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OFFSHORE INVESTMENT



EMPIRE RISK

It may be the single biggest reason Americans should diversify a portion of their wealth offshore

by Ron Holland

There are many reasons American investors should diversify a portion of their wealth offshore. The usual benefits include:

- the relative outperformance of international equities to US stocks,
- currency fluctuations on foreign stock returns expressed in US dollars (in other words the currency gain); and
- the reduction of portfolio risk.

But there is a new threat to your wealth arising from the cause and effect actions of a new world empire, the Washington Empire. It is neither just a problem of big government nor some secret cabal or conspiracy. The problem is the threat that all empires and their policies create for their

before. Quoting Frederic Bastiat several hundred years ago under an earlier empire in France, "When plunder has become a way of life for a group of people living together in society, they create for themselves in the course of time a legal system that authorizes it, and a moral code that glorifies it."

FROM REPUBLIC TO EMPIRE

The problem facing many productive, wealthy Americans is that we are no longer the constitutional republic with limited federal powers where state governments and individuals were sovereign in most things which America's founding fathers established back in 1776 when we seceded from the British Empire.

9/11 has shown how we are in a world weapons environment where those who hate us have the opportunity to take out their frustrations on our foreign and diplomatic policies with relative ease and little downside risk and frankly there is little we can do about it.

We have come a long way from the time of George Washington, when he said, "The great rule of conduct for us in regard to foreign nations is; in extending our commercial relations, we have with them as little political connections as possible. It is our true policy to steer clear of permanent alliances with any portion of the foreign world."

Can the United States today follow the advice of George Washington? Apparently not, but for years, many nations—from Switzerland and Austria to Ireland and Sweden—have followed this wise counsel to the benefit of their economies and financial markets.

EMPIRES HAVE RISKS OTHERS NATIONS DO NOT

History clearly shows how empires always have political, terrorism and military risks that regular nations do not. Today, the American Empire is at extreme risk because, although we are the major economic and military power on the earth, our Achilles heel is the extreme risk of our financial infrastructure and investment markets to future terrorist attack.

Let's review the damage of the 9/11 terrorist attack looking at it from the risk reward ratio of the Islamic terrorists. First, they spent somewhere between \$200,000 and \$500,000 to attack New York and DC. Maybe 20 terrorists gave their lives to kill 3,000 New Yorkers and cause \$30 billion in property damage, way over one trillion in stock market losses, the bankruptcy and threatened bankruptcy of much of the airline, tour and cruise industry. Did the 9/11 attack pay off from their point of view? Of course it did!

spiracy. The problem is the threat that all empires and their policies create for their citizens and is as old as recorded history. In my opinion, the empire risk is creating a reason for global diversification that far exceeds every other benefit including investment return, investment opportunity, reduction in risk from diversification, or asset protection.

In America today, both our politicians and the legal system have become the major plunderers of our wealth. Government theft is nothing new for empires and the world has seen all of this many times

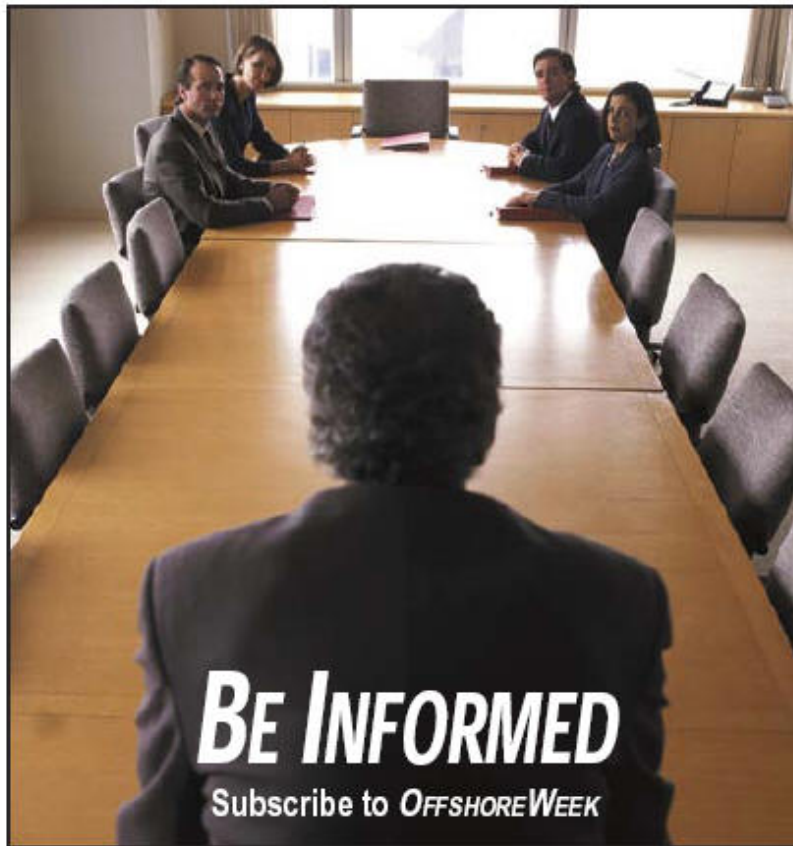
the British Empire.

Today, America has fallen from a republic to a world empire with troops and dominion over a far larger portion of the world than the British Empire ever did. Yes, America is an empire with troops in over 100 nations and while we may be well intentioned, like an earlier British Empire, the effects on our liberty and wealth will, in the long run, be identical to all earlier empires.

No, we are not exactly an evil empire, but America is often heavy handed in this new 21st Century world. More importantly,

attack pay off from their point of view? Of course it did!

Our problem is that since 9/11, the world and our enemies know our weakness and whether it is Saddam Hussein, Bin Laden or another enemy, we really have no defense against another terrorist attack by extremists on a target like the World Trade Center. And what if the real target all along has been our financial system? Despite new counter measures and back up systems defending both the Nasdaq and the NYSE, our financial system may be more vulnerable than ever before.



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While we have no idea as to timing or whether the Islamic terrorists have access to weapons of mass destruction—and the ability to get it to New York City—few doubt they will try again. And, thanks to the widely publicized information about our redundant back up and operational systems, crisis re-location and computer records storage of both the NYSE and Nasdaq—trumpeted around the world by Wall Street and our politicians to build confidence in our financial system after the 9/11 market shutdown—they may well succeed.

The threat is a properly placed biological, nuclear or chemical weapon detonated in eastern New Jersey, just North of the Newark Airport during the fall or winter. Such an attack could take out all the market backup systems in New Jersey, Manhattan and on Long Island with a West to East

lar and investment liquidity. In turn, the threat of such an attack puts your investment wealth at risk, a risk that should be factored into decisions about whether to go offshore and out of US stock markets and the dollar with a larger portion of your assets.

Unlike diversification, asset protection, and investment opportunity, the management of empire risk is not just another benefit from international diversification. It will either be a non-event, if it doesn't happen, or a total financial catastrophe to every US stock market portfolio, if does. Prudent investors should be factoring the potential terrorist threat into their personal investment planning.

EMPIRE RISK IS ISOLATED

The risk of an attack via a weapon of mass

THE DECLINE OF EMPIRES

A look at the history of wars fought by empires far from their home base, does not bode well for the United States or our economy. The list of dead empires is endless and includes:

- the Soviet Union
- Nazi Germany
- the Empire of Japan
- the British Empire
- the Austrian-Hungarian Empire
- the Roman Empire

The long term economic and military costs of being an empire tend to destroy liberty and the economy at home while other nations not burdened with these costs tend to prosper and move ahead. Europe is a good example, where countries and politicians seem to have learned the expensive cost of empire through numerous wars,

backup systems in New Jersey, Manhattan and on Long Island with a West to East wind flow. This action could close the markets for at least several months not to mention the horrendous cost in lives and property damage. This is not a prediction. It is a concern that neither the press, politicians nor the financial establishment have dared discuss.

Such an attack could be catastrophic to US based stock market portfolios, the US dol-

The risk of an attack via a weapon of mass destruction is primarily against the empire. Consequently, there is little risk to Vienna, Zurich, Paris, Berlin, Dublin, Tokyo, Hong Kong and other financial centers.

Almost all of the risk of future terrorist attack falls on New York City and our financial infrastructure. To quote George Washington, "If we are wise, let us prepare for the worst." ■

cians seem to have learned the expensive cost of empire through numerous wars, economic dislocation and conflicts.

— Ron Holland

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