

answering your Questions

They Didn't Understand Hedging v Speculating?

Copyright July 1st, 2011

We have a very serious problem with the Justice Department in America, SEC, and CFTC. They hire fresh lawyers just out of school who are looking to make a name for themselves. In 1970, Rudy Giuliani joined the United States Attorney's Office for the Southern District of New York. In 1973, he was named Chief of the Narcotics Unit. He moved on to prosecute Michael Milkin and John Gotti. As noted in Wikipedia:

Giuliani's critics claim he arranged public arrests of people, then dropped charges for lack of evidence on high-profile cases rather than going to trial. In a few cases, his public arrests of alleged white-collar criminals at their workplaces with charges later dropped or lessened, sparked controversy, and damaged the reputations of the alleged "perps". He claimed that veteran stock trader Richard Wigton, of Kidder, Peabody & Co. was guilty of insider trading; in February 1987 he had officers handcuff Wigton and march him through the company's trading floor, with Wigton in tears. Giuliani had his agents arrest Tim Tabor, a young arbitrageur and former colleague of Wigton, so late that he had to stay overnight in jail before posting bond. Within three months charges were dropped against both Wigton and Tabor; Giuliani said, "We're not going to go to trial. We're just the tip of the iceberg", but no further charges were forthcoming and the investigation did not end until Giuliani's successor was in place. Giuliani's high-profile raid of the Princeton/Newport firm ended with the defendants having their cases overturned on appeal on the grounds that what they had been convicted of were not crimes.

Personal decisions to indict people are plain wrong because these people are using their government positions to further their own careers. They criminally charged Arthur Anderson destroying the firm with a loss of over 50,000 jobs as they did to Drexel Burnham of Milkin fame. The Supreme Court overturned the criminal conviction in **Arthur Andersen** LLP v. **United States**, 544 U.S. 696 (2005) in an astonishing unanimous decision writing:

In the court's view, the instructions allowed the jury to convict Andersen without proving that the firm knew it had broken the law or that there had been a link to any official proceeding that prohibited the destruction of documents. The instructions were so vague that they "simply failed to convey the requisite consciousness of wrongdoing," Rehnquist wrote. "Indeed, it is striking how little culpability the instructions required." Rehnquist's opinion also expressed grave skepticism at the government's definition of "corrupt"

persuasion"—persuasion with an improper purpose even without knowing an act is unlawful. "Only persons conscious of wrongdoing can be said to 'knowingly corruptly persuade,' " he wrote.

As unbelievable as it may be, the government attorneys in the Justice Department, SEC and CFTC were all ignorant of the difference between hedging and speculation in the case of Princeton Economics. In hedging, one side may appear to have a loss, but this is offset by the opposite side where the profit takes place. In my own case, we borrowed yen, converted it to dollars when the yen interest rate was 0.1% and the US rates were 8.5%. The hedge had to buy back the yen to repay a note so one takes a position buying yen for future delivery. If the yen declines, the hedge is stopped out creating in appearance a loss in the trading side that is offset by the identical profit in the cash side meaning HEDGE. Since the yen continued to decline, the profit occurs when one must buy the yen for delivery to repay the borrowing.

Hence, what nobody seemed to understand including **Tancred Schiavoni** of **O'Melveny & Myers, LLP**, was when the yen notes were sold and then were converted to dollars realizing \$1 billion, the profit or loss takes place **ONLY** when the yen is purchased back to repay the loan. This is why when HSBC/Republic repays the loans; they only had to pay \$606 million. They charged a crime that could not have even taken place until **AFTER** maturity and a failure to repay. Yet they admitted there were **NO** defaults when the case began! The government allowed them to take the profit that belonged to Princeton and its employees. The government allowed HSBC to buy the notes from Princeton. Between 1995 and 1998, the yen fell from 75 to 147 to the dollar meaning the same amount of yen that converted to \$1 billion in 1995 cost about half the dollars when it was time to repay. The profit took place on the **CASH** side – **NOT IN TRADING**! Being lawyers and not traders, they didn't get it. Or did they?

<u>The IMPLICATIONS:</u> The hedge funds who have been inquiring as to the facts of this incident are shocked. This shows that government lawyers are perhaps sometimes qualified in law, but not in finance. They did not understand this case and as a result, they use their power to oppress the truth to cover up the damage to their own careers. The problem with this whole affair demonstrates there are no checks and balances. Local Judges only rule in favor of government as if this was some 3rd World Dictatorship accounting for their 99% conviction rate, and it makes doing business in especially New York highly risky for the 2nd Circuit always rules in government's favor.

No accounts can be in the United States, and you are better off dealing with foreign banks who do not have the "juice" with the government. Congress will not investigate since Goldman Sachs is the #1 contributor to campaigns. There is nobody you can turn to for help. The slogan "Justice For All" is just propaganda. Once the gov't charges you, you are presumed guilty and they use that to destroy your credibility so the press won't listen. There is no hope and corporations can't be represented other than by a lawyer. So if they will not allow you to hire a lawyer, the firm is dead in the water. This makes doing business in the US far too risky for Americans in general are inexperienced in international currency transactions. So – move to Europe. There is no Rule of Law in the United States anymore that you can trust. Judges will not embarrass the government, nobody will ever simply say they made a mistake, and so in reality, there is no way to trust the allegations of government when they refuse to correct mistakes. They are morally corrupt!