connections with the related parties, i.e., the law firms/issuing banks/providers for the bank instruments and the exit-buyers/a major auditing firm/a tier one Trader's Desk.

For an Investor, it is much simpler to contract a special party known as a *Investment Manager to enter a program where the tier one level Trader with his Trading Group has everything already in place (the issuing banks, the exit-buyer, the contracts ready for the arbitrage transaction, the line of credit with the trading banks, all of the necessary guarantees / safety / a major accounting firm as pay master for the Investor, etc.) and the Investor needs only to agree with the contract/subscription offered by the *Investment Manager forgetting about any other underlying problem.

Another advantage for the client/Investor is that he can enter a program with a substantially lower amount of money (although with much lower yield) against the case to proceed by himself because he could take an indirect advantage of the larger line of credit of the Trading Group.

NON-SOLICITATION AND NON-DISCLOSURE

As a direct consequence of the Private Placements environment where this business has to take place, a non-solicitation regulation has to be strictly followed by all of the involved parties. This factor strongly influences the way the parties, and actors can deal each other, and the way they can make contact. Sometimes, this fact can also be the cause of the origin of scams (or attempts to scam), due to the fact that at an early stage, it is often difficult for the Investors to realize if they are really in contact with a reliable source.

There is another reason why so few experienced people talk about this transaction; virtually every contract involving the use of these high-yield instruments contain very explicit non-circumvention, as well as non-disclosure clauses forbidding the contracting parties from discussing any aspect of the transaction for a long period of years.

Hence, it is very difficult to locate experienced contacts who are both knowledgeable and willing to talk openly about this type of instrument, and the extensive profitability of the transaction in which they figure. This is a extremely private business; not advertised anywhere, nor covered in the press and not open to anyone, but the best-connected, most wealthy, private entities that can come forward quickly with substantial cash funds.

HOW BANKS AND BROKERS CAN EARN

Banks are not allowed to act as Investors in such programs. However, they are able to profit from it indirectly in different ways, first by getting commissions on large amounts. This fact permits some private entities like facilitators, brokers, trading groups, and private Investors to take part in this business that otherwise would be a banking matter only***!*** The private assets (in the form of a POF) coming from private clients / investors are necessary to start the process. These large, privately held cash funds are the mandatory requirement for the buy-sell transaction of banking debt instruments, and as a consequence, also the mandatory requirement for the programs through the Trading Groups.

An *Investment Manager is necessary to introduce the contacts he has developed over the span of years to the Investors and onto the trading groups***!*** Thus, each of the involved entities takes their part in the sharing of the benefits, commissions for banks/brokers, performance fees on profit earnings and management fees.

PROJECT FUNDING

Projects are usually involved in these programs. However, the primary purpose of this type of trading is NOT to finance humanitarian projects. It's true that projects, not just People-to-People projects, can be funded as a result of this trading, and since this type of trading generates such huge amounts of money on the market, measures must be taken to hold down global inflation. One way is to adjust the interest rates (a temporary band aid). However, at this level of trading; this has little or no effect.

The best way is to finance different projects. If too much money is created, the result is massive inflation, and in order to be able to continue creating debt, different measures must be taken to keep the inflation under control.

However, . . . a much better way is to allocate some of the profit to be used for People-to-People projects which need funding, for instance; to rebuild the infrastructure in regions of the world that have experienced catastrophes, war, etc., because this creates jobs for people in those regions, as well as a trickle-down growth through community development, through funding opportunities for developers, contractors and subcontractors. Jobs are generated by applied economics and inflation is avoided.

So, . . . the reason for project funding is not only to support humanitarian organizations, even though that is wonderful, but to **<u>Fight Against Global Inflation</u>**.

PROCESS SYNTHESIS

The complete process involving the issuing of debt-notes, the arbitrage transaction, the programs, the projects, etc., is as a final synthesis, a result of combined market forces:

- banks have a method of increasing their revenues and profits,
- Investors are able to generate substantial (**Riskless**) profits/earnings/income allowing them to fund & capitalise different ventures,
- People-to-People projects are able to access funding techniques, even without acceptable collateral.

The <u>Law of Supply and Demand</u> drives this unique technique. As long as the supply and demand exists, then this kind of trading will also exist ***(quietly and discreetly).***

This is finance at the highest level and not meant for everyone***!*** Its not offered to just anyone.

PROCESS SUMMARY

As an attempt to summarize the process involved for entering a PPP transaction:

- An Investor with USD10M< *(Euros also)* and more, can be an subscriber for a Private Placement Investment Program. The return is very good.
- When the Investor that has USD100M< or more, the appreciation is very large.
- At the USD1B minimum< the earnings are *'through the roof'*, of course.
- This business is entirely <u>private</u>. To get access to these investment programs, the Investor needs to send his preliminary documentation to an *Investment Manager whom the Investor trusts to be in direct contact with the Trading Group. There is no other way for the Investor to make contact with the Trading Group at this stage.
- After the Investor has sent his KYC paperwork, the Trading Group will proceed to its Due Diligence on the applicant, and if the response is positive, and cleared, then the *<u>Investment Manager</u> in the trading group will contact the Investor by phone and/or email. However, usually, if the Investor is not willing to travel, everything can be done by fax, phone, and courier mail.
- If not cleared, then the program manager will contact the *Investment Manager, and then advise him that the Investor did not qualify *(sometimes due to laundering or other illegal activity)*, and the *Investment Manager forwards that information on to the Investor who often gets upset and may attempt to wrongly discredit the broker and/or intermediary, perhaps on an internet 'due diligence message boards' (they always hide behind aliases).
- During the contact with the Investor, the trader, via the *Investment Manager, will explain the program's terms/conditions, the contract details, as well as the next step required to start the program. Then, it's necessary and required by the program terms, the Investor will get instructions to SWIFT into a top world bank account at the Trading Bank to subject to: the acceptance of the recipient bank officer. The Trader & *Investment Manager have prepared everything; so the Investor is able to open the Bank account without delay *(because he has already been cleared)*.
- Otherwise, **the Investor will be invited to prepare his own bank to block/reserve the funds in his own account at his own bank for one year without any transfer of money (for a <u>Closed-Ended Company Fund</u>**<u>, a private hedge fund company</u>).
- The Investor will receive a contract which states the total monthly gross yield, his portion (usually one quarter to one half of monthly profits); the portion disbursed to other principals; the percentage reserved for projects (projected to equal between 20 to 25% of the remainder of the earnings); a negotiated percentage for the Trading Group; and the percentage for commissions/bank fees/accounting

fees/& other fees usually totaling about 4% of the remainder to be deducted for any external brokers/intermediaries.

- The portion to the Investor is 25% up to 50% of the appreciation) will be wired to another <u>Investor Returns Account</u> at the end of the term can be located in any bank he chooses. When the Investor/Trading Associate/client accepts the contract, the contract is signed, notarised/witnessed and the program is ready to launch.
- *Investment Manager lodges all Pay Orders which instructs the major Accounting firm to wire out the disbursement part to the *Investment Manager's (and all of the other's) bank coordinates. The program continues this loop for each week until the end of the program, usually 252 banking days (considered to be a yearly contract).
- The Trader has been able to leverage the Investor's blocked/reserved money 10 times and is able to back up the arbitrage transaction with the money, a credit line [LOC] which remains in the bank account and is screened before each arbitrage buy-sell transaction.
- Trading now continues, and the appropriate portion of profit is compounded each month for the year. A financial report is generated quarterly for Investors.

This program can work with <u>cash only</u>. This fact <u>does not mean</u> that the Investor will only be accepted in the case he owns cash. The Investor can be accepted by some Trading Groups as well with screenable cusip financial <u>assets</u> like MTNs, BGs, CDs, SBLCs, some Bonds, Bonded Promissory Notes, **SKRs**, and etc., which the Traders can use for enhancing his own line of credit at the Trading Bank to run these programs. In this case, the Investor will have the advantage of profiting both from the program, and still from the interest paid on the instrument/s (*i.e.* the interest rate of a CD or MTN).

ANALYSIS OF RISK INVOLVED IN PPO CONTRACTS

Finalising PPO contracts with Investors is usually always a long stressful process because the involved parties can stumble upon many problems along the way. We will observe here a list of possible problems of behavior from the standpoint of the main parties involved at the bottom line of the process:

- The Investor
- The brokers/intermediaries/introducing agents
- Then there will follow some hints in an addendum at the end of this educational article on possible scams and warning for scams, which cause damages to this industry by unscrupulous predators.

FROM THE INVESTOR'S SIDE:

The applicant Investor will not be able to meet "a real trader" in this business directly, and without the proper introduction, and such an introduction requires that the client identifies himself and shows a certified proof (POF and Tear Sheet) that he has enough money.

The main reason why there's a broker-intermediary chain is because the people in the "Trading Groups", *(we use the term "trading groups" because there's always a small group of people that work together and not just a trader)*, have no time or interest in meeting all the 99% of people who are just fishing for information and/or who don't qualify because they don't have enough money, or have bogus/useless bank instruments.

If you're a qualifying Investor, then you should try to establish contracts through the *Investment Manager with his team of real players and he will be able to place you in contact with a performing trading group. Don't chase around trying to find "a real trader". Most so called 'traders' in the financial world are not involved in this kind of trading, and those who are, are keeping a very low profile (under the radar) and would <u>never</u> talk with an Investor/Trading 'Associate'/client which hasn't been KYC cleared first [**K**now **Y**our **C**ustomer].

When it comes to non-performance, in most cases the problem is on the client/Investor side. The client doesn't qualify because he doesn't have enough money, or the bank in which he has the money is too small, or he cannot move his funds or he has a bank instrument that cannot be used, or he tries to proceed according to <u>his own</u> procedure and rules, and/or is located in the "wrong country", etc. Most of the client documents seen over the years have been useless***!*** Sometimes transactions are killed because the broker and/or intermediary don't understand what to do. And the worst thing is to "shop around", trying to find the best deal. It's better to get 10% per month from a program that performs, than having to wait for 100% per week from a program that was supposed to work, but never will. There are brokers and Investors that have chased around for decades without being able to find an open door. And their main problem is that they had the wrong approach. Remember that the trading group does not have to give any explanation as to why the Investor doesn't pass through the clearance. If they already have a fist full of Investors awaiting clearance, then it doesn't require much to be put aside to be disqualified.

Things to remember:

- Investors must understand what is required to qualify:
  - A minimum of USD10+ Million in cash located in a major bank in Western Europe, USA, Canada or Australia, money which is **transparent, cleared, can be traced back to <u>origin</u> and comes from a non-criminal history**.

    - That the Investor and the company that he represents can be cleared [**KYC**]. For individuals, this is an identity control proving that the person exists. Note: individuals coming from certain countries will never qualify.
- Investors are invited, and might not be accepted. They can never demand to be accepted just because they have lots of money and/or that they believe they are prominent people. Most people in the different trading groups are fed up with such inflated individuals, and are just waiting to find an excuse to turn them down.
- The Investor himself must be the one, and only person that the trading group (via Investment Manager) deals with. He's not allowed to let his lawyer, or sister-in-law-who-is-fluent-in English, or whatever person, contact any person in the trading group, not even the broker. If the Investor doesn't speak English, and needs assistance, then he must sign a <u>Limited Communication Purpose</u>. The Investor must still be the authorised signatory on all documents.

Investors who have the least money are always placed in the queue (on the bottom of the stack). An Investor with USD100M+ will get more attention than an Investor with USD10M. Investors who have assets other than cash will also always be placed in the queue. This means that sub-USD100M clients must be patient. If they are told that they will be contacted next week, then they should accept that, and not take that as an excuse to 'shop around'.

It's not easy for an Investor to be sure that he meets the right people, *i.e.,* intermediaries and brokers who know what to do, and what not to do, and who are working with a performing trading group. The best he can do is to educate himself and not be lured by those who claim that their program will give the highest yield. He must also be patient, and trust the seasoned *Investment Manager/Advisor. This one can be the most important initial problem from the Investor's point of view. However, there's no way that the Investor is able to come into contact directly with the trade group before he has been cleared/vetted, *i.e.,* KYC, which requires notarised True Copies of the passport, notarized proof of residence, plus the certified True Copy of the Proof Of Funds [**POF**], and more. He might be able to talk with someone in the group, or at least with the broker, once the required documents have been checked. Before <u>all of his KYC</u> documents are cleared he will not get further.

If the Investor, for any reason, is unsatisfied with the broker and/or intermediary then he can try another one after having first sent a Cease and Desist order. In most cases where Investors have been blacklisted because they have been 'shopping around', it's their own fault. Brokers/intermediaries cannot be blamed if the Investor is 'shopping around'. And those brokers/intermediaries who once make the mistake of 'shopping around', will quickly be blacklisted as well.

These are some of the main risks the Investor can meet with these types:

- Nothing will come out of the trade; no contact and no profit, just frustration after weeks/months of waiting.
- Investors, or their Intermediaries and/or Brokers are ‘shopping around’ with client documents, which sooner or later will result in blacklisting.
- The Investor is told that he must move his funds out of his own control to an escrow account, etc.
- The Investor is told that he must buy a bank instrument for his money. In the worst-case scenario, this instrument is a fake, or impossible to use.
- The Investor is told that he must pay unnecessary fees for the leverage of his funds, or some bank instrument must be discounted, or banking fees must be paid, etc. These type of fees paid are lost and nothing more will happen.

FROM THE BROKER’S AND INTERMEDIARY’S SIDE

There is a common misuse of such terms as broker, intermediaries, etc. The fact is that they are not official terms in banking or finance, but such terms are used within trading groups, and in their communication between each other. The problem is that it sometimes happens that a broker, or an intermediary claims that he’s in direct contact to a person with that title, but that doesn’t guarantee anything, because any person can call himself a trader, or a commitment holder, or whatever. And since such positions cannot be verified, at the first stage, such titles can be meaningless as seen from the Investor’s point of view.

It is imperative to go through an *Investment Manager *(with years/decades of seasoning)* with a team of his contacts, i.e.; formation & compliance trusts services - law firm counsels (on-shore and off-shore) – top world rated accounting firm – offshore depository top rated banks – brokers / dealers – intermediaries - trading groups – Private Placement high tier traders, and all of this is for two reasons:

First, trading groups are not allowed to solicit, nor are brokers, or even intermediaries. However, a seasoned *Investment Manager who knows all the documents necessary to begin the formation* of a Hedge Fund/Company Fund as an International Business Company [IBC] broker who works in connection with one, and/or several trading groups.

(see page #23 of this article for a starter list of pertinent formation documents)

Secondly, to protect the involved parties on the side of the trading group, they work through several brokers, and the broker works through several intermediaries.

As an additional responsibility of the seasoned *Investment Manager, he shall screen the potential Investors and at the same time, collecting from them the correct paperwork.

After a strict checking for KYC compliance, the quality, and acceptability of the client/Investor's documentation, in a way in which the trading group receives a workable ready to launch package assembled by the *Investment Manager's professional team.

The most common risks, or problems, that a broker, an intermediary, or a facilitator can meet during their own work in this business are:

- They may need to handle many clients before finding an acceptable applicant.
- They could get just a part of the truth regarding the asset of the client at an early stage which may later be discovered to be unworkable, after wasted weeks or months of work on it.
- They always have difficulty qualifying themselves with new clients because they cannot show any past performance *(must be discreet),* or past contract, and the relationship with the client is just a matter of trust at an early stage.
- There could be a long list of brokers and/or intermediaries between the client and the trading group. In this case, some brokers in the middle can destroy the deal by dragging their feet and by not giving the right information to the client, or to the trading group, and/or making problems with their fee agreements (greed).
- There could be several levels involved for the intermediaries: the seasoned *Investment Manager is the most important person to the Investor and the closest one to the trading group. This person must have a direct contact with the Investor and a principal in the trading group.
- Any other broker beneath the referenced Investment Manager is lower on the ladder. The broker, and/or the intermediary, can have problems showing the client his level in the hierarchy at an early stage.

Essentially, this business could seem very simple***!*** You just need clean, cleared transparent funds for a minimum USD10M+ and up in a Top Bank, a broker in direct contact with a real, and strong Trading Group, and the right client who can follow the procedure in a <u>riskless</u> position***!*** One can see that this is <u>never easy</u> and not meant for everyone.

However, from a practical point of view, the above ideal situation is so unusual as to not equate to reality***!*** First of all, most of the applicant's clients usually have some problems with their funds, or they are not in full control of them, or they cannot, or do not want, to move their assets, or they are not cleared, or they are not collaborative enough to deal with the Trading Group and/or with the dealer/brokers. Or they are unscrupulous.

Any new applicant could have a challenge with the difficulties of a steep learning curve before reaching the right mind-set. Most or all of this information is out of reach for the general public. Many Investors (and their 'brokers') have searched far and wide for a greater return on their money. This has remained elusive, except for an elite few.

A POSSIBLE SOLUTION

Perhaps it is at this point a more efficient way to enter this business is to introduce: **TIER 1 LTD.**, *Investment Manager, a consultancy seasoned for decades in this very private and discreet business. **T1L** employs general beliefs that spreading correct information/knowledge is the best way to fight the evil, greedy side. However, at the same time, we're very well aware that it would not be a good idea to reveal everything in this writing, or on public conference, or forum.

This kind of trading continues precisely because it's unknown by the public, and common/traditional investors. If all wealthy people knew about it, and also had access funds in a legal way, then they would not place their funds in the stock or market, Forex, or other traditional risk investments. But knowing about it is not the same as having access to it***!***

As professionals in this business, we must be extremely cautious when it comes to sharing contacts. This is also one reason why clients never are able to deal directly with the facilitators before their funds have been cleared.

Therefore, for best results, facilitators work with the help of brokers/dealers,

who work with the help of intermediaries, and

the Investors have to cooperate with the *Investment Manager's team in order to gain the advantage of access into this unique and very high yielding, but very cryptic world***!***

The Following Segment Reveals What They Really Are . . .

Which may appear redundant and it is not an easy read for the average Layman.

Trading Platforms are pools of capital that invest in a wide variety of financial instruments including stocks, bonds, commodities, ETF’s and foreign exchange. These pools of capital may be a number of legal entities; however, the most common is known as a **PPP**, an acronym for **Private Placement Programs**. Private Placement Trading Programs are not offered to the general public***!*** They are exactly what their name implies, offerings of membership interest into a select group of chosen Investors who meet certain/strict/vetted financial requirements.

The minimum investment in these Private Placement Programs can often be quite high and require a lockup period, where the capital is committed to the Trade Program for a certain period of time. The minimum investment levels and principal commitment periods vary depending on the type of investments and the objective of the investment. One year lock ups are not uncommon. Lock ups serve a very important function. They provide the Investment/Trade Managers and Platform Traders with time in which to obtain results for their select/elite Investors. Platform Traders want to know that the capital allocations they have been given to trade are for a long enough period of time to allow a particular trading strategy time to mature and reach its full potential.

If you were to look at the returns of outstanding Platform Traders you would see profitable results over time; however, in the short term they may have a period of negative returns. If your interest is in traders with no down periods, please read no further, as they do not exist, contrary to popular belief. There is no such thing as free money. Trading involves risk. Every Investor dreams of opening the door today and finding tomorrows Wall Street Journal, but this only exists in fantasy. Platform Trading requires hard work, tremendous discipline, patience and superb talent. The fact is, very few people have the gifts to be a successful PPP trader. The Platform Traders at the very top of their peers are rewarded with staggering wealth. Platform Traders utilize many strategies to help determine profitable trades, such as macro analysis, price theory, fundamental analysis, value analysis and many more investment strategies. What superior and outstanding Platform Traders can do is make enough winning trades over time, irrespective of what strategy they may use to accumulate trading profits. However, a number of their trades will not be winners.

A large part of successful Private Placement Program trading is <u>risk management</u>; controlling losses and preserving investment capital.

One of the very basic risk management techniques utilized by Private Placement Program Traders is to only risk a very small percentage of the investment capital on every trade. It is usually between one half and two percent on a particular trade. If a trade loss hits a defined percentage allocation, the trade is closed out.

The average Investor has an extremely difficult time taking a loss. In fact, it is a human tendency to hold on to losing trades and cut winning trades short, which is the very opposite of what great Platform Traders do.

Risk management systems can get very complex and Platform Traders often write complex algorithms to manage risk when there are many positions and trade strategies running all at once.

The advent of the computer has radically revolutionized trading, just as it has every facet of our lives. Modern Trading Platforms are heavily dependent on mathematics and the hard sciences. Most Platform Traders today have advanced formal education and training in mathematics, probabilities, physics, computer science, economics and engineering. Trade rooms are more similar to busy computer driven laboratories than the old image of guys in a boiler-room shouting into two telephones at one time. Almost all orders are input electronically and trades are matched up by sophisticated software. Private Placement Programmers and software engineers are indispensable to successful Private Placement Programs and Trade Platforms.

As mentioned earlier, Platform Traders have many products to trade and a huge number of global exchanges to execute the trades. The most well-known exchange in the world is the New York Stock Exchange (NYSE). When Platform Traders make a trade, that trade is executed on an exchange. The NYSE, CME, NYMEX, ICE, CBOE and NASDAQ are the largest U.S. exchanges. In Europe the LSE, Euronext and Frankfort Exchange are largest. In commodities much of the execution is done on the Globex, an electronic exchange. Platform Traders use the exchanges to buy and sell trillions of dollars of stocks, bonds, currencies, gold, oil, euro-dollars, Collateralized Mortgage Obligations (CMO's), Exchange Traded Funds (ETF's) and hundreds of other securities, currencies and derivatives in efforts to make profits for themselves and their select Investors.

Private Placement Program Traders can make profits by buying a particular instrument or by shorting, (selling it) betting the price will go down. Some Platform Traders buy and sell similar instruments simultaneous, betting on the change in price between the two instruments; this is called arbitrage and spread trading. Other Platform Traders employ option strategies, such as writing options, writing straddles, strangles, butterflies and condors. Option strategies can quickly become extremely complex and are a highly specialized area of trading which requires extraordinary expertise.

Private Placement Trading Platforms utilize margin to buy and sell all of the various instruments they trade. Margin is simply a partial payment for the instrument. Most people are familiar with margin on stocks. Margins are met with cash, period. Contrary to what some people may believe, the only instrument that is good for backing a trade position is Cash. When a profit is made, it is credited to the Trade Platforms books that day; when a loss is taken it is debited from the Trade Platforms books that day. Private Placement Platform trading is a <u>cash business</u>; gains and losses are marked to market each day.

Trade Platform Managers [**Trader's Desk**] should know by between midnight and two a.m. each trading day where they stand. The Private Placement Trade Platforms maintain what is called a customer segregated account with a Futures Commission Merchant, more commonly known as a **FCM**. This account is where the Trade Platform Investors' funds are held. An Independent Capital Account is established for each Trade Platform Investor in order to provide accurate accounting on a monthly or quarterly basis. The Private Placement Platforms' funds are deposited into a Master Segregated Funds Account to be used for margin in trading.

Goldman Sachs, Merrill Lynch, ABN AMRO, MF Global, JP Morgan Chase, Credit Suisse, Deutsche Bank, HSBC and Bank of America are all FCMs. These companies, as well as handling trades for independent Trade Platforms for many years, have had their own internal proprietary trading desk or Trade Platforms. Some of these Trade Desks are famous, such as Goldman's Alpha Fund, Morgan Stanley's Process Driven Trading [PDT] Platform and Deutsche Bank's legendary SABA Trading Program, led by Boaz Weinstein. The new regulatory environment is forcing many of the banks to divest themselves of proprietary Trading Platforms. This is making for a large talent pool comprising the best and brightest traders available for Private Placement Programs, Private Hedge Funds and Trading Platforms [Trader's Desk].

Private Placement Programs and Trading Platforms often use what is known as notionalisation *(a new $50 word for most everyone)* or <u>notional funding</u> to increase the leverage that the Trader's Desk may use. The Trading Platforms may leverage its trading capital as much as ten times, meaning that One Hundred Million Dollars ($100,000,000) may be traded as if it was valued at a Billion Dollars ($1,000,000,000). Leverage, while giving the ability to greatly increase the returns on cash can also lead to significant loss. The old adage that "leverage is a double-edge sword" is very true. Notionalization absolutely must be constantly monitored and adjusted, depending on margin requirements and market conditions. The Private Placement Platform Managers have investment committees that are responsible for determining notional trading levels. **Notionalisation** is a very powerful tool for the Private Placement Trading Platforms.

In summary, when it comes to Private Placement Programs, the minimum investment can be high and the risk can be high as well. However, the reward can be great; great enough to easily justify the investment and risk for one who has the means with which to get involved in such an investment.

Considering that top major banks issue <u>Medium Term Notes</u> (known as **MTNs** and Mid-Term Notes) to raise funds in both U.S. and Euro dollars, we can better understand that they are for the purpose of generating Operating Loans and issuing Letters of Credit to businesses which wish to buy material and products from other business organizations in other countries.

In laymen's terms, this results in an International Treaty whereby the U.S. Dollar (or the Euro) becomes the common Medium of Exchange for International Trading. By Federal Law, a European bank is **not allowed** to sell such Medium Term Notes directly to the Public. They **must be** issued and sold through a Federal Reserve Licensed Trader; just as in the same context a Corporation or a Municipality must sell Bonds through a Dealer or Underwriter.

The Trader, aiding in the distributional sales of newly issued MTNs from the major sized Bank will have a $50B (fifty Billion dollar) contract (or of equivalent amounts) with the Issuing Bank to purchase MTNs for <u>immediate</u> resale.

Typically, this Trader would instigate the following:

A Non-Revocable Contract (see further explanation in Paragraph A) with an <u>Exit Buyer</u>, such as a Pension Fund, to buy those MTNs from them immediately, and with a contract with a Participating Investor, acting as the Trader's 'Associate'/Investor to furnish the Proof Of Funds [**POF**] required, simply as a formality, to start and continue the Purchase and Resale series of Transactions.

The Trader also makes contractual arrangements with their own bank, through their bank's 'Back Room' Trading Department, to act for them during the Transactions of $100M (Million) or greater. This $100M< amount is the minimum set by the U. S. Federal Reserve for this type of Bank issued MTN Distribution. The 'Trader's Associate/Investor' thereby arranges for their own bank to issue to themselves a POF using $100M in Cash Funds, which are wholly owned by them, in their account at their own bank. This enacts the ability to obtain cash credit of $100M for the POF. This POF is then sent to the Trader in accordance with the contract between Trader and their 'Trader's Associate /Investor'.

It is important to state that Medium Term Note Trading is a very specific process. When less than experienced "Trader's Associates/Investors" expect absolute perfection and "up-to-the-minute" communication, these immediate reactions inevitably cause more delays, short-comings and frustrations on behalf of not only the Trader's Associate / Investor, but the Trading Desk / Platform as well.

Several factors influence the timing of entering a trade;

- the current availability of Medium Term Notes, which can easily be in short supply,
- the timing of the trade submission and
- the specific programs that cancel without notice.

On occasion, these unexpected market trends give a false illusion resulting in the sophisticated MTN Trading Platform to appear chaotic. But nothing is further from the truth.

Below is a general scenario of a Private Mid-Term Buy/Sell Program:

a. The Trader's Bank communicates with the Issuing Bank as well as with the Exit Buyer's Bank, to obtain a detailed agreement with the Issuing Bank Officer and with the Exit Buyer's Bank that they are both prepared to commence the contracted series of Transactions. The Exit Buyer's Bank forwards a POF to the Trader's Bank for the amount of the first purchase of $100M.

(Note - When a POF has been issued for the Exit Buyer and forwarded to the Trader's Bank, there is a legal Funding Commitment to complete that Transaction, which may NOT be revoked while the transaction is taking place).

b. The Trader's Bank forwards to the Issuing Bank a POF in the name of the Trader and requests that a MTN be issued in the name of the Trader, along with an Invoice at a discounted price, say for example, only $97M (discounted from $100M), payable in 4 Hours.

c. A copy of the Note and an Invoice at $97M, is forwarded to the Trader's Bank, who will authenticate signatures and MTN terms to verify compliance with the Purchase Contract.

d. The Trader's Bank then forwards the certified copy of the MTN, along with a Conditional Assignment of the MTN, to the Exit Buyer's Bank, along with another Invoice at the Exit Buyer's Purchase Contract Price, $100M for example purposes, payable in 4 hours.

e. The Exit Buyer's Bank authenticates signatures, verifies compliance with the Purchase Contract, and pays the $100M Invoice price to the Trader's Bank for credit to Trader's account, within the 4 hour limit.

f. The Trader's Bank then pays the Issuing Bank's Invoice for $97M within the 4 hour limit, along with immediate instructions for the Original MTN to be sent to the Exit buyer's Bank by courier.

g. The Trader's Bank debits the Trader a Bank Fee for their services rendered, and forwards the balance, $100M minus $97M minus fee paid to the Trader, who pays the 'Trader's Associate / Investor for their Service Rendered.

h. The procedure used for this example, typically takes place 3 or sometimes 4 times each day of a four business day week, and repeats until the Trader's Purchase Contract is completed. Using this formula, the monthly profits to the Investor should be equal to a 'double digit' percentage of their POF amount.

*A hypothetical outline *(applying projected fuzzy logic)* utilising at least $1Bn+ as a cash deposit as **Riskless Principal** in **Private Matched Trades** assuming the following:

a 3% spread per transaction X 3 *(possibly 4)* matched trades **per day** = a Gross of 9%

X only 4 days *(possibly 5)* **per week** = a Gross of 36%

X 4 weeks **per month** = a Gross of 144%

minus approximately 4%± for bank, legal and contingent liability fees = a **Gross** of 138±%

to be divided equally among 3 principal groups = 10+% **Net** to each group **per week**

or **Net** earnings could be as much as 20% to 40±% to each principal group **per month**.

Of course, the **Power of Compounding** would be realised as the Investor's profit is added into the initial deposit (the Net Asset Value) to start the next month. This feature continues each successive month until the end of term (12 months).

*Important Disclaimers

THIS COMMUNICATION **IS NOT** TO BE CONSTRUED AS AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO PURCHASE ANY SECURITY OR INVEST IN ANY PRIVATE PLACEMENT PROGRAM OR PLATFORM. ANY SUCH OFFER OR SOLICITATION CAN BE MADE ONLY BY MEANS OF AN EXEMPT DISCLOSURE DOCUMENT AND TRADE PLATFORM OFFERING MEMORANDUM (WHICH CONTAIN A DETAILED DESCRIPTION OF RISK FACTORS). PARTICIPATION IN PRIVATE PLACEMENT PROGRAMS IS ONLY AVAILABLE TO QUALIFIED ELIGIBLE PERSONS. PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RETURNS.

In conclusion . . .

An experienced Trader’s Associate/Investor can safely state that with the previously listed procedure and controls for the Transactions, the only reason for a Transaction failing, once commenced, would be for the Exit Buyer's Bank to default on completing a contracted purchase of a Note, which would be considered in jeopardy to their Bank Charter. This has not been experienced but is a consideration.

Should any default take place, it would be quite simple for the Trader to make the required Payment, using their own Funds, to complete their purchase of the Instrument, and to immediately sell it to a different contracted Exit Buyer. This action by the Trader eliminates **any risk of loss** by the Buyers and Exit Buyers as well as the 'Trader’s Associate/Investor'.

NOTE: With minor variances in the connection of an Investor's Funds to a Trader's $100M *(or Euros)* Operating Fund, an Investor may enter into a transaction with $10M+, or more, with relatively much lower percentage payments to them. By the same token, an Investor may enter into a PPP trading operation with as much over $100M+ as they have available *(and upward into the Billions+).*

Now, if you have managed to read this far, **congratulations**, you have risen above the crowd of *wanna-be* types. Here is the good news. In most cases, the projected appreciation/returns/profit percentages may have projections based on the Net Asset Value of the Management Fund utilising ***Investors’ riskless commitments into PPPs,*** which should average a **monthly net profit of:**

*Minimum Amount of Riskless Asset Commitments =	10M+	10 - 15%±
	100M+	20 - 25%±
	1Bn+	30 - 40%±

These monthly profits are utilising the **power of compounding** each month causing the growth to go *“through the roof”***!**

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THE BEGINNING OF A B.V.I. UNREGULATED PRIVATE CLOSED-END WEALTH MANAGEMENT FUND *(a Hedge Fund)* FOLLOWS:

*TIER 1 LTD. Assembles & processes the following Package of Documents *(there could be other documents added as well)* for formation and launch of an Investor's **Private Closed-End Hedge Fund *(BVI)***, which is then delivered by Professor Rose [T1L], a seasoned *Investment Manager/Advisor, to his proprietary contacts in preparation for a targeted launch date with **- -**

Major Top World Law Firm / Trust Services – Administrator, Major Top World Accounting Firm *(BVI)* & Major Top 50 Bank *(Bermuda/Cayman)* & a Tier One Trader's Desk *(UK);*

1. **Offering Memorandum** signed (Certified True Copies Notarised) by all Corporate Directors
2. **Subscription Agreement/Booklet** signed & notarised by all Corporate Directors
3. *Investment Manager/Investment Manager's Agreement signed and notarised by all Company Directors
4. **K Y C compliance documents** from ALL participating Parties (Certified True Copies Notarised)
5. **Proof of Funds – Tear Sheet** from origin/sending Bank with Corporate Resolution from Investor/s
6. **Passport**/s for Mandate & All Directors (Certified True Copies Notarised)
7. **Proof of Residence** (3 months Certified True Copies Notarised utility bills, not mobile phone bill)
8. **Bank Reference** Letter Notarised
9. Certified Corporate documents of Investor's and/or Corporation
10. On-shore Counsel (instructions to setup Trust forming Investor's **Closed-Ended Company Fund**)
11. **Corporate Resolution** for appointment of Investment Manager with Apostille
12. Investment Manager Agreement with Company Fund *(BVI)*.

HERE IS THE NEGATIVE SECTION ADDED TO ADDRESS “ALL SIDES” OF THIS ARTICLE.

SCAMS

From time to time you hear about scams, or potential scams, in the High Yield Investment Programs arena. One of the conditions that facilitate scams in this business is mainly due to the non-solicitation environment, and the private approach required that forces information to remain as pure whispered gossip ready to be expressed aloud at any time. That fact facilitates a diffused level of ignorance in this matter, where scammers are essentially in their element***!***

Possible scams could be:

- You are asked to transfer the money into an escrow account, not in full control of the client.
- You are asked to buy a bank instrument against the funds to start the program, that later will be discovered to be of no value.
- You are asked to pool the funds together with other smaller Investors.

The Internet is now full of different money-making opportunities that promise to return a high yield on the small Investor’s money. In most cases, such programs are ponsi schemes/pyramid-schemes. And even if a few might be managed by honest people who are trying to aggregate enough funds in order to enter this kind of trading, they are doomed to fail.

First we have the above problem with the USD10M minimum, so there’s no real point in trying to pool less than USD10M. Then we have the legal aspect of it. In many countries, it’s illegal to pool money with promises of a high return. Then, we have the problem with the high number of participants to be managed. Another problem is the time factor. Unless the program is hyped on the net, it will take years to aggregate that amount of money. Another problem is the management. How can they be trusted? And finally, if they manage to aggregate USD10M from thousands of participants, they will not pass the KYC clearance, because aggregated/pooled money like that is <u>not allowed</u> to enter trading.

However, the main scams are usually made, or attempted, with small Investors that will never qualify as PPO Investors. Usually, it is very rare that a real wealthy Investor with USD10M and up can fall into this kind of scam. In fact, usually the larger Investors know more about finance, and they can also use many other financial expects to drive the deal on a “safety road”. So, anyone who is quite educated in this business can easily discover any of these scam attempts at an early stage.

WARNING ON SCAMS

It is very common to find on the internet so many web-sites, or internet message boards/links to so-called official documents, or reports of the "Financial Authorities" warning the public that this business "does not exist", and any of these offers are always scams. The reports in question could have been written by the SEC, FBI, ICC, or any of the regulatory authorities. It's nothing to be amazed about. You should be aware that official documents like the Commercial Crime Services Special Report on Prime Bank Instrument Frauds by the ICC Commercial Crime Bureau are widely spread and used as a reference by banks, accountant firms, lawyers, SEC, FBI, etc. all around the world. So if ICC says that this is a scam, and your accountant says that this is a scam, and your banker says that is a scam, then isn't it a scam***?***

You should all understand that most people that work at banks, securities houses, accountant firms, etc., have <u>no insight</u> into this kind of private trading, and they are very eager to listen and comply with everything said by the authorities. So if SEC, FBI and others say that this is all a scam, then they automatically believe so.

For all you nay-Sayers and disbelievers out there who are looking for evidence that this kind of trading exist; try to learn and understand monetary history and banking, and you will understand that this can, in fact, work – in theory. You don't have to run around and try to find evidence, because unless you have USD10M< to test it for yourself, then you need to rely upon others who are vouching. So, we strongly suggest that you find out the truth for yourself, without listening to what others are saying. Well, it's not a cover-up, that's for sure, because this is what they are learning, and this is what they are told by others. There are too many people who try to inject themselves into this business who would do better in the 'fast food' industry.

# # #