Forex synthesis detail

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Sunday, September 16, 2012

What is known about the Fed[i]

1. The Federal Reserve is not a government agency.
2. The Federal Reserve System Is A Perpetual Debt Machine
3. The U.S. dollar has lost **96.2 percent** of its value since 1900

4. A total of $16.1 trillion in secret loans were made by the Federal Reserve between December 1, 2007 and July 21, 2010.

Citigroup - $2.513 trillion

Morgan Stanley - $2.041 trillion

Merrill Lynch - $1.949 trillion

Bank of America - $1.344 trillion

Barclays PLC - $868 billion

Bear Sterns - $853 billion

Goldman Sachs - $814 billion

Royal Bank of Scotland - $541 billion

JP Morgan Chase - $391 billion

Deutsche Bank - $354 billion

UBS - $287 billion

Credit Suisse - $262 billion

Lehman Brothers - $183 billion

Bank of Scotland - $181 billion

BNP Paribas - $175 billion

Wells Fargo - $159 billion

Dexia - $159 billion

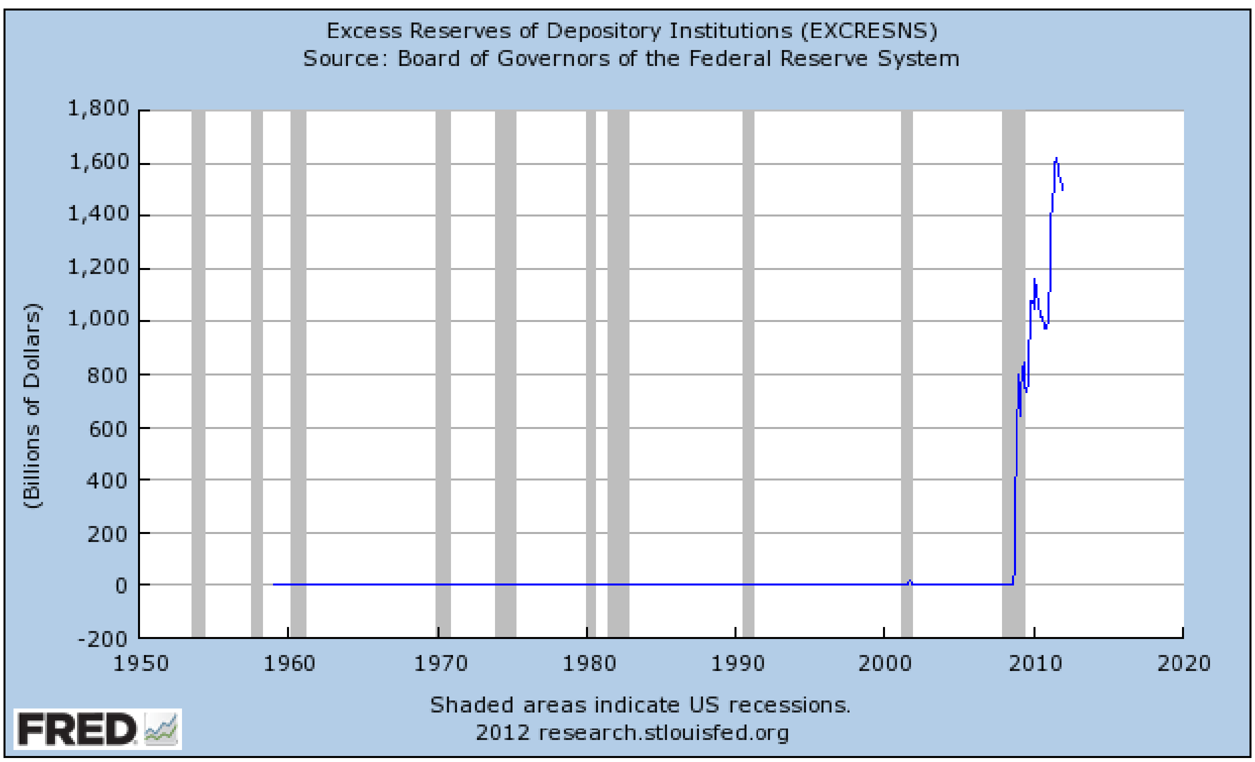
Wachovia - $142 billion

Dresdner Bank - $135 billion

Societe Generale - $124 billion

"All Other Borrowers" - $2.639 trillion

5. The amount of "excess reserves" parked at the Fed has gone from nearly nothing to about 1.5 trillion dollars since 2008



6. Lacker said that "channeling the flow of credit to particular economic sectors is an inappropriate role for the Federal Reserve."[ii]
7. The Federal Reserve System Is Dominated By The Big Wall Street Banks
8. The Fed chairman has a track record of incompetence

In **2005**, Bernanke said that we shouldn't worry because housing prices had never declined on a nationwide basis before and he said that he believed that the U.S. would continue to experience close to "full employment"....

"*We've never had a decline in house prices on a nationwide basis. So, what I think what is more likely is that house prices will slow, maybe stabilize, might slow consumption spending a bit. I don't think it's gonna drive the economy too far from its full employment path, though.*"

In **2005**, Bernanke also said that he believed that derivatives were perfectly safe and posed no danger to **financial markets**....

"*With respect to their safety, derivatives, for the most part, are traded among very sophisticated financial institutions and individuals who have considerable incentive to understand them and to use them properly.*"

In **2006**, Bernanke said that housing prices would probably keep rising....

"*Housing markets are cooling a bit. Our expectation is that the decline in activity or the slowing in activity will be moderate, that house prices will probably continue to rise.*"

In **2007**, Bernanke insisted that there was not a problem with subprime mortgages....

"*At this juncture, however, the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained. In particular, mortgages to prime borrowers and fixed-rate mortgages to all classes of borrowers continue to perform well, with low rates of delinquency.*"

In **2008**, Bernanke said that a recession was not coming....

"*The Federal Reserve is not currently forecasting a recession.*"

A **few months** before Fannie Mae and Freddie Mac collapsed, Bernanke insisted that they were totally secure....

"*The GSEs are adequately capitalized. They are in no danger of failing.*"

QE3 Update

The Fed is buying MBS from US and European banks, while claiming to fight unemployment. The Fed used to be shrouded in mystery, but the current Fed administration has been extremely public, giving interviews on 60 minutes and many public speeches. We forget his comments about 'green shoots'[iii] in the economy, and that he felt the subprime crisis would not spread.

This latest move is not about unemployment, if anything QE3 will be bad for unemployment as fresh money will cause discretionary inflation, causing employers to cut back on what they can; by firing people. Some have suggested that the real motive behind the recent Fed move is to help prop European banks, who are large holders of MBS[iv]. We should also ask ourselves, why MBS? Data shows that previous QE efforts went largely unused, while the Fed pumped trillions into the banking system, the greater majority of those funds (currently 1.6 Trillion) still resides at the Fed itself. The rest of the money is sitting on bank balance sheets, not being loaned out as intended.

QE3 may be part of a plan to keep Europe together at any cost. But in the meantime the Fed policy is creating inflation and soon inflation in the middle of a depression[v].

Social unrest

Complex systems theorists have a model that there is a correlation between a certain spike in food prices and rioting[vi]. Basically if people are starving, they fight. This seems almost obvious; however they have overlaid historical food inflation data with riots in certain parts of the world to see the correlation. Western diets typically comprise 10% - 15% of a disposable income, whereas in other parts of the world it can be as high as 80%. Thus, a certain percent jump in staple foods and people simply don't have money to buy food. Social unrest is disruptive to an economy to say the least, with unknown economic side effects depending on how events unfold. It is already on the rise in Europe[vii] and elsewhere.

Institutional Risk

In 2005 when we experienced the collapse of Refco[viii], it seemed an anomaly. Since then we've seen many such examples, many of which were not fraud such as Lehman Brothers. Recently, PFG and MF Global provided good examples as to why investors should be distrustful of institutions in general. In the current financial climate, when investors are looking for tools such as options and managed accounts to protect themselves, PFG and MF Global would have been good choices based on the previous regulated thinking. But now we know that any strategy, no matter how good at PFG, ended up in a big loss due to the founder Russ Wasendorf Sr. misappropriating funds. The only real protection in the future is not due diligence, it's for the investors to own their own institution.

Currency Wars[ix]

The Fed isn't the only central bank with an inflationary policy. Recently, the BOJ hinted at a Yen intervention[x]. Last year, the SNB intervened in the CHF pegging the Euro to the Swiss Franc[xi]. Other central banks will follow suit; but clearly the global debasing of currencies is gathering momentum.

We can see a 50% debasement of the US Dollar by the end of QE3 in 2015. But as other currencies will be debased as well, the solution isn't as simple as transferring US Dollars into another currency. The only way to preserve capital is to be on both sides, with active hedging strategies and options. Our proposed institution will offer these strategies but more importantly, will provide a means to execute them. Currently restrictions such as no-hedging, 50:1 leverage and others prevent the full implementation of an optimized currency protection strategy. A secure active hedging strategy can provide 10% - 20% return per year with below 5% drawdown consistently, as place to keep our funds as alternative to interest bearing savings or money market account.

Dollar Carry Trade

The US Dollar with its Fed policy will be used as a borrowing currency, as interest rates are at historic lows and will continue to be so until 2015, according to the Fed. Investors both inside and outside of the US will borrow in US Dollars and invest in assets such as other currencies, stocks, and hard commodities (Gold, Silver).

European politics

The political scene in Europe seems to be controlled by a truly invisible hand. The same week as QE3 was announced, Germany's constitutional court yielded to outside pressure in their historic EU decision while Angela Merkel made a u turn in her opinion about Greece[xii]. Did Merkel have a philosophical realization, or was she assured of the Eurozone's stability by the Fed's plan to buy up MBS and sterilize greek debt?

Saxo Bank

We will obtain a Saxo Bank white label. The Saxo platform offers the ability to trade nearly every instrument available in the world, from Forex to stocks and bonds, commodities, metals, and derivatives. As a EU regulated company we will not have the restrictions imposed by US regulations. For example we can use

100:1 leverage on Gold trading, use CFDs to short US stocks, and access products not available to US citizens. CFDs allow shorting, thus we would not have a shorting rule if trading US equities. Most importantly, Saxo offers specific Forex options and derivatives not available anywhere else. The white label will allow us to utilize our own account management such as segregated accounts. Through our own institution, we may have an unlimited amount of accounts for ourselves and select group of clients. For example an investor may have several strategy accounts (managed accounts), and individual self-traded account, and a hedging account. While we will hold the funds and be in complete control, the Saxo platform will allow us to access global Forex liquidity as well as use their platform. In later phases we will build our own liquidity and develop our own platform.

Denmark is part of the EU economic union but does not use the Euro currency thus is not completely inside potential Euro crisis.

We can also utilize other trading platforms as well such as Bloomberg and Meta Trader 4 for specific strategies. These platforms do not have restrictions if implemented abroad.

Malta Trading Company

The Malta trading company will be formed with the intent on applying for a investment services license category 2 with the MFSA before the end of the year. In Phase 3 the company plans on opening a fully chartered EU Forex investment bank. As a cat2 license holder, our company will be able to accept client funds for trading, offer managed account services and portfolio management.

Currently it is not only illegal, it is impossible for US Citizens to trade highly leveraged (over 50:1) Forex and leveraged gold. As a Malta company we will be able to utilize this and more.

Timeline

To start this company we need $50,000 in the next 2 weeks to begin the Malta registration process. We are fighting against the time of a deteriorating situation in Europe, regarding the establishment of the institution.

For the level 2 company we will need a total of $500,000. If we are operational in Malta in October, we can organize a Seminar for the 2nd half of October where other participants can be invited to join. Our goal is to have a cat 2 licensed company in Malta by the end of the year. When the bank is formed, this participant will receive a preferred share of the bank.

This company will offer all the financial tools we need in one place.

EES Background

The EES Team was formed initially in Palm Beach, FL in 1999 with the aim of developing an intelligent trading system for the stock markets, and eventually other markets. At that time automated trading was uncommon, whereas today it is widely proliferated.

Elite E Services, Inc. (EES) has been involved in the development of automated trading systems since 2005, and trading Forex since 2002.

In 2006, EES established EES USA and joined the NFA with the goal of trading customer funds based on EES Forex strategies. Also during this time, automated trading platforms such as Meta Trader 4, Tradestation, FIX API, and others, became widely used by retail and institutional customers via Forex brokers.

The Refco experience

EES began to participate in an incubator program, whereby larger funds will allocate capital to traders after a proven track record. A requirement of this particular incubator was that EES open their own account and trade with $10,000 at Refco in order to prove the strategy was viable. EES did this, and also learned about an Introducing Broker program, where Refco would compensate EES inside the bid/ask spread for any customers referred. Also EES could trade these funds as a block account so that we could trade the customer funds with our own account at the same time, as they were one account. It seemed to be a win-win situation so EES proceeded to sign on as an IB and open many customer accounts, most retail but some represented by institutional investors.

On October 10, 2005, it was revealed that Bennett had hidden away roughly $430 million of bad debt from the company's auditors and investors. On October 12, Phillip Bennett was charged and arrested for Securities Fraud. Shares in Refco then proceeded to drop from $28 per share to $0.08 per share, before being halted and then delisted from the NYSE. The shares are not now traded at all, not even on the pink sheets.[xiii]

Refco, Inc. filed for chapter 11 for a number of its businesses, to seek protection from its creditors on Monday, October 17, 2005. At the time, it declared assets of around $49 billion, which would have made it the fourth largest bankruptcy filing in American history. However, the company subsequently submitted a revised document, claiming it had $16.5 billion in assets and $16.8 billion in liabilities. [xiv]

The outcome of the Refco situation was a destruction of our business plan; although EES had nothing to do with the Refco fraud, EES customers effectively had a 70% loss, after years in bankruptcy court, customers received about .30 on the dollar.

This was part of the reason EES then registered with the NFA, as Refco FX (a subsidiary) was unregulated, the thought was that by teaming with regulated entities, the risk of such a fiasco would be reduced to a near zero.

As a new NFA member, EES began partnering with other NFA firms, such as FXLQ, Velocity 4x (Hamilton Williams, LLC), FXCM (who had acquired the assets of Refco), and others. At this time EES also began using publicly available automated development platforms such as Meta Trader 4 and Tradestation. Some of the results of these strategies were positive, and the results were noticed by some of the clearing firms where the accounts were held. Also in this time there was a great interest in this type of trading, and EES began offering technical services in conjunction with our own development, such as the custom programming of client systems in the MQL scripting language. EES was acting as a technology consultant to several of the FCMs / FDMs now offering automated trading accounts. This gave EES a wide perspective into the retail Forex industry globally.

Because of the popularity of retail Forex, and new technology that now enabled nearly anyone the ability to develop and trade their own Forex automated system, Forex brokers received a large amount of new accounts opening. The Forex broker EES worked most closely with was Velocity 4x, where before their demise EES had roughly $3 Million in customer funds. EES also had several Million in AUM at other firms, also which collapsed, and was ranked in 2007 top 10 CTA by Barclay Hedge.

As was common at that time, Velocity 4x was registered as an FDM (Forex Dealer Member) but was not connected directly to Forex banks. Instead, Velocity 4x held accounts with a firm called FXLQ who was a ‘broker of brokers’ similar to a prime broker in the investment banking industry.

The NFA began raising the minimum net capital requirements of FCMs and FDMs from $250,000 at its lowest to its current $25 Million. Simultaneously, the NFA discovered that FXLQ was a fraud[xv]. While Velocity 4x didn’t have any violation, their funds at FXLQ were frozen due to the investigation and thus they didn’t meet the new minimum net capital requirement. Subsequently, Forex.com acquired the customer assets of Velocity 4x. 2 years later Forex.com would be fined by the NFA for “failure to observe high standards of commercial honor” and use of "asymmetrical price slippage" which is industry parlance for trading against customer accounts intentionally (by giving them a worse market price than what is displayed)[xvi].

In the case of Velocity 4x, no customer funds were lost, they were simply transferred to Forex.com. However, many customers removed their funds because some of them were frightened, as they had been through Refco type situations before. Also Forex.com had an inferior execution system, preventing any system real viability, as was proven 2 years later in the NFA case and subsequent customer lawsuits.

It was at this time that the project of Forex Synthesis was conceived. At that time, EES had played many roles to customers: money manager, technical support, regulatory consultant, programming, and software development. Unlike other industries, in Forex there was no firm (and still is not) offering one solution. There are firms that offer technical services, and brokers that offer Forex liquidity, but they are separate entities. In our opinion, this creates a technical problem because the different systems may be in conflict.

As an example, regulated brokers will not have their own proprietary trading platform, so they will purchase a 3rd party solution such as Meta Trader 4 not having any technical background or means to implement it. Then they realize that the software will only work with plugins and if it's configured correctly, so they then contact a firm such as Boston Technologies who provides expensive MT4 bridges and support. Then the liquidity bridge goes down, which has happened countless times at companies such as Citi FX, DBFX, and many others. Customers lose money and ultimately the institution is liable, although it wasn't their fault the software they purchased was faulty. In cases involving DBFX, Deutche Bank assumed all losses and took responsibility of the faulty third party software (unheard of in this industry) and later shut down their retail operations, stating that they felt the bank's resources would be better invested elsewhere (there's no money in retail).

So if a Forex institution outsources it's most critical functions, what are they actually offering as a service?

Current brokers

One may have thought these were anomalous events caused by the fact that Forex was unregulated. Dodd-frank[xvii] was ushered in among great relief by those who had been affected by Refco, FXLQ, and others. Firms such as Peregrine Financial Group, FXCM, FXDD, Forex.com and others solidified their position, claiming that now Forex institutions were safe.

A new string of collapses began with MF Global[xviii], while not Forex specific; they were a large Forex broker. Then the bizarre case of PFG Best was unraveled, revealing a long term fraud perpetrated by the owner/operator. What was scary about the PFG Best case, Russ Wasendorf Sr. was able to fool regulators by creating forgeries of bank statements and using a PO Box. It was bizarre because Russ Wasendorf Sr. was on the NFA's board of directors, and industry mogul who revolutionized electronic futures trading in its infancy. While not the biggest firm, PFG Best was well known for their strict compliance and professionalism. It left many to now doubt any institution and the regulators; if PFG Best could not be stopped, anyone is suspect.

EES has written articles on the topic of PFG Best on Seeking Alpha:

http://seekingalpha.com/article/717721-the-frightening-truth-about-pfgbest

http://seekingalpha.com/article/751491-pfgbest-customers-get-offers-from-20-to-25

Parallel to the PFG Best case unraveling, remaining Forex brokers are getting hammered with lawsuits and NFA fines, such as Alpari:

As if the PFG situation (see previous articles here and here) wasn't enough, yesterday the NFA fined yet another Forex firm for:

... improperly canceling forex trades and removing profits from customer accounts, failing to timely report trade data and other required information to NFA, failing to observe high standards of commercial honor, failing to comply with NFA's Enhanced Supervisory Requirements and failing to keep accurate records.

While the event happened last year, this announcement comes at a time when customers are questioning the institutions offering market access, from MF Global, to PFG, and a recent Libor scandal. An Independent article noted "After LIBOR, where will the next scandal be?" This is particularly disturbing considering the recent trend of collapses and defaults.[xix]

There is a similar case against FXDD, their first such fine:

On June 29, 2012, NFA issued a Complaint charging FXDD with using asymmetrical price slippage settings that favored FXDD over customers; failing to supervise the trade integrity of the firm's electronic trading systems; failing to maintain complete and accurate records; failing to review the use of promotional material; making improper price adjustments in customers' accounts; knowingly converting customer funds; failing to implement an *adequate AML program; and failing to develop and implement adequate procedures to ensure that all entities and persons that the firm does business with are registered with the CFTC and NFA Members. The Complaint also charged FXDD and Green with willfully submitting misleading information to NFA and others; failing to treat all customers equally when giving price adjustments; and failing to supervise.*[xx]

Most recently, Knight Capital Group released a software that created erroneous orders and wreaked havoc on the stock markets, some stocks being driven up and down 30% in a short time frame. While our business is Forex related, Knight must be mentioned because while these Forex brokers have had so many issues, in the background there has always been Hotspot FX, previously thought to be the best in the industry as far as Forex brokers go. In 2008 Hotspot FXr (retail) sold their customer accounts to FXCM. The current Hotspot FX has a $1 Million minimum and is only available to institutional customers. However, Knight Capital Group is the parent company of Hotspot FX; while we do not have information that Forex operations were affected, it is concerning that a software bug caused $440 Million in losses and possibly bankrupted the company.

What is important to note about these institutional collapses, they are not traditional investor frauds. Ponzi schemes usually promote a specific trading strategy and the criminals receive funds directly, illegally. These companies such as MF Global were institutions perceived to be custodians of our funds while clients traded in the risky Futures and Forex markets.

It is important to have a background of why Malta, why a private Forex bank founded by investors, and why we will succeed where others have failed.

What has happened to our institutions?

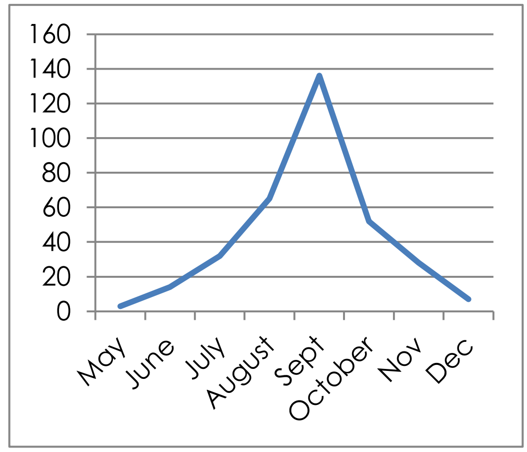
The trend of the modern institutionalization of our system began in the late 19th century, but didn't gain worldwide support until the early 20th century. It reached its peak after World War 2, when the feeling was that global institutions could stave off further bloody conflicts. Without WW2, establishing institutions such as the United Nations, the International Monetary Fund, and eventually the European Union, would not have been possible.[xxi]

Case study: ILQ technical problems

For last 6 years Elite E Services has been a registered CTA (Commodity Trading Advisor) offering managed accounts and automated trading systems. All of this business requires customers open an account at some broker where EES has a relationship. The fundamental problem with all the Forex brokerages has been fraud, technological insufficiencies on the part of the brokers, lack of professionalism, formal Forex education, and formal education in computing. The modus operandi of these brokerages is 'pump and dump' – some of the brokers do not even clear the trades waiting for customers to lose money, as their business model. The first country which required Forex brokers to be a bank is Switzerland, in order to stop fraudulent activities. Since then, many Swiss Forex banks have become extremely successful in the Forex trading environment.

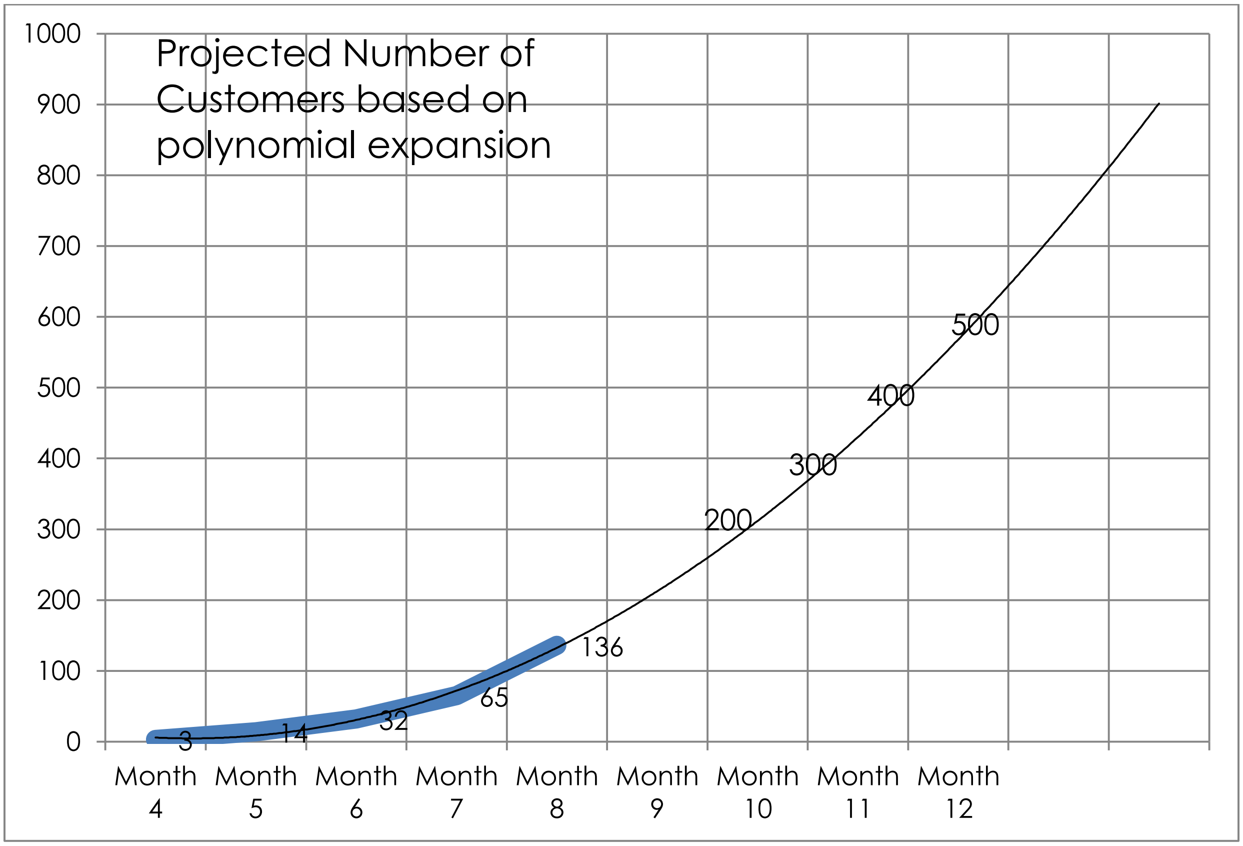
Our recent experience in 2011 with a newly formed broker, as an Introductory Broker, has been as follows:

2011 Month	Accounts Opened	
May	3	
June	14	
July	32	
August	65	
Sept	136	*Broker server crashes begin
October	52	
Nov	28	
Dec	7	
Total	337	



This data presents EES ability to obtain customers at an exponential rate (in a functional broker environment). Please note that we depended on a third party (the broker) for this business model. This is a typical problem with current brokers.

Projected number of customers with proper execution and setup, based on previous data will be:



At the end of the first year of operation, conservative total number of customers will be approx. 2,000. Fees can be calculated from there, based on what if scenario.

Forex Bank

Since the collapse of Velocity 4x, EES has been in the process of establishing the proposed institution. Meanwhile we have continued the development of our trading strategies, however we have not been actively seeking clients as they have all ended up in bankruptcy court or worse for reasons beyond our control.

The proposed bank will service only institutional and QEP clients. The bank will offer Forex services only, no loans or engage in other markets. We will develop Forex specific derivatives, for example the ability for customers to trade the US Dollar index with one click (currently only offered as a futures product).

The focus of the services offered will be managed investments in Forex. However we will also offer complimentary services such as:

- Forex deliverables, when customers wire funds from one currency to another (banks currently charge as much as 5% of the total transaction cost)
- Self-traded Forex accounts, for those customers who want to trade their own account
- Forex technology such as dedicated servers for lease, SSL certificates, Trading computers and hardware, and other Forex specific technology
- Forex derivatives such as non-vanilla options, Forex synthetics (such as the Euro index, US Dollar index, Yen index), and other derivatives that we can offer to other banks and Forex institutions.

Why a bank?

Simply, the only real market participants in Forex are central banks, who ultimately backstop banks. Each chartered bank is supported by a central bank, which is the primary emission of currency. Central banks each have their own rules and stipulations, however regarding banking and currency they all operate in this fashion. Forex is an interbank market, banks exchanging currency with one another. Institutions such as broker-dealers, RFEDs, FDMs, and other brokerage style institutions, must custody their funds at a bank, and cannot create money as banks can, thus they will never be direct participants in the interbank Forex market. To understand deeper, one must examine the origins of the Forex market and how it came to be a market at all.

Before floating currency rates, international banking allowed for the wiring of money to another country "overseas" at the fixed exchange rate, minus the wire fee. In the early days these transactions were negotiated over the phone or via Telegraph (i.e. Telegraphic Transfer TT) and settled via instruments upon physical delivery, usually within 2 days time. The electronic systems that replaced them were modeled after that concept. The Forex market is simply an extension of the negotiated rates, based on real market demand for the currency. Banks eventually allowed speculators into the market, as they didn't have any real vested interest in the actual Forex rate itself, and banks made money on each transaction.

We aren't proposing to compete with any bank, especially mega banks. Simply we propose to fill a niche in the Forex market, and at the same time provide security and safety for investors (by keeping money in their own bank) and providing services such as hedging during a global financial crisis. This proposed bank will be sufficient infrastructure for EES and a small group of QEP investors to carry out their own investing, banking and trading.

Why Malta?

Malta is part of the European Union but is relatively less expensive than alternatives. Being a small EU members is optimal, providing us with the most regulatory and economic return on our investment in the country.

Lying at strategic crossroads between Europe and Africa, Malta is a meeting point of cultures and languages at the heart of the Mediterranean: the ideal cosmopolitan location for efficient international business contacts. Malta has excellent flight connections. The national carrier Air Malta operates to numerous European and a number of North African destinations, with regular flights. There are also a large number of international carriers operating to and from Malta. With a sophisticated ICT infrastructure that is well connected to the international backbone, a high broadband penetration, and a competitive market with the latest technologies like VoIP, Malta is able to offer the right environment for business. Malta is also a major transhipment hub with the Malta Freeport being one of the most efficient and successful Freeport operations in the Mediterranean. Almost all goods being shipped through the port or being re-packaged for onward shipment do so tax-free. Friendly relationships exist with Mediterranean rim countries and with countries representing the major investment markets worldwide. Through the bilateral agreements between Malta and the EU with third countries, and through Malta's traditional economic links, the country strengthens its position as a business location and financial centre in the wider Mediterranean region. High standards of living as well as comparatively low daily running costs offer a refreshing change from other busy, chaotic and high-cost, business centres. The diverse range of shopping, cultural events and leisure activities and well-equipped public and private hospitals and clinics, as well as high quality homes and apartments satisfy the most demanding requirements, and excellent office space is offered at reasonable rents.[xxii]

Although Malta is part of the EU, in the event of an EU collapse it would be best suited for a return to their previous currency the Maltese Lire, and a continued trade and safe haven among EU members.

Malta Tax Advantages

Malta has recently signed a double taxation treaty with the United States, effective January 1st, 2011[xxiii]. This makes Malta a tax beneficial environment for US citizens. Previously, to take advantage of Malta's tax benefits, a US Citizen would have needed to surrender their citizenship. Lawyers in Florida have already noted this change, exploring the possibility if Malta is the new Ireland[xxiv].

For Europeans, advantages include the ability to transfer your pension to a tax beneficial environment such as Malta. The EURBS allows the transferring of your pension to Malta[xxv].

Tax advantages may be reason alone for investors from jurisdictions such as the UK, Germany, and the United States, to invest with us. Working with our attorneys and other local advisors, structures can be setup for clients as an addendum to our investment products.

The new Malta tax regime for EU nationals has 2 categories: retirees, and employees[xxvi].

For expats working in Malta

Instead of tax rates of up to 35 per cent, tax will be limited to 15 per cent (with no tax where the income exceeds €5 million) for work undertaken in Malta. Income from work outside of Malta is tax-free as long as not remitted into Malta. Overseas capital gains are tax-free, even if remitted.

To qualify for the new 15 per cent employment tax rate you must:

1. Not be domiciled nor habitually resident in Malta, though there is no time limit on the application of the new 15 per cent tax rate for EU Nationals. EEA and Swiss nationals are limited to five years, and everyone else to four years.

2. Have particular competence and professional qualifications (or professional experience). Jobs which would normally qualify would include Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Operations Officer, Chief Technology Officer, Chief Investment Officer, Portfolio Manager, Senior Trader/Trader, Senior Analyst (including Structuring Professional), Actuarial Professional, Chief Underwriting Officer, Chief Insurance Technical Officer, Head of Marketing, Head of Investor Relations.

3. Have an annual income of at least €75,000 (excluding the annual value of any fringe benefits and discretionary bonuses).

Expats Retiring to Malta

There are two ways a retired expatriate can reside in Malta.

1. Under Maltese General Tax Law

Non Maltese-domiciled EU Nationals have the right to reside in Malta and are entitled to a very favourable tax treatment:

- Capital and overseas capital gains can be remitted tax-free. So if you can live off capital, you pay no tax. There are also favoured investment structures which can minimise your taxes.

- Income is taxable only to the extent that it is remitted into Malta, where the top tax rate at the highest margin is 35 per cent. There is no minimum income level required, so you could live entirely off capital tax free.

So your pension can be received overseas tax free if you arrange it through a QROPS.

2. The Resident Scheme (RS - previously called the Permanent Residence Scheme)

The RS is another attractive scheme for the non-working retired expatriate, including those from outside of the EU. It has recently been temporarily suspended but should be resuscitated shortly with some rule changes, which are likely to increase the minimum tax payable under the scheme and possibly limit the time period the beneficial tax treatment is given.

The rules to date have allowed individuals to qualify even where they spend less than six months in Malta. (Beware of becoming tax resident in another country and failing to obtain relief under the Double Tax Treaty with Malta, as protection under the DTT would normally require you to spend at least six months a year in Malta).

You pay a flat income tax rate of 15 per cent, subject to a minimum annual tax liability (after taking into account any double taxation relief) of €4,193. Income arising overseas is tax-free unless remitted to Malta. Capital and overseas capital gains may be remitted to Malta tax -free.

You are not allowed to work in Malta under this scheme.

Forex Synthesis

For any long term business plan, an institution is a must to have a full control of all variables, both technical and business. Ideally for any development in this field, it is necessary to control as many variables as possible, including having management control over the institution which the software is launched on.

Our plan for strategy development includes a hardware and software combination; software written for specific hardware. This is a secure solution and optimizes the computing power of available FLOPS. What could happen as an alternative scenario, money could be spent building such a platform for Knight Capital Group and suddenly due a software glitch the firm has closed.

Our technology

To start, we will use commercially available software that we may be able to start operating immediately. This may include a Meta Trader 4 server, Saxo Bank white label, and other white label products. In phase 2 we will begin the development of our own Forex liquidity algorithm, which will process all Forex orders for the bank. Aggregation engines are not unique per se, Currenex and most banking Forex platforms have some sort of aggregation where they combine multiple bank feeds into one. Ours will be unique in the following aspects:

- Mainframe technology – Using IBM System Z[xxvii], software will be written for the hardware. This is secure (cannot be stolen) and optimal. Glitches common in Windows and other server environments will be non-existent. Clients will connect directly to the mainframe to trade or check their accounts, that means no software will be installed on the client machines other than a viewer. This eliminates the need for client hardware and software and eliminates 90% of technical problems.

This technology will be used by our customers, but will likely be useful to large existing Forex players such as central banks, and Forex ECNs. This engine, through its use, will be a creator of Forex liquidity.

A retail problem

It should be noted that the greater majority of problems are on a retail level, and we are not proposing to enter the retail space. Our Forex Bank will have QEP customers and a $1 Million account minimum. Products such as Forex Derivatives and Forex Managed Investments may be packaged and used by other institutions. Our Forex Bank will not accept any retail customer.

Furthermore, Forex and technology products we develop will only be available for use to other institutions. For example we may offer a Forex derivative product to other Forex trading banks, who may in turn offer it to their customers.

While the problems with Forex brokers have been vast, the greater majority of serious problems have been of a retail nature. Large and boutique Forex banks have been slow to adopt technology and lower account minimums, but haven't experienced anything close to the problems experienced by the retail market. Foreign Exchange is a large part of these banks income, and is mostly risk-free (compared to lending activities which are risky). However as many banks such as JP Morgan, Bank of America are not niche banks but financial supermarkets, offering hundreds of different financial products ranging from insurance to packaged lending, their Forex operations are but a small part of a large enterprise.

Positive examples

If one looks at successful Forex specific operations, they have been growing at an extremely fast rate last 7 years:

- Currencies Direct History
- London Capital Group History
- Saxo Bank History
- FX Pro History

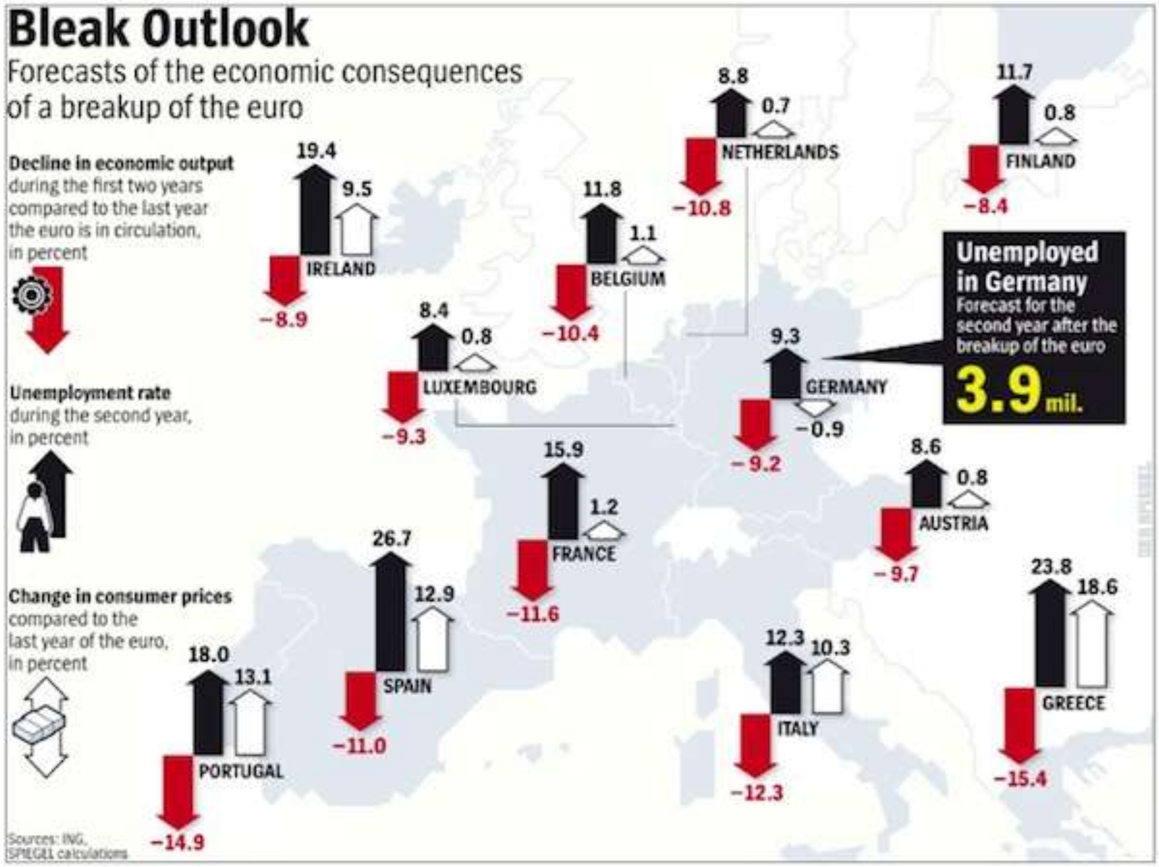
In hindsight, the companies that made the majority of the profits in FX were banks and successful brokerages, not traders (because of the institutional issues). While the above companies are just a few examples of some in Forex that have made a lot of money, and they can provide a solid case study to answer the question if this is a viable business; our intention is to ultimately profit by offering managed investments, not brokerage services. While banking and brokerage services can offer investors a good return on their money, it will serve a foundation for what EES ultimately wants to achieve:

To develop an automated intelligent trading system that trades all the currencies, all the time, on all the counterparties.

The profits from a system like this should far outweigh any profits from banking and brokerage activities. Certain hedge funds such as Renaissance Technologies[xxviii] have achieved this in other markets, but few have done so in Forex.

Real money opportunities

The two sides to Forex are speculation and hedging. In other words, primarily we will develop trading systems that profit in the Forex market. But also there are many opportunities in hedging, accelerated due to the global financial crisis.



Few companies offer hedging services and a growing number of companies who do business internationally are realizing their importance.

Hedging is important basically for any person or institution with any assets, as currencies are a deteriorating asset by the nature of central bank creation of new currency, and inflation. So even those investors who are not exposed internationally in multiple currencies will have needs for such services.

Comprehensive portfolio packages can protect investors from a Euro collapse, US Dollar inflation, or general volatility on the markets which can negatively impact portfolios.

As the crisis deepens and businesses and investors are hit with impacts from currency fluctuations and market turmoil, they will seek any solution to protect their assets.

If the Euro finally collapses[xxix], investors will be seeking a safe haven as well as hedging solutions to defend their investments from currency volatility. The outcome of a Euro collapse is uncertain, but what is certain is volatility.

Green Grass hedging program

As one example of a potentially profitable product, we can target expats and military living abroad. On one side, the US military has bases all over the world and many in Europe. Also there are many Europeans such as Germans and French living in the US. Each has a need for the currency where they are living, while their salary or retirement portfolio is in a foreign currency. The volatility of the EUR/USD cross rate last 5 years has been as much as 25% (Ranging from 1.20 to 1.50). If you are a pensioner, a 25% reduction in your planned monthly income can be catastrophic. A 25% increase is of course welcome, but how is one to know which way the EUR/USD will go? For a fee, we can guarantee the monthly income will be a certain amount. Internally, by using options we can cover the hedge and possibly profit through active hedging. This product can be utilized immediately but only when we are a bank can we write our own options. As a bank, we can match 2 customers from each side of the trade. This is significantly more profitable than without the ability to underwrite options, because in that case we can only make a small commission plus the potential for a small profit by being active hedgers.

In July 1999, the Bureau of Consular Affairs estimated that 3,784,693 private American citizens lived overseas[xxx]. That number was revised to 5.2 M in 2009 however this is unconfirmed. Expats have several things in common such as generally higher intelligence (ability to survive in foreign culture), are generally more wealthy (as travel requires money and you may not be able to work overseas), and usually associate with other expats while overseas. They also have one common need: Forex hedging. This demographic provides a potentially explosive combination that has not yet been exploited. Expats have

Deliverable Forex

Bank of America has lost several class action lawsuits regarding the overcharging of Forex fees for customers who make small transactions using their credit cards[xxxi]. For regular wire payments, they may charge up to 5% of the entire transaction. This is extremely profitable for the banks who have a near monopoly on the business. Companies such as Currencies Direct have made entire multi-million dollar business models just on this one product. Typically customers of banks are either lazy or do not know about the possibility of alternatives. Our deliverable online multi-currency payment service will be used for our own customers as well. This is a good activity because it's profitable and there's no risk. If we charge .25% per transaction, and process $1 Billion in transactions we will generate $2.5 Million in transaction fees and taking no risk. $1 Billion is a big figure but considering Forex is a $5 Trillion per day market in volume, it represents only .02% of the daily volume, or about .00091% of the monthly volume. Numbers for this business unit can be extrapolated from there.

High Frequency Traders

A growing number of institutional traders such as hedge funds utilize high frequency low latency trading models that produce a lot of volume with a very low per trade profit (such as a few pips). These traders have trouble finding an institution to service their needs, which is mostly concerning technology. Some new Forex platforms such as StreamBase[xxxii] cater to this growing need, but they are few. Our technology will be able to handle such customers who also are few but highly profitable, as they are well funded and volumes are usually quite large due to the nature of their strategies.

Proprietary Trading Strategies

As a private bank we will be able to trade for our own account and offer this to clients as well. Over the past 7 years, EES has been developing strategies both for ourselves and on behalf of clients (in the case of consulting and custom programming) and we have seen what works and what doesn't work. We have a portfolio of strategies that can be used by the bank. Some strategies are particularly designed to create volume. All of the strategies have certain features such as:

- Customizable parameters based on circumstances
- Account Protection that will kick in after X% loss is reached
- Variable lot size and dynamic lot sizing
- If it can be a variable, program it as a variable (most strategies have 20-30 parameters)

POEM Phases

4 phases of a capable institution:

PROJECT – The entire business model as well as sub-modules will be designed and executed as a project, as in Project Management.

ORGANIZATION – According to a set of guidelines and rules (structure) organization will be defined.

EXECUTION – Based on the project design and organization the plans will be executed.

MAINTENANCE – Ongoing maintenance, including optimization of processes.

EES Concepts

Recycling – To get the maximum use from available resources, we utilize all our assets for multiple purposes when possible.

Optimization – To get optimal performance, whether it be for budget or software application, optimization is continually applied using the 80/20 rule (you get 80% value from spending 20% of effort, and only 20% value from an additional 80% of effort).

Over engineer – By using greatly inflated building standards, it ensures system performance and reliability.

Over regulation – We have policies far exceeding regulatory guidelines, and accepted ethical guidelines. This is not for ethical reasons, simply it eliminates potential problems.

FAQ Section

Why only trade Forex, why not other markets?

Forex is the most liquid market in the world, and unique in that there is no central exchange. Forex is technically unregulated as a market, as it is an interbank market, although in the US and other jurisdictions retail Forex is regulated by the commodities regulators. Other markets are expensive to enter and also have established companies.

What will by my ROI?

Because of the nature of the business it is difficult to calculate an exact ROI. This is not a car dealership approach where an economic forecast can be obtained which can gauge based on population how many residents will purchase Toyota's next quarter. Year after year, Forex companies are ranked as some of the fastest growing companies in USA, according to Inc. 500[xxxiii]. Companies such as Forex Club Financial have achieved 2457% 3 year growth, which is unheard of in business. Companies are happy with a 20% or 30% growth rate even in propulsive industries such as technology.

If it's so good how come someone else didn't do it before?

Several have, as noted above, and are making a lot of money doing it. However we will have a competitive advantage as we will not be competition to existing players, we are filling a niche that is not yet filled. Also the Forex market is far from saturated, Forex is a 40 year old market with electronic trading being about 20 years old.

[i] http://articles.businessinsider.com/2012-02-09/wall_street/31040431_1_interest-rates-big-banks-member-banks/4
[ii] http://www.bloomberg.com/news/2012-09-15/fed-s-lacker-opposed-qe3-as-tantamount-to-fiscal-policy.html
[iii] http://www.google.com/hostednews/afp/article/ALeqM5h0_BVHNrjIYOoncy63c6fZFuXLag
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[vii] http://www.guardian.co.uk/business/2012/apr/29/social-unrest-europe-cuts-strikes
[viii] http://en.wikipedia.org/wiki/Refco
[ix] http://www.ibtimes.com/articles/384582/20120914/qe3-currency-war-fed-federal-reserve.htm
[x] http://online.wsj.com/article/SB10000872396390444709004577650632272233176.html
[xi] http://seekingalpha.com/article/291826-swiss-national-bank-intervenes-in-unprecedented-move-what-now
[xii] http://rt.com/news/merkel-greece-bailout-germany-805/
[xiii] http://en.wikipedia.org/wiki/Phillip_R._Bennett
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[xxvii] http://www-03.ibm.com/systems/z/index.html
[xxviii] http://en.wikipedia.org/wiki/Renaissance_Technologies
[xxix] http://www.marketwatch.com/story/when-will-the-euro-collapse-its-already-dead-2012-08-15

[xxx] https://www.overseasvotefoundation.org/files/counting%20american%20civilians%20abroad.pdf
[xxxi] http://www.ccfsettlement.com/
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