THE Sovereign Individual

ACCESS to International Asset Protection and Investment Opportunities

The Return of the Chicken Heart

How the Explosion of Government Credit Creation Is A Threat, Right Here and Right Now

By John Pugsley

In the golden age of radio, weekly shows like *Inner Sanctum* and *Suspense* gave us children frightful dreams. Sixty years later, I still remember a scary episode of *Lights Out* in which some scientists put a chicken heart in an experimental solution to see if they could keep it alive and even make it grow. The experiment worked. The program ended with the screams of people running from the pulsing "thump, thump, thump" as the unstoppable heart engulfed the town, swallowing everything in its path.

I recalled that old radio show as I pondered the recent warning by The Reserve Bank of Australia that the current calm in financial markets could be the prelude to a storm that could wreak havoc in the world economy. Like the scientists who experimented with the chicken heart, the bankers and politicians manipulating the world credit system have birthed a monster that consumes everyone foolish enough to be in its path.

In his book, *The Creature from Jekyll Island,* G. Edward Griffin described the super-secret birth of the credit monster. Jekyll Island, a small island on the coast of Georgia, was the 1910 rendezvous of seven men who represented an estimated one-fourth of the total wealth of the entire world.

Frustrated by the restraints of a gold-backed currency, the bankers wanted to expand bank credit. Politicians, chafing under restraints on taxation, couldn't spend more unless they could borrow. The solution was a central bank that could issue its own debt securities and allow commercial banks to use those IOUs instead of gold as reserves. The Federal Reserve Act of 1913 shifted the U.S. from a gold-backed dollar to an IOU-backed or fiat dollar, giving federal politicians unlimited borrowing power and bankers unlimited funds to lend.

In the 120 years prior to the creation of the Federal Reserve, total federal debt reached only US$75 million (yes, that's million, not billion). Today, less than 100 years later, it exceeds US$75 trillion, a million-fold increase. As the politicians borrow, the Fed prevents a bank collapse by monetizing those federal IOUs, buying them up with newly printed Federal Reserve Notes.

The fiat-money system also launched a spending binge for the private sector, pouring fiat dollars into every niche of the economy, from home mortgages (US$8 trillion) to consumer credit (US$2.2 trillion) to corporate debt (US$5.4 trillion). In addition, it provided the ability for politicians to lend money abroad, buying foreign influence as well as lucrative contracts for U.S. exporters. It doesn't matter if the foreign governments repay the loans. Recently the Bush administration launched an ambitious proposal for 100% debt cancellation to an array of heavily-indebted poor countries. Subsequently, the global debt relief proposal wiped away as much as US$55 billion in debt for as many as 37 nations in spite of the fact that there has been a history of repeated lend-and-forgive cycles. The poor countries involved in this latest forgiveness cycle alone have accounted for nearly 250 debt relief treatments in the Paris Club over the last 25 years. Why continue lending to deadbeats? Why not? The money can be created with a few strokes of the computers at the Federal Reserve, the banks profit, and the government expands its power.

(Continued on page 2)

In This Issue

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Website Password

The password for the members-only section of The Sovereign Society's website at: www.sovereignsociety.com is: "ireland" (no quotes).

"Without freedom of thought, there can be no such thing as wisdom; and no such thing as public liberty without freedom of speech."
—Benjamin Franklin

Publisher's Note

What a great issue we have for you this month!

Let's start with one of my favorites: "The Return of the Chicken Heart" by Sovereign Society Chairman John Pugsley. John takes you on a wild trip down memory lane to the old-time radio shows of his childhood, and shows how current Federal monetary policy is laying the groundwork for a real-life horror story. John's column is a must-read for anyone concerned about the value of those little bits of paper in your wallet.

And make sure you read the article by *Money Trader* editors Kathy Lien and Boris Schlossberg on how to turn ordinary returns in the currency markets into incredible returns. This isn't just pie-in-the-sky—they're already doing it in *The Money Trader* with "synthetic currency options.

If asset protection is your area of interest, give more than a glance to Michael Chatzky's article on private annuities. Learn how you can make the tax man cool his heels and do estate planning all in one fell swoop.

Our investment director, Sean Brodrick, and Council of Experts member Larry Grossman have teamed up to serve up three ways to invest internationally at a discount. Two of those ways even have guaranteed returns.

Meanwhile, contributing editor Mark Nestmann unlocks Austrian money secrets. Austrian bankers are some of the most confidential bankers I know—even more than the Swiss. What's hidden away in their vault? Great choices for investors and world travelers alike. Mark gives you the scoop.

Mark is a double-threat this month, with an article on two new threats to your privacy—and what you can do to fight back.

And while you might have your own offshore bank account, how about your own offshore insurance company? Bob Bauman explains why that's a capital idea.

All this and more—in the November issue of *The Sovereign Individual.*

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.

The Return of the Chicken Heart

(continued from page 1)

A key plank in the Credo of The Sovereign Society states: That to whatever extent government interferes with the free exchange of goods or confiscates the property of citizens, it reduces the wealth of the nation.

There is very little that the government does that is not an interference with the free exchange of goods, but the most insidious and misunderstood is the creation of credit. While most can see that taxation is direct confiscation, and therefore reduces our wealth and lowers our standard of living, most can't see that government borrowing also confiscates wealth. Since the IOUs remain, it leaves individuals with the illusion that they still have their wealth. Obviously, the US$7.5 trillion of government IOUs will never be repaid.

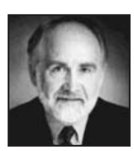
Credit expansions and contractions have been part of history since the ancient Roman emperors began clipping the coins, only this time the whole world is involved. The world economy floats precariously on a complex sea of private-sector IOUs, each securing the IOUs above it, and all of which are secured by the debt issued by governments. Everything depends on people's confidence in those paper promises.

Any shock to the credit system—a natural disaster, the retirement of Wizard Greenspan, a war—could weaken confidence. The default of a big debtor could lead to a chain of defaults. When enough individuals lose confidence in the IOUs we're holding and run to real values, the game is over.

As we have counseled for years, international diversification is critical. Of course, every sovereign individual should be steering his or her portfolio towards the strongest currencies, and to natural resources, which are real, not fiat, wealth.

The "thump, thump, thump" of the creature from Jekyll Island grows ever louder. When we hear warnings from central bankers, such as that from the Central Bank of Australia, it is time to move to safety.

To listen to the original recording of the Lights Out production of The Chicken Heart, follow this link… http://www.digital-eel.com/blog/files/Lights_Out_Chicken_Heart.mp3.



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Synthetic Options That Pay Interest Just Got Even Better

By Kathy Lien and Boris Schlosssberg

Ordinary options—either options on currency futures or options on equities—offer investors and traders alike good flexibility and risk control. Equity options, for example, can generate 500% or even 1000% gains sometimes in a matter of days while at the same time limiting risk to the cost of initial investment. But those options also decay over time, they're sometimes illiquid, and there can be other problems. So traders looking to make aggressive market bets without exposing all of their capital to risk have to ask themselves: Is there something better?

The answer is yes: highly leveraged trades—"synthetic" options—on currencies traded on the spot foreign exchange market. These synthetic options offer traders all of the benefits of options but none of the drawbacks. They even provide a way for traders to make money when the trade doesn't increase in price value at all.

And this isn't just pie-in-the-sky theory. We've proven that it works. Recently, subscribers to *The Money Trader* used synthetic currency options to take 14.2% returns and supercharge them into 35.5% returns.

That is just a taste of what synthetic currency options can do.

The foreign exchange market has plenty of benefits anyway ...

Trade any time. The currency market is the only true 24-hour financial market in the world. From 5 PM EST Sunday to 5 PM EST Friday trading in the world's largest market continues uninterrupted, moving around the globe from Tokyo to London to New York.

Enjoy highly liquid trades. This market trades nearly US$2 trillion per day—40 times more than the New York Stock Exchange.

Ratchet up the leverage. The currency market also offers the highest leverage in the financial arena, offering margin terms as low as 1% which translates to a 100:1 leverage factor. So when you combine leverage with the spot FX market, you get leveraged trades that are more than options "substitutes"—in fact, they're better than ordinary options themselves. Why?

First and foremost—limited risk. Since currencies trade round the clock, retail FX market makers can always liquidate a customer's position once it breaches the margin level. Mind you, the dealer will not call you and gently inform you of the fact that he must close out your position. In fact, no human intervention takes place at all, as software driven computers instantly initiate close-out trades the moment a position slips even 1 point below the margin requirement.

Such procedures seem impersonal and rather brutal, but in actuality they provide a huge service to the individual trader. By having the ability to control their risk exposure, FX dealers can guarantee individual traders that they will never be at risk for more capital than the original margin. In effect by limiting risk to capital invested, spot currencies offer the same benefit and piece of mind as options. Furthermore, the large leverage factor of spot provides traders with an even better opportunity for outsized returns on a small base of capital. In short, when utilized with a high degree of leverage, spot currencies act just like "synthetic options."

Second, the currency market has no time decay. The biggest problem with traditional options is that time can and does erode profits because traditional options carry time premium in their price. Even if the trader's view is ultimately correct, a traditional option may expire worthless if the underlying instrument does not reach the option's strike price. Imagine you are trading options in IBM. Presently, IBM is changing hands at 100 on the New York Stock Exchange. You believe that IBM will rise in the next month, so you decide to purchase IBM 110 calls one month forward for US$3 a contract. This option transaction allows you to purchase IBM stock at US$110 per share and it expires one month in the future. Let's say the expiration date comes, and IBM is trading at 107. The stock did rise. But you lost your whole investment because it did not rise above your strike price of US$110 per share.

No such worries in currencies. When you make a trade in the FX market you are dealing with the underlying currency. No time premium is involved. So every point of profit beyond the spread is all yours to keep. For example, if you decided to go long on EUR/USD at 1.2500 and a day later the exchange rate rose to 1.2600, the full 100 points of profit would be yours.

Third is the low cost of currency trades. The transaction cost in the spot FX market is one of the narrowest in the world, amounting to 3/100th of 1% on most major pairs. Furthermore, the spread remains consistent regardless of whether the position is for 1,000 units or 1 million units of currency, allowing even the smallest speculator the same terms of entry to trading the market.

On September 1, 2005, we kicked off our recommendations for "Synthetic Currency Options." For subscribers who are used to banking triple-digit profits from trading traditional option products, we introduced a way to synthetically create higher returns for the exact same trade recommendations that we are sending out to our conservative traders.

These days, with so much volatility in the market, everyone seems to have a view on where the dollar or the euro is going. In *The Money Trader*, we have been giving our subscribers trade recommendations that can help them profit from those views.

But better yet, we introduced to our more aggressive investors access to a market that combines the liquidity and low transaction costs of buying outright positions with the limited risk and high leverage properties of options.

Turning 14.2% into 35.5%. To really appreciate the benefit of synthetic options, let's look inside that trade we mentioned earlier, where high leverage allowed our subscribers to turn a 14.2% return into a 35.5% return.

On September 7, we sent out a trade alert to take a short position on the British pound by selling one mini lot of the British pound against the U.S. dollar (GBP/USD) at 1.8400. On September 12, we bought back the position at 1.8258, for a 142-point profit. Our conservative traders earned 14.2% while our traders who used synthetic options earned 35.5%, more than twice what our conservative traders made.

So what's the difference?

Our conservative traders set their accounts to use a leverage of 10:1 while our aggressive synthetic option traders had the exact same account, but used a leverage of 25:1. This means that for every trade, it would increase the profit and loss by 2.5 times.

So, if we had implemented the synthetic options trade on the long EUR/USD position that we recommended on August 31, the 21.9% profit that our regular traders made would have resulted into a 79.8% gain for our aggressive traders. But wait, we saved the best for last!

The CARRY TRADE—The hidden wonder of the FX market. As if that wasn't enough, spot FX offers one final benefit over traditional options. Every currency in the world comes attached with an interest rate. These interest rates are the rates set by the various central banks of the world. In the United States, the current interest rate is 3.75%. If a trader took a long position in the U.S. dollar versus the Japanese yen (as we say in the spot market, "long USD/JPY"), he would be entitled to receive interest on his dollars and obligated to pay interest on the Japanese yen. Since the rate in Japan is 0%, the net difference on the USD/JPY to the trader who goes long the pair is 375 basis points. In other words, not only is he making money if the U.S. dollar appreciates versus the yen (of course, the trade can go against him, too), he is getting interest on the U.S. dollar as well.

Better yet, if you traded AUD/JPY, the net difference is 550 basis points because Australian dollar's interest rates are 5.5%. Over the course of a year, if you were using 25 to 1 leverage, your return would be 5.5% times 25 or 137.5%—and that's without any capital gains.

The ability to earn interest is a great opportunity for commodity traders because when gold goes up, the Australian dollar goes up and when oil goes up, the Canadian dollar goes up. Why? Australia is one of the world's largest gold producers while Canada is the home of some of the largest oil reserves in the world. So trading the Australian dollar gives commodity traders the opportunity to not only earn capital appreciation but also accrue interest income.

This is the best kept secret of spot FX. Up to now only the world's most sophisticated hedge funds and wealthiest investors were privy to these trading strategies. But now any individual investor starting with as little as US$5,000 or as much as US$5 million could profit from these unique ideas.

Boris Schlossberg and Kathy Lien helm The Sovereign Society's weekly currency trading service—The Money Trader. Kathy is chief strategist for Forex Capital Markets, and Boris is a senior currency strategist for FXCM. Kathy and Boris' forecasts are ranked as the most accurate by FXWeek.com, a leading trading magazine, and they consistently rake in double- and triple-digit gains, beating the recommendations of the world's biggest banks. For their latest, hot-off-the-presses report, Secrets Of The Spot Market: How To Make 15% to 35% Returns On Your Safe Money, follow this link: www.agora-inc.com/reports/190SSPOT/W190FA50.

Damned if you do...

Companies with operations in the U.S. and Europe are complying with a new U.S. law to set up anonymous whistleblower hotlines for employees to confidentially report potential corporate abuses. Too bad it may be against the law in Europe.

In the wake of the Enron and WorldCom scandals, the Sarbanes-Oxley Act directed companies listed in the U.S. to set up so-called whistleblower hotlines.

That sounds simple. But it's not simple at all for companies with operations on both sides of the pond. That's because data-protection laws make it difficult to accuse someone of impropriety anonymously. These laws say that citizens have a right to know who is collecting data about them, and they also may include restrictions on revealing corporate information to outsiders.

As a result, many U.S. and European companies are in a legal bind: If they set up whistleblower hotlines in subsidiaries in France, and possibly elsewhere in Europe, they might run afoul of local laws. If they don't, they might violate Sarbanes-Oxley, the 2002 corporate-governance law enforced by the Securities and Exchange Commission.

McDonald's Corp. and Exide Technologies are two companies that have already run afoul of the conflicting laws. Regulators in Europe and the U.S. have yet to find a way out of the conflict.

Tell the Tax Man He'll Have to Wait: Accomplish All Your Estate Planning Goals in a Single Step—With a Private Annuity

By Michael Chatzky, JD

A properly structured private annuity can deliver all your most important estate planning goals, including probate avoidance, asset protection, cash flow, and income tax deferral.

The legal definition of a classic private annuity is a contractual arrangement in which the annuitant (the person who receives the annuity) transfers assets to a party which is not in the business of issuing annuities, in exchange for the transferee's promise to pay for the assets for the duration of the annuitant's life.

If that definition makes your brain hurt, here's a simple translation from lawyer-talk: Person A transfers select assets to Person B (which can be an individual, trust or entity) with the understanding that Person B will make payments to Person A for the remainder of Person A's lifetime.

'In the United States, the transfer of an appreciated asset in exchange for a private annuity of equivalent value is generally a non-taxable event'

To attain the best results, the annuity payments must be unsecured and must terminate upon the death of the seller. The annuity payments may either commence immediately or be deferred, depending on the wishes and objectives of the parties.

In the United States, the transfer of an appreciated asset in exchange for a private annuity of equivalent value is generally a non-taxable event, with income tax being incurred as the annuity payments are received. Consequently, a private annuity is generally an excellent income tax-deferral vehicle.

The annuity can provide cash flow to the annuitant. In fact, you can exchange a non-income producing asset for a cash flow.

All This and Estate Planning, Too!

If the annuitant transfers the asset to a party to whom the annuitant wishes to leave the annuitant's estate upon death, the arrangement can work superbly from an estate planning perspective.

Why? Well, neither the assets exchanged for the annuity nor the annuity is subject to probate (that's the process—sometimes a lo-o-o-ong process—where heirs sit around and wait for the will to be validated before collecting). Similarly, neither the assets exchanged for the annuity nor the annuity is subject to federal estate taxation if the transaction is properly structured. The annuity is thus an excellent estate tax reduction technique in many instances. (However, if the annuitant were to outlive his or her life expectancy and were to retain the annuity payments, this result would not be achieved in the absence of additional estate planning.)

Creditors Can Take That Lawsuit and Shove It!

Asset protection can often be achieved via the use of the private annuity because the assets exchanged for an annuity of equivalent value are normally not subject to subsequent creditor claims of the annuitant, and the annuity itself is often structured to be highly disadvantageous to a creditor of the annuitant. For example, the annuity payments might be immune from attachment (a court judgment resulting from a lawsuit) depending on applicable state law. (Florida exempts the annuity payments from attachment, California exempts the payments from attachment in certain instances, and other states vary on the subject.)

Nevertheless, the annuity contains built-in asset protection features even when the annuity payments are attachable! For example, the creditor needs to wait until each annuity payment is made before the annuity payment can be attached. When the annuitant dies the typical private annuity becomes extinguished, extinguishing the creditor's ability to attach the annuity payments. When the party that issued the annuity is also the inheritor of the annuitant's estate, such party at that point owns the assets not only free from the claims of the creditor but free from the obligation to pay future annuity payments.

Kindly note that these statements are generalizations and annuities can be custom-designed and different consequences can occur. Under the right circumstances, annuity payments can be received by the annuitant tax-free! If you're interested in private annuities, check with an experienced attorney to see which one is right for you.

Michael Chatzky, JD, is a leading U.S. asset protection attorney and Managing Attorney of Chatzky and Associates, specialists in international wealth protection planning. Contact: E-mail: mgchatzky@aol.com. Chatzky & Associates, 6540 Lusk Boulevard, Suite C121, San Diego, CA 92121; Tel: (858) 457-1000.

Shop for International Investments—at Big Discounts

By Sean Brodrick and Larry Grossman

International exchange-traded funds (ETFs) are a way to play the international markets. But here at The Sovereign Society, we like to take things to the next level. Today, I'm going to tell you about some investments that can potentially run rings around ETFs, including some with guaranteed returns!

An ETF is an index-based product that allows investors to buy or sell shares of entire sectors or markets, including global markets. The idea, in principle, is good for international investors—for a low price, you can buy a basket of the leading stocks in a particular country.

For example, there is the iShares MSCI France Index (EWG) and the iShares Hong Kong Index (EWH). There are even exchange-traded funds of global regions, like the Vanguard Pacific Index (VPL). But each of the funds I've just mentioned has a problem—the national indices they're based on are fairly valued to overvalued. While I think the EWH could go higher, it wouldn't surprise me to see it consolidate or even retrace for a bit before taking off again.

There are some good values in global ETFs, including the iShares FTSE/Xinhua China 25 Index Fund, recommended in our August issue. Now, let's look at alternatives…international closed-end funds and principal protected notes…

Closed-end mutual funds — Out performance at a Discount!

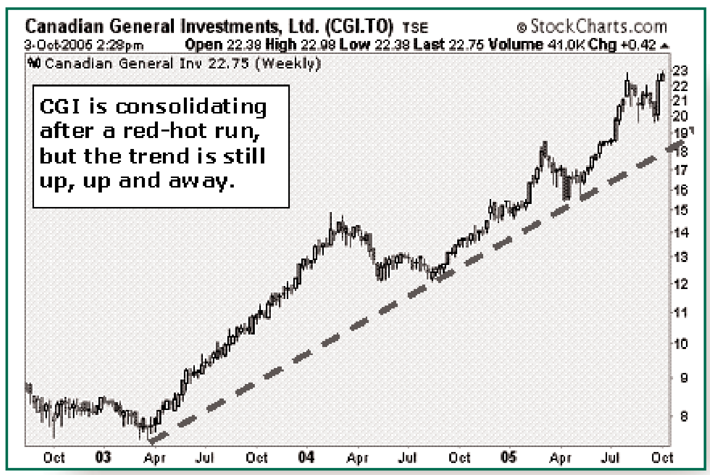
Closed-end mutual funds are like other mutual funds in that there is a fund manager who picks what goes in and what goes out of the fund. But there are closed-end funds that try to track national indices pretty closely. Closed-end funds are different from ordinary mutual funds because you don't buy shares at the net asset value (NAV) that is calculated at the end of each day. In fact, closed-end funds can trade at a premium or a discount to net asset value. And that's where the opportunity comes in.

Often, closed-end funds trade at a premium or a discount for a reason. For example, India is red-hot right now—in fact, the two India positions in *The Sovereign Individual* portfolio, automaker Tata Motors and Icici Bank, are rallying hard. But the India Fund (IFN), a closed-end fund, trades at a 9.8% premium to its NAV (all figures are for October 1). India may be on the fast track, but IFN looks overpriced.

On the other hand, look at Canadian General Investments Limited. This closed-end fund trades under the symbol T.CGI on the Toronto exchange—in the U.S., you can look it up on Yahoo Finance under the symbol CGI.TO. This fund returned 19.4% year-to-date through August 31 (including dividends). That beats its benchmark, the S&P/TSX Composite, which only returned 16.7% over the same timeframe.

So CGI is beating its benchmark—yet it trades at a 17.8% discount to its NAV, according to market trackers at etfconnect.com. This makes it much more likely that CGI is going to outperform going forward.

Now let's look at the chart…



CGI is riding the wave of higher prices in commodities like energy and precious metals—both big Canadian imports. Those trends shouldn't change. The future looks bright for CGI.

I recommend you buy CGI, trading under the symbol T.CGI on the Toronto Stock Exchange, at the market. Remember, this only trades on the Toronto Exchange. Depending on your appetite for risk and the size of your portfolio, you can adjust the amount you buy.

Principal Protected Notes—Juicy Returns and Guaranteed Principal

My next two ideas come from investment advisor Larry Grossman. He has two picks in principal protected notes. These are exchange-traded investments that are not widely followed by analysts, and there are

NOTICE: ETFs sold on foreign exchanges often include a caveat that the securities listed may not comply with the laws of other countries. In the case of U.S. tax laws, there can be potentially disastrous tax consequences for U.S. persons who buy ETFs directly. Therefore you should consult your tax advisor before investing in ETFs.

So long as an ETF is organized as a corporation (rather than as a partnership) in a foreign country and invests more than 50% of its assets in securities of other companies or receives more than 75% of its income from passive investment income, it would meet the definition of a Passive Foreign Investment Company (PFIC) in U.S. tax law. Ownership in this type of company creates serious tax implications for U.S. investors because the taxation of PFIC profits is treated differently.

Further information about Exchange Traded Funds can be found at http://www.sec.gov/answers/etf.htm and http://www.fpanet.org/journal/articles/2001Issues/jfp0401-art12.cfm.

some tremendous opportunities here.

Pick #1: CAQ lets you ride a decline in the U.S. dollar. Despite a recent move to two-month highs, the dollar's fundamental problems continue to mount up. It's likely we're seeing the calm before the storm. CAQ, a currency-linked structured product issued by Citigroup Global Markets on the American Stock Exchange, is meant to ride that decline in the dollar and protect your principal at the same time.

CAQ is a bundle of notes that mature on April 28, 2008. Investors will receive US$10 plus a supplemental return which may be positive or zero but in no case will be less than the original US$10.00. CAQ was trading at US$9.49 on October 1. Using that as a base, the least you will get back is a 5.37% total return between now and maturity. For more information, point your web browser to http://tinyurl.com/drc2o.

The potential supplemental return is based on the sum of changes in the value of a group of Asian currencies relative to the U.S. dollar. The group of Asian currencies is composed of the South Korean won, the Thai baht, the Indian rupee, the Taiwanese dollar, and the Australian dollar—20% of CAQ is in each currency, so it is a simple deal in its structure.

"Quite simply, if you believe the dollar will experience further declines, this is an intriguing investment," Larry says. "Couple that with the fact Asia is clearly an economic force to be reckoned with and you have a compelling investment."

"What a great way to play a weaker dollar, stronger Asian currency with NO down side risk and a built-in return. Where else can you get that?"

One thing to remember, CAQ will fluctuate in value between the date of purchase and the maturity date. **I recommend you buy CAQ—Principal Protected Notes based upon a group of Asian Currencies—on the American Stock Exchange immediately. Buy up to US$10.00 per share.**

Remember, this only trades on the American Stock Exchange. Depending on your appetite for risk and the size of your portfolio, you can adjust the amount you buy.

Pick #2: A five-year note with enormous potential. Larry's next pick has a five-year maturity. It's trading at such a discount, that if it matured today, it would give you an immediate double-digit return.

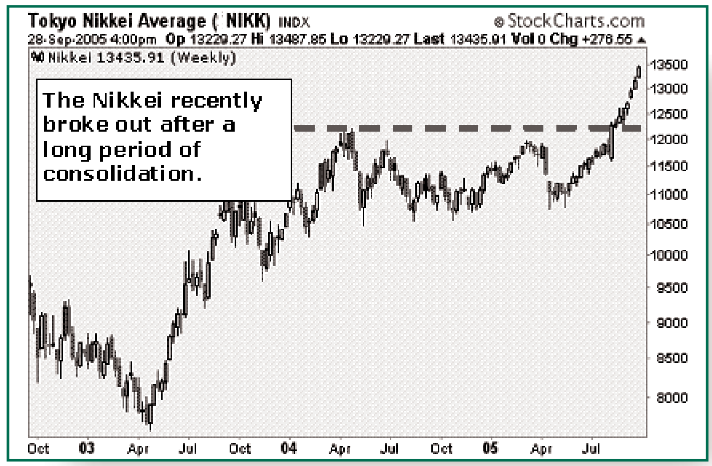
Here is the deal. Bank of America issued notes linked to the performance of Japan's benchmark Nikkei 225 index (symbol BOA.F on the American Stock Exchange) that mature on June 24, 2010. For every US$1,000 worth of notes you buy, at maturity you are guaranteed US$1,060. And there is plenty of upside potential above the guaranteed 6%. For more information, point your browser to http://tinyurl.com/9foux.

BOA.F currently trades at a discount—US$950. When these notes were issued, the Nikkei was 11,581.27. Recently, it closed at 13,435.91.

If the Nikkei didn't move another inch and these notes matured, you would get 13435.91 minus 11,581.27 divided by 11,581.27. That's a gain of 16% multiplied by the original US$1,000 value of the note which equals US$160.

But these notes trade at a discount—selling for US$950 right now—so you pick up the extra US$50 per thousand. The total return would be US$210. That comes out to be a 22% return on your US$950 investment.

The Nikkei could go down, or it could go up a lot more between now and maturity. If you think the Nikkei is likely to be higher in five years, this is a great investment.



You can see the Nikkei is breaking out. Bottom line: If investors are patient, they are guaranteed to not get less than US$1,060 for a US$950 investment.

I recommend buying BOA.F - 6% Minimum Return - Linked Notes, Linked to the Nikkei 225 Index on the AMEX. Pay up to US$975 each.

Remember, this only trades on the American Stock Exchange. Depending on your appetite for risk and the size of your portfolio, you can adjust the amount you buy. We'll track US$2,000 worth in *The Sovereign Individual* portfolio.

There you have it—three ways to play international indices at big discounts. You have a closed-end fund that should outperform its Canadian benchmark, a short-term principal-guaranteed note to play a potential decline in the U.S. dollar, and a longer-term principal-guaranteed note to ride a rally in the Nikkei.

Good luck, and good trades.

Larry C. Grossman, CFP, CIMA, is the Managing Director of Sovereign International Asset Management, Inc. based in the Tampa Bay area. Larry has earned the designation of Certified Investment Management Analyst awarded in conjunction with the Wharton School of Business. Larry uses this unique training in his role as an advisor to several hedge funds and as an active trader. You can contact him at (727) 784-4841; Email: lgrossman@worldwideplanning.com; Website: www.worldwideplanning.com.

PSST! The Scoop on Austrian Money Secrets

Ironclad Secrecy, First-Class Amenities…and (if you Qualify) Instant Citizenship

By Mark Nestmann

While you won't find languid tropical nights or sun-kissed beaches in Austria, you will discover that this history-drenched country is a very profitable place to invest, do business or take up residence. What's more, it has the world's most exclusive "economic citizenship" program. If you qualify, you can obtain instant Austrian citizenship—which would give you one of the world's premier travel documents.

Austria is in the very center of Europe, with ideal access to the "tiger" economies of Eastern Europe. That's one reason why companies in Germany, Italy, France, and many other countries are converging on Austria: to set up joint-venture deals in Eastern Europe with Austrian companies.

But it's not only the location of Austria that makes it the key to doing business in the emerging Eastern European markets. It's also Austria's history. Until the end of World War I (1918), the Austro-Hungarian Empire encompassed much of what is now Hungary, Slovakia, Slovenia, and the Czech Republic. Doing business in Eastern Europe comes naturally to Austrians. They've been doing it for centuries!

Austrian Banking: Low Profile, Professional and Very Secret

The foundation for these joint ventures are solid relationships with Austria's commercial banks, of which Bank Austria is the largest. But behind the retail counter, up the back stairs, and behind locked doors are the thriving private banking departments of Austria's banks.

Why consider Austria for banking at all with neighboring Switzerland beckoning? While Switzerland is a larger and much-better known private banking center, Austria's banking tradition is itself more than 200 years old. Accounts and securities investments are available in all major markets and currencies. Austrian banks offer an impressive range of services: the ability to purchase foreign currencies and CDs, offshore stocks and bonds and options, precious metals, and (particularly for non-U.S. persons) offshore funds. In other words, you'll find the same capabilities at Austrian banks as in Switzerland, but with somewhat lower fees and with a much lower profile.

There's just one catch—most of Austria's private banking departments cater to investors in Austria and other German-speaking countries. But there's one bank—*Anglo-Irish Bank* in Vienna—that caters to an international, English-speaking clientele.

All Austrian banks are subject to Austria's bank secrecy laws—some of the world's most stringent. The practical consequence is that the small army of professional asset trackers, information brokers and corporate espionage specialists which advertise their ability to uncover assets in U.S. bank and securities accounts will be completely thwarted if they try to pry information out of an Austrian bank.

Austrian bank secrecy isn't absolute—it can be lifted by an Austrian court order in a criminal or tax fraud investigation, for instance—but inquiries by anyone else are routinely turned away. As long as the Austrian government hasn't received evidence that you are engaged in criminal activity, your Austrian assets are safe from scrutiny. Further, the bank secrecy law is written into the constitution, which means it cannot be changed without approval of two-thirds of the Austrian Parliament.

Skinny-Dipping Along the Donauinsel…and Other Delights of Living in Austria

When I arrived in Austria in the summer of 2003, I didn't understand why Austrians were so crazy about the outdoors. On a warm day, the crowds on both sides of Vienna's *Donauinsel*—a 40-kilometer long artificial island—are overwhelming.

Large stretches of the *Donauinsel* are "clothing optional." No matter what you've read about Austrians being aloof or reserved, they *love* getting out of their clothes on a hot day!

It turns out that the tolerant attitude Austrians have toward nudity extends to many other aspects of life. Austrians are remarkably understanding of each other's differences. That tolerance, combined with Austria's extensive social safety net, rich cultural heritage, first class amenities and its relative affordability, make Austria a popular residence haven.

Citizens of the original 15 members of the EU have an automatic right to live and work in Austria, without obtaining a residence visa or work permit. Nationals of the 10 additional nations added to the EU in 2005 will qualify over the next few years.

Non-EU citizens must obtain a visa to live or work in Austria, although it's possible for nationals of the USA, Canada and many other countries to spend up to 90 days annually in Austria without a residence visa. For longer stays, it's relatively easy to obtain a visa if you don't need to work in Austria and are in good health. It's also possible to obtain a visa if you plan to open a business that will employ Austrian workers. However, it's more difficult to obtain a visa if you want to work for an Austrian company. The company must certify that you possess talents or skills not generally possessed by an Austrian resident. In all cases, if you plan on living in Austria long-term, you must pass an examination demonstrating proficiency in German.

While it's possible to complete the applications, affidavits and provide the supporting materials required for Austrian residence yourself, it's quite challenging unless you're fluent in German. If not, you may wish to hire an Austrian immigration consultant for this purpose. One that I recommend is the Austrian office of Henley & Partners.

Instant Citizenship for Millionaires

A passport from neutral Austria is one of the world's premier travel documents, giving you the right to live and work in any EU country and to travel visa-free in over 100 other countries. Another benefit is Austria's traditional neutrality. The Austrian passport is welcome almost anywhere and is likely to raise much less political antagonism than, for instance, a U.S. or U.K. passport. Finally, you'll be eligible to purchase real property, which is otherwise difficult for a foreigner residing in Austria.

After 10 years of residence in Austria (reduced to six years if you can demonstrate "substantial integration"), you are eligible to apply for Austrian citizenship and passport. But, there's an important exception to the rule—Austria is one of only three countries that offer "instant" citizenship and passport to qualified applicants, and the only one in the EU.

The Austrian economic citizenship program offers a possibility to persons making a substantial contribution to Austria expedited consideration for citizenship. But, there are no guarantees. To qualify for instant citizenship and passport, you must provide extraordinary economic, cultural or scientific benefits to the Republic of Austria. Such benefits must be confirmed by all of the Ministries of the Austrian government.

If you are a famous professor or sports star, you don't necessarily have to be wealthy to obtain instant citizenship. But if not, the alternative is to make a substantial investment in Austria that creates new jobs or exports. There is no statutory minimum, but as a practical matter, you should be prepared to invest US$2,000,000 or more. Moreover, the application itself can cost over US$250,000 in legal fees.

Immigration, and in particular, the granting of instant citizenship, is a sensitive political issue. It is essential to procure good political contacts, permitting you to obtain informal approval from the key ministries, before filing your formal application and before investing. This process in virtually all cases requires the assistance of a qualified Austrian legal advisor.

I'm leaving Austria now to move back to the U.S., but I'll be back. I've been alternately charmed, amused, amazed and delighted with what Austria has to offer. And while one of the surprising aspects of Austria to a non-Austrian is that those living there don't generally realize what a special country they live in. Again and again, I was asked, "What's so special about our country?"

What's special is a combination of factors that's just as unique as a *Sachertorte* from a Viennese bakery. Find out for yourself!

Contact for Austrian Residence and Citizenship:

Dr. Manfred Strasser-Kleeber
Henley & Partners
Kartner Ring 3 / Top 22
Tel.: +(43) 1-513 49 31
Fax: +(43) 1-815 92 23
E-mail: manfred.strasser@henleyglobal.com
Link: http://www.henleyglobal.com/austria.htm

Mark Nestmann is president of The Nestmann Group, Ltd., a consultancy assisting high net-worth individuals to achieve wealth preservation and international tax planning solutions. In 2005, Mark was awarded a Master of Law (LL.M) degree in international tax planning from the Vienna University School of Economics and Business Administration. You can contact him at assetpro@nestmann.com or visit his Web site at http://www.nestmann.com.

Bureaucracy Run Wild: You Can Go to Jail for Improper PC Disposal

If you're tempted to throw your old PC in the trash, think again. There are a host of laws dictating how and where you can dispose of old computers.

Here's just a partial list…

The Health Insurance Portability and Accountability Act allows fines up to US$250,000 and 10 years in prison for each violation of patient health information privacy rules. That includes patient records stored on a junked PC.

The Gramm-Leach-Bliley Act imposes penalties of up to US$100,000 per violation for financial institutions that fail to protect customer information.

Computers can contain lead, cadmium, mercury, antimony, polychlorinated biphenyls (PCBs) and flame retardants. If the waste ends up leaking toxins into landfills of developing countries, companies can face fines and lawsuits. The Resource Conservation and Recovery Act allows the U.S. Environmental Protection Agency to hold equipment owners accountable even if they outsourced disposal.

The European Union has electronics recycling laws, naturally. In the U.S., three states—California, Maryland and Maine—are now regulating the disposal of electronics, including PC parts. Massachusetts, New Jersey and several other states, as well as New York City, are considering similar rules.

More than 75% of respondents underestimate the cost of computer disposal. More than 65% of executives with purchasing authority are unaware of the fines they can face for ignoring environmental regulations.

Two New Threats to Your Privacy

The Courts Won't Stop Them — But You Can!

By Mark Nestmann

(Editor's Note: *Off the radar screen, the government has decreed that you carry a national ID card and your car can be rigged to spy on you—and the courts refuse to stop them. What should sovereign individuals do to protect themselves? Mark Nestmann reports in the first of a series.)*

Remember Scott McNealy? He's the president of Sun Microsystems, and by most accounts, a pretty smart guy. In 1999, he balefully pronounced privacy to be dead.

"You already have zero privacy, get over it," Scott told us. And, two years later, in the aftermath of the attacks of September 11, 2001, he suggested that all Americans be required to carry a national ID card.

Scott's not alone. Fellow Silicon Valley billionaire Larry Ellison, CEO and founder of Oracle Corporation, who has offered to create the software to compile and coordinate a nationwide database of personal information—and not charge the government a dime.

With rich and powerful "friends" like these, who needs enemies? Those of us who aren't ready to throw in the towel on privacy have an uphill struggle to preserve what little of it we have left.

Congress has already authorized a *hidden* national ID card, and that no doubt will make well-connected, high-tech businesses like Sun and Oracle billions of dollars. (Ellison knows that even if he gives away the software for the national ID database, someone has to maintain it…and who better suited than its creator?) The good news is there is a strategy you might consider to deal with this imminent threat.

Threat #1: "Your Papers, Please"…Congress Authorizes a National ID through the Back Door

It was a picture-perfect setting for Congressional shenanigans—only a few weeks before Christmas, just after an election, so that the best representatives money can buy weren't terribly concerned about complaints from their constituents.

And so in the waning days of 2004, language was inserted in the bowels of a massive intelligence authorization bill to authorize a national ID card. Naturally, it wasn't called by that name, but the effect is the same. By mid-2006, every American who wants to board an aircraft or engage in any activity that requires interaction with the federal government must present a "conforming" driver's license or personal identification card that meets "minimum standards" to be set by the Departments of Transportation and Homeland Security.

After that date, driver's licenses and photo IDs from "non-conforming" states won't be accepted by the federal government for any purpose, including getting past airport security, entering a federal building or even claiming certified mail.

This legislation takes the authority to issue identity documents away from individual states and gives it to the federal government. What's more, the Department of Homeland Security is given the authority to create a national database of computer-linked driver's licenses. This is the same kind of database that would exist if Congress established a formal national ID card. Only this way, since the states issue the "conforming" card, the transition to national IDs will be invisible to the general public.

Don't want to carry a national ID card? Don't plan on opening a bank account, borrowing money or buying a home. And we may follow the lead of Asia, where you have to present a "conforming" document to ride a train or even board a bus.

This law is a blueprint for tyranny because it establishes an "internal passport" system much like the one that was part of everyday life in Nazi Germany and Stalinist Russia. And, if you do something Big Brother doesn't like, your "conforming" ID can be taken away at any time, leaving you without the ability to carry on the most basic everyday life activities.

What can you do to stop this outrage? The best strategy is to write your U.S. senator and congressman and demand the repeal of this unprecedented privacy intrusion.

In the meantime, start carrying your *passport* with you when you need to identify yourself. This is an official federal ID—a "conforming document" that's fully acceptable for identification at any federal facility. As a bonus, a passport doesn't contain your Social Security number or your residential address. And to my knowledge, there's no move afoot to construct the same kind of national ID database to track your domestic travel and other activity with passport data as with data from "conforming" driver's licenses.

Threat #2: Police Can Secretly "Bug" Your Car, Without a Warrant…but There's a Simple Way to Protect Yourself

The power-hungry authoritarians in Washington are aghast at the prospect of not having every aspect of your life under the microscope 24 hours a day. To that end, many new vehicles now come with an on-board global positioning system (GPS) that's capable of tracking you by satellite everywhere you go. The system installed in General Motors products is called "OnStar" (http://www.onstar.com) and has by far the largest market share.

Why would anyone buy an OnStar-equipped vehicle? There are some significant benefits, chief among them being able to obtain your exact location if you ever become lost, obtain emergency help from a live operator anytime and activate an on-board transmitter to track the vehicle if it's ever stolen.

But, do you really want to drive around in a rolling surveillance device? Especially, since earlier this year, a federal court in New York ruled that police do not need a court order to use a GPS to track your vehicle?

'Do you really want to drive around in a rolling surveillance device?'

"Law enforcement personnel could have conducted a visual surveillance of the vehicle as it traveled on the public highways," U.S. District Judge David Hurd wrote. "[The defendant] had no expectation of privacy in the whereabouts of his vehicle on a public roadway."

Even worse, the courts have tacitly approved converting a feature of OnStar and other remote assistance systems which permits passengers to call an operator for help in an emergency to facilitate remote *audio* eavesdropping.

Let's say you and your significant other are tooling around in a new Cadillac XLR convertible, top down, listening to the new Coldplay CD, and discussing matters with grave national security implications, such as the location of the nearest rest station. But based on warrantless inspection of your email (to be discussed next month), the FBI suspects the two of you to be terrorists, and *remotely activates* your OnStar system to snoop on your conversation (and listen to some cool tunes as well).

In this scenario, you'll be happy to hear that the federal courts are there to protect you. When the FBI decided to reverse-engineer the OnStar system so that it became a listening device instead of a transmitting device, a federal appeals court said "no way."

But the court's reasoning wasn't exactly reassuring. It shot down the scheme not because it was a gross violation of the prohibition of "unreasonable" searches in the Constitution's Fourth Amendment, but rather, because it rendered the audio transmission system useless in emergencies. In other words, if the FBI decides to hire some competent electronic engineers who can rig the system for surveillance while not disabling its primary function, that's A-OK.

Fortunately, it's easy to virtually eliminate the threat that OnStar and similar systems pose to your privacy: don't buy a GPS-equipped vehicle. Instead, purchase a handheld GPS device (available for less than US$200 from Amazon.com) and use it to find your way when you're lost.

And, in case you need to make an emergency call, keep a cell phone handy. Just be sure to switch it off if you value your privacy, since cell phones also now come equipped with GPS chips, which can be used to locate you within a few feet of your actual whereabouts.

Next month, I'll describe some overlooked, but critically important, new threats to computer privacy, including a back-door effort by the U.S. Senate to require tracking of everything you do on the Internet, and another obscure court decision that eviscerates e-mail privacy…along with practical suggestions for dealing with these challenges.

Mark Nestmann is president of The Nestmann Group, Ltd., a consultancy assisting high net-worth individuals to achieve wealth preservation and international tax planning solutions.

Everyone is Guilty Until Proven Innocent

Suspects arrested or detained by federal authorities could be forced to provide samples of their DNA that would be recorded in a central database under a provision of a new U.S. Senate bill.

According to press reports, the bill was approved by the U.S. Senate Judiciary Committee and is supported by the White House. It goes beyond current law, which allows federal authorities to collect and record samples of DNA only from those convicted of crimes. The data are stored in an FBI-maintained national registry that law enforcement officials use to aid investigations, by comparing DNA from criminals with evidence found at crime scenes.

Privacy advocates across the political spectrum say that the proposal is simply another step in expanding government intrusion.

"DNA is not like fingerprinting," said Jesselyn McCurdy, a legislative counsel for the American Civil Liberties Union. "It contains genetic information and information about diseases."

A more important point is that DNA evidence is not foolproof. DNA evidence is mishandled all the time, and there has been case after case where "lock tight" DNA evidence has put the wrong man in jail—sometime for years.

For example, the Houston Police Department's DNA lab was shut down in December 2002 after an independent audit revealed poor scientific methods and substandard working conditions at the facility.

Put a Captive (Insurance) to Work for You

By Robert E. Bauman, JD

If you own a business or have a professional association with annual insurance costs of US$200,000 or more, forming what is called "a captive insurance company" may provide significant cost savings.

While US$200,000 may seem a huge amount to most people for an annual insurance premium for any purpose, individual physicians and other health care providers in many U.S. states who must pay exorbitant medical malpractice premiums know that their costs can exceed this amount, some many times over.

What Is a Captive?

A captive insurance company is a bona fide wholly-owned insurance subsidiary of a noninsurance parent company. Its business is primarily supplied by and controlled by its parent company owners, who are also the principal parties insured against risk. In this sense, it is a "do-it-yourself" insurance company. The insured owners participate in controlling the underwriting, claims and investment decisions of their insurance company. The arrangement is called "captive" because the insurance company is generally "captive" to the insurance needs of the parent company's business.

There are "group" or "association" captives in which similar companies or professionals form a jointly owned captive insurance company.

This kind of self-insurance has several benefits, including lower premiums that reduce overhead and operating costs, meaning possibly increased profits. Premiums are lower due to the absence of the marketing, sales and commissions costs that a public insurance company would have, and because premiums reflect the loss and coverage needs experience of a particular corporation or group, rather than the much wider general market experience. The captive insurance route can also be ideal for businesses and professions that find it difficult to obtain certain classes of insurance coverage.

Even more attractive, premiums paid to a captive are retained for the ultimate benefit of the parent company and the investment income received from those premiums can translate into increased dividends. There are also unique U.S. tax advantages that apply only to these insurance companies and, in effect, make them virtually tax exempt.

In addition to obtaining coverage at more affordable rates, captive insurance also provides more effective claim management, coverage precisely tailored to a company's needs, plus increased control and liquidity. Since the company usually is located offshore, this allows investment options without restrictions imposed by the U.S. Securities and Exchange Commission.

A captive insurance company is also able to obtain direct access to the reinsurance market which can translate into additional cost savings. Reinsurers usually have both additional financial capacity and a willingness to insure more unusual risks.

There is no question that a properly formed and operated captive insurance company can provide both needed risk coverage and far lower premium costs, as I will explain.

Captive insurance can work for doctors, dentists, other health care providers, hospitals, or industrial or commercial activities. Although traditional insurance companies still provide coverage for catastrophic risk, captives are being used increasingly to deal with other types of risk, such as coverage for obstetrical medical practices that some U.S. malpractice insurers decline to cover as being too high risk.

A Long History

Although many people think captive insurance companies are relatively new, the captive concept dates back 300 years to syndicates that were formed to insure marine risks or to underwrite the risks of a particular community or association. In the United States they have existed in some form since the 1870s, when the first "Protection and Indemnity Clubs" were created. However, growth of the captive market was slow and fewer than a hundred captives existed before the 1950s.

The real growth of captives began in the 1960s based in the Bermuda insurance market. Fred Reiss, who coined the term "captive," formed a management company there in 1962 and convinced many of his corporate clients to form captives.

Now there are about 5,000 captive insurance companies operating, mostly domiciled in offshore jurisdictions where laws are tailored for captives and more reasonable regulations enable them to operate with a realistic level of capitalization that matches the risk involved. An offshore location also provides better asset protection and insulation from domestic law suits.

Big Business

Captive insurance is big business. More than 40% of the Fortune 500 corporations and many multinational companies own one or more captives. There are two main types of captives: single parent or group, the latter typically owned by a number of companies with similar exposures. Some trade associations, for example, operate their own group, or association captive insurers.

Captive insurance is not just for large companies. It can be cost effective for small businesses and professional associations, such as physicians, dentists and hospitals. In Bermuda and the Cayman Islands, the minimum capitalization for a captive is US$120,000. Add to that US$50,000 to US$75,000 in legal and registration fees to cover formation expenses.

Panama is a newer entrant to the captive insurance market, enacting a captive insurance law, in 1996, that permits captives to insure foreign risks from an office based in Panama. Paid in capital requirements, depending on the type of risk, are from US$150,000 to US$250,000 and the risks to be assumed must be approved by the insurance authorities. Legal fees are about US$75,000. One attraction is that all foreign income earned by the Panamanian captive is exempt from local taxes because Panama's territorial tax system does not tax earnings from outside the country. That means that dividends paid by Panamanian captive insurance companies are also free of local tax if earnings come from foreign sources.

Best's Captive Directory lists more than 5,000 captives. Bermuda is the world's leading captive jurisdiction, with more than 1,500 companies. In second place is the Cayman Islands (535). Other leading jurisdictions for captives include Gibraltar, Guernsey, Luxembourg, Barbados, the British Virgin Islands, Ireland, and the Isle of Man. The American state of Vermont has enacted captive insurance legislation and is now home to almost 500 captives. Delaware and South Carolina have also enacted similar laws. A description of the laws in these jurisdictions can be found at http://www.risad.com/captive_jurisdictions.htm.

Small Business Too

Even if the annual insurance expenses for your business or profession are lower than US$200,000 and the expense of forming your own captive insurance company doesn't make economic sense, you can still benefit under a concept known as "rentacaptive" in which one or more parties seeking coverage purchases an interest in an already formed captive.

Under this arrangement, the management of the existing company bears the regulatory and administrative expenses, while you still get insurance coverage at significant cost savings. The rentacaptive sponsor usually derives their fees from charging a percentage of the premiums received, or by taking a share of the investment profit generated.

Rentacaptives first appeared on the scene in the 1970s and have evolved into sophisticated operations located in leading offshore centers such as Bermuda, Gibraltar, the Channel Islands, and the Cayman Islands. They are popular with small businesses that cannot afford the cost of setting up their own captive.

The rent a captive system has been refined further by laws in some offshore financial centers that create legal fire walls around an individual company's participation in a so-called "protected cell" that insulates the individual insured from the loss experience of other similar cells managed by the same rentacaptive sponsor. Costs are reduced because there is only one captive insurance company to form, with formation and legal expenses split between all cellholders.

Bermuda has been in the vanguard of the protected cell strategy and its Segregated Accounts Companies Act of 2000 has attracted thousands of businesses that want to take this alternative, less costly route to insurance cover.

A Real Insurance Company

Make no mistake. The laws authorizing captive insurance companies impose a duty on the corporate organizers to create a true company that in every respect is engaged in "the business of insurance."

This means the company must conduct real insurance underwriting to third parties, spread and share risks, have a staff of actuaries, underwriters, and insurance managers, retain adequate reserves and capitalization at all times and have an insurance purpose, and a long-term insurance business plan.

The captive should also have quality auditing and actuarial services as well as strong reinsurance and excess insurance markets and support services. These services are not inexpensive and underscore the necessity for adequate capitalization and professional representation from the outset.

While it may appear daunting to have to establish your own insurance company, there are experienced law firms and advisory services that can explain the steps needed and provide you with information you need, including feasibility studies to determine if a captive would be right for you.

In the lawsuit-happy society in which we are forced to live today, if you are paying huge premiums or having difficulty getting proper risk coverage, you owe it to yourself to investigate the captive insurance alternative.

Recommended contacts:

Mario A. Vlieg, JD, Mossack Fonseca & Co., Arango-Orillac Building, 54th Street, Marbella, P.O. Box 0832-0886, W.T.C., Panama, Republic of Panama; Tel.: +(507) 263-8899/264-2322; Fax.: +(507) 263-7327/263-9218; Email: MF@Mossfon.com. Web site: http://www.mossfon.com.

Timothy Faries, Partner, Insurance Legal Services, Appleby Spurling Hunter, Canon's Court, 22 Victoria Street, P.O. Box HM 1179, HM EX Hamilton, Bermuda; Tel: +(441) 295-2244; Fax: +(441) 292-8666; Web site: http://www.applebyglobal.com.

Trafford Insurance Management Ltd., 4140 MacArthur Blvd., Suite 170, Newport Beach, CA 92660 U.S.A; Tel.: (949) 756-8101; Email: offshoreinsurance@offshoreinsurance.com. Web site: http://www.offshoreinsurance.com.

For more about captive insurance, see http://www.risad.com/captive_insurance.htm.

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

Author! Author!

Kathy Lien has a book coming out in November called *Daytrading the Currency Market*. Not to be outdone, Boris Schlossberg has written a book that will be published in February called *Technical Analysis in The Currency Market*.

Former Sovereign Society Editorial Director Mark Nestmann will soon complete his latest book, *Austrian Money Secrets*.

This fascinating but often overlooked central European haven has much to offer, and Mark's new book will reveal all the financial, asset-protection, cultural and lifestyle benefits this remarkable country offers.

Where in the World are Bob and Sean?

Our own Bob Bauman hits the road on October 23 and won't stop until November 20. He begins with a trust seminar in Singapore, then goes on to The Sovereign Society's Far East Economic Tour in China and Hong Kong. Meanwhile, Sean Brodrick will be traveling to Switzerland and Liechtenstein, where he'll delve into the secrets of Swiss banking. Lederhosen is optional. Then he's off to Copenhagen for more banking, as well as smørrebrød, pølsevogne and lager (bread, sausage and beer) with the fun-loving Danes.

Be sure to tune into *The Sovereign Society Offshore A-Letter* as Bob and Sean will be writing from the road, sharing insights they glean from valuable contacts they meet along the way.

COMING NEXT MONTH

Making the most of your money in the City of Gold… putting the "Impossible" in your portfolio… How to fight back against three more threats against your privacy… and 10 great asset protection tips. That's all coming up in the December issue of *The Sovereign Individual*.

Must Offshore Banks Withhold Taxes for the IRS?

Dear Mr. Nestmann,

The article "Which Offshore Bank is Right for You," in the August TSI, raised some questions in reference to information exchange and withholding of taxes that I hope you can address. The paragraph on banks in Switzerland states, in relation to data released to U.S. authorities by major Swiss banks, "This surrender goes far beyond the financial information required to be exchanged under the U.S.-Swiss tax treaty."

Would you be able to address what financial information is exchanged under this treaty? Does the treaty require that a U.S. depositor file a Form W9 with the bank (which gives the bank your Social Security number)? Does it require the bank to withhold tax on interest or dividend payments received in a Swiss bank account owned by a U.S. person?

Thank you,
A U.S. member

Mark Nestmann responds: As a general principle in all tax treaties, information is exchanged only when a "resident of a contracting state" (e.g., a person living in the United States or Switzerland) claims a benefit under the treaty. For instance, the U.S.-Swiss treaty provides for the reduction of the 35% withholding tax imposed on interest paid from Swiss sources (e.g., a bond issued by a Swiss company) to a U.S. resident. But when the U.S. resident applies for a refund of the tax from the Swiss government, there will be an exchange of information, but only sufficient to verify that the individual making the claim is, in fact, entitled to receive the reduced withholding rate.

Otherwise, the only time information can be exchanged is pursuant to the "exchange of information" provisions of the tax treaty. Article 26 of the U.S.-Swiss tax treaty provides for exchange of information to prevent tax fraud (but only for income tax—not excise, estate or gift tax).

The tax treaty doesn't require a W9 form to be filed with a Swiss bank. However, in the case of the largest Swiss banks, separate agreements with the U.S. government require much greater information disclosure than the tax treaty authorizes. And yet another set of agreements between the IRS and foreign banks ("qualified intermediary" or QI agreements) may restrict the ability of U.S. residents to purchase securities through their foreign bank accounts, unless the instructions for doing so originate *outside* the United States. It is these agreements that require you to file Form W9 with the foreign bank under certain circumstances.

Each QI agreement is unique. In general, the more connections a foreign bank has with the United States, the more restrictions the QI agreement will require in its relationships with U.S. persons. QI agreements with the foreign banks recommended by The Sovereign Society don't restrict the ability of U.S. residents to issue orders to buy or sell securities through their accounts. Moreover, they require that U.S. persons complete Form W9 only if they purchase *U.S. securities* through the bank.

It's Harvest Time—Grab a Bushel of Gains … 18% and 53%

November is traditionally a time to relax after the harvest—when I was a boy, we'd wrap up the apple harvest in October and turn to making cider in late October/early November. It's as good a reason as any to squeeze some more big gains out of your portfolio. It's also a good excuse to drop a couple of bad apples.

Well, not bad apples … but Siemens (recommended October 2004) and Group Partouche (recommended May 2004) are underperforming. Dump them immediately and put that money to work in the new recommendations from this issue.

On the profit side, I recommend you take up to 18% gains on Pimco Strategic Global Government Fund, recommended in June 2003, December 2004 and January 2005, and 53% gains on Scudder-Dreman High Return Equity Fund, recommended in August 2002.

And there's a bumper crop of open gains in your portfolio. Just look at your commodity positions. Bema Gold is up 149% over its original entry… Bonavista Energy Trust is up 198.9% over the first time we recommended it … Chicago Mercantile Exchange is up a stunning 613% over the initial entry in April 2003. Energy is still hot, and the Bonavista Energy Trust and Merrill Lynch Energy Fund still make our best-buy list. Goldcorp is still a Best Buy.

The international value portion of your portfolio is trucking along, and Tata Motors and Icici Bank are roaring ahead with the Indian stock market. Icici jumped 20% in one month. These stocks could see some backing and filling as India's stock market consolidates its gains, but hold them—there is much more ahead.

We're adding three more picks to the currencies, bonds, and special investments portion of your portfolio. There are some great guaranteed returns here; that's always handy when the broad market indices may be about to go through a bumpy patch.

That doesn't mean select international funds can't do well. Some are doing superbly. You have open gains of up to 63% on the Korea Fund … 77% on Momentum Emerald … and 212% on ASA. But since ASA invests primarily in South African gold miners, perhaps that's not too surprising. ASA is still a Best Buy.

Remember, if you already own a position on our "Best Buy" list, there's no reason to add it again. Sometimes we remove positions from our best-buy list because they've hit a rocky patch, but we'll try to let you know when and if that happens.

Stay tuned for more great recos coming your way soon. We'll have even more great picks for you next month, so stay tuned!

TSI Portfolio Best Buys

Investment	Symbol	Exchange	Added	Recent Price	Gain/ Loss
COMMODITIES					
Goldcorp	GG	USA	TSI 1/05	20.04	41%
Bonavista Energy Trust	BNP.UN	Toronto	TSI 3/04	37.2	198.8%
Merrill Lynch Energy Fund	LU0122376428	Lux	TSI 09/05	21.57	5.7%
Western Canadian Coal	WTN	Toronto	TSI 09/05	4.9	--
GLOBAL EQUITY FUNDS					
ASA Ltd.	ASA	USA	TSI 2/00	46.79	212%
iShares FTSE/Xinhua China 25 Index Fund	FXI	USA	TSI 8/05	62.24	2.9%
SELL the following positions					
Siemens	SI	USA	TSI 10/04	77.3	2.8%
Groupe Partouche	FR0000053548	Paris	TSI 5/04	22.29	-6.9%
Pimco Strategic Global Government Fund	RCS	USA	TSI 6/03	12.52	18.7%
Scudder-Dreman High Return A	KDHAX	USA	TSI 8/02	44.64	53.2%
BUY these new positions					
Canadian General Investments Limited	T.CGI	TSX	TSI 11/05	22.75	
Principal Protected Notes based upon a group of Asian Currencies	CAQ	AMEX	TSI 11/05	9.43	
6% Minimum Return - Return Linked Notes, Linked to the Nikkei 225 Index	BOA.F	AMEX	TSI 11/05	95	

Take a Break From Winter for Offshore Opportunities in the Yucatan

NEW DATES!

6th Annual Offshore Opportunities Conference January 7-11, 2006 - Cancun, Mexico

Join The Sovereign Society this January in Cancun, Mexico, and we'll uncover the kinds of secrets that can help slash your taxes, protect your assets, grow your portfolio, and create for you and your family a lasting legacy of wealth...

The Sovereign Society will team up with *The Oxford Club* and *International Living* and we invite you to meet these world renowned advisors and get close-up access to the secret investments and institutions that have enhanced the fortunes of many of the world's wealthiest families for generations...

In Cancun, Mexico, this January 7-11, 2006, we have literally gone to the ends of the earth to bring you the world's leading experts on international investments. From the UK, Hong Kong, and St. Kitts... to Austria, Panama, Ireland, and Switzerland—they will be coming together with one, single purpose in mind: to give you the tools you'll need to make money.

You'll hear from speakers such as Robert E. Bauman, Sean Brodrick, Kathy Lien, and Boris Schlossberg of *The Sovereign Society*; Karim Rahemtulla, D.R. Barton, Lou Bass, Alex Green, and Horacio Marquez of *The Oxford Club*; Lief Simon, Susan Haskins, and Dan Prescher of *International Living*; plus you'll hear from some of our esteemed Council of Experts such as Michael Chatzky, Michael Checkan, David Melnik QC, Thomas Fischer, Larry Grossman, Eric Roseman, Marc Sola, Robert Vrijhof, Peter Zipper and many more!

Join us at the beautiful Marriott CasaMagna Cancun Resort. Located on the tip of Mexico's Yucatan Peninsula, this spectacular resort meets your meeting and vacation needs with a sun-filled slice of paradise.

For more information or to register for this spectacular conference in Cancun, Mexico, please contact Patricia Goltry at +1-866-381-8446 (toll free in the USA/Canada) or (410) 230-1243; E-mail:pgoltry@sovereignsociety.com.

For more information, contact Patricia Goltry, Tel.: 1-410-230-1243, e-mail: 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.