



# The VonFrederick

# Tempus

## Feature Article:

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## A VIABLE ALTERNATIVE TO BANKS & THE STOCK MARKET

By Guest Author Anthony R. Blansett, Certified Senior Advisor



Billionaire investor Warren Buffet was once quoted as saying:

“Unless you can watch your stock holding decline by 50% without becoming panic stricken, you should not be in the stock market”. In present day America, more than ever, this seems like prudent advice.

However, it also begs the question: if not the stock market, then where? Most Americans would

agree that market-based investments— which overwhelmingly take the form of mutual funds—offer the best chance for strong returns. But who among us can stomach the losses associated with severe market corrections that on average, occur every five years? Even a little scrutiny reveals that placing your savings/ investments in a bank is far from the smartest thing you could do.

When a typical corporate middle-manager is working hard to save and grow money for retirement and/or a retiree is looking for ways to protect everything they’ve got, it raises the question as to whether there are better ways to build and protect our wealth. A very good alternative to traditional market-based investments, as well as to banks,

***Catastrophic events anywhere in the world—both natural and or man-made—have the ability to adversely impact investment performance at virtually any time.***

are the products and strategies provided by the insurance industry. Before getting into any specifics though, it’s important to understand the critical differences between the structure of the banking and investment industry, versus that of the insurance industry.

Let’s take a quick look at banks. As an advisor who specializes in working with

retirees and pre-retirees, I always ask and am always told that the reason people keep hundreds of thousands of dollars on deposit at the bank, i.e. in CDs, is because of “safety”. More specifically, people feel a sense of assurance that their money is “FDIC insured”. What most people don’t know is that the FDIC—as detailed in their own annual re-

ports—really only has the ability to insure about \$1.25 per every one-hundred dollars that is deposited at banks. Viewed in another way,

this means that given the level of their liabilities, only about 1.25% of your money is actually covered by the FDIC.

In addition to that scary thought, banks are legally required to maintain only about ten cents on reserve per every dollar they take in on deposit. The rest goes out in loans. So not only is money in the bank woefully under-insured, it is also

over-leveraged and in recent years it has earned historically low rates of return. Not surprisingly, during times of extremely low interest rates, banks have earned record profits due to the spread between what they claim to be able to pay on CDs and savings accounts and what they continue to charge for auto, home and consumer loans.

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Now let's take a look at stock-market based investments in general and mutual fund investments in particular. Although the market offers the best chance for the highest possible gains, at the same time it exposes the investor to the best chance for severe loss. Catastrophic events anywhere in the world—both natural and/or man-made—have the ability to adversely impact investment performance at virtually any time. So in short, the typical investor is always exposed to market volatility, the risk of potential loss and has no guarantees as to the return on his money let alone of his money.

Not only is there on-going, inherent risk associated with market-based investments, but closer scrutiny of the mutual fund industry in recent years has revealed that Americans collectively spend tens of billions of dollars each year, simply for the privilege of holding mutual fund investments. These costs take the form of: sales commissions, annual trail commissions, annual managements fees, 12b-1 (marketing) fess and on-going turnover costs. John Bogle, founder and former CEO of the Vanguard Group, estimated in 2004 that it costs Americans roughly \$72 billion per year to invest in mutual funds and even he can't say where all the money goes.

Although it's not the intent of this article to analyze the many categories of brokerage and mutual fund fees, it's important for people to know that there are serious costs associated with market-based investments in general and with mutual funds in particular. It's also important that people know that there is no law that says: thou shalt invest your retirement plan, IRA or children's inheritance in mutual funds—or the stock-market for that matter. This is particularly noteworthy because Americans currently have about \$7 trillion invested in mutual funds.

So then, how is the insurance industry different and how and why can it serve us better? The first critical difference is the many layers of asset protection that are built into the insurance industry, but are not characteristic of banks or investment companies. These consist of the legal re-

serve requirement, which essentially results in insurance companies maintaining about \$1.10 in reserve for every \$1.00 in liabilities; consistent, regular oversight and inspection by each respective state's insurance department in which a given company operates; and the development of state guaranty associations in many states, which serve to assume the liabilities of any company which might have financial difficulties.

To put the financial viability and clout of the insurance industry in perspective, Gordon K. Williamson, in his book "All About Annuities" noted that: the life insurance industry owns and controls more assets than all of the assets in all of the banks in the entire world...combined; the life insurance industry owns and controls more assets than all of the assets in all of the oil companies in the entire world...combined; and that during the Great Depression, it was U.S. insurance companies, not the U.S. Government that bailed out the banking industry. While over 9,000 banks suspended operations from 1929 to 1938, 99% of all life insurance that was in force, continued unaffected.

The second critical difference in the insurance industry deals specifically with the type of savings and investment vehicles that are offered and the fact that fixed products (i.e. those that are not invested in the market) come with built in guarantees. Unlike market-based investments where the average investor assumes all risks, fixed life and annuity contracts come standard with a guarantee by the issuing carrier, on principal deposited and interest earned. This essentially transfers the risk from the individual to the insurance company(s).

One investment tool in particular that can help build and fund a comfortable retirement, while eliminating virtually all of the costs and risk associated with typical investments, is the fixed annuity. In the big scheme of things, there are only two types of annuities; fixed and variable. Fixed annuities provide an annual, stated rate of return on the principal in the contract, while variable annuities are simply another form of mutual fund investments. In

1995, the equity-indexed annuity (EIA) was introduced, which is basically a newer version of traditional fixed annuities. They have done an outstanding job of allowing the contract holder the opportunity to participate in gains of the stock-market, yet still fully protect the contract principal in the event of market declines. How is this done?

The fixed annuity account, which is guaranteed at all times by the company, is simply "linked" to one of the many stock-market indices provided in the contract, e.g. S&P 500, NASDAQ 100, Russell 2000 or the Dow Jones Industrial Average. During a given contract year, if the value of the index goes up, then those gains are credited to the fixed account and they are locked in, never to be lost down the road. If in a given year, the value of the index does not go up, or perhaps declines, then there is no gain credited for that year to the account, but the important thing is that neither is there any loss deducted. This particular type of annuity can be used to fund an on-going qualified retirement plan and more specifically to help retirees both grow and protect their life savings.

The standard reply that I hear upon explaining the basics of these contracts is that "it sounds too good to be true". There are many other details involved, depending upon the particular contract initiated, such as: participation rate, caps and crediting methods. The bottom line however, is that by simply changing the nature of one's underlying investments, a person can go from a situation where there are on-going fees, market volatility, the risk of loss and no guarantees on his money, to a situation where there are not fees, no risk of loss and his money is fully guaranteed—all while taking advantage of market upside and enjoying protection against market downside.

*Mr. Blansett is a Certified Senior Advisor who specializes in helping clients preserve and protect their retirement assets, minimize their financial risk and reduce taxes on earned income. He utilizes a values-based planning approach to help clients determine the most appropriate strategies for their wealth.*

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By Dr. Melissa Katherine Luke

# The Intentions and Consequences of the Sarbanes-Oxley Act

*Recent research conducted indicates 95% of Fortune 1000 company employees are uninformed of the intentions and consequences of the Sarbanes-Oxley Act.*

*.... Unfortunately, these are the people who could identify fraudulent activity first if properly educated*

## **TRAINING MIDDLE MANAGEMENT IS CRITICAL!**

Training all levels of an organization on the identification process of corporate malfeasance and fraudulent activity to protect the corporate chieftains and public shareholders is essential. A 21<sup>st</sup> Century organization educates employees, investigates wrongdoing, provides a neutral complaint center for fraudulent activity, conducts extensive research on the intricacies of the Sarbanes-Oxley Act, and recruits knowledgeable professionals on the requirements of compliance.

### **Management should be trained to identify the following problems:**

- **Employee fraudulent awareness**
- **Safeguarding internal controls**
- **Changing the organizational culture**
- **IT fraudulent identification**
- **The legal process of corporate malfeasance**
- **Corporate corruption**
- **White-collar crime prevention**
- **Criminal investigation**
- **Safeguarding corporate executives**
- **Shareholder protection**

Furthermore, a neutral complaint center for all employees in an organization should be implemented for clean controls for fraudulent activity complaints. The filer should be granted the opportunity to state the course of alleged fraudulent activity, in which they are granted the opportunity to remain anonymous. The reporting agency should be a neutral party, in which the proper corporate executives within the organization will be notified to investigate the initial complaint, as well as the Public Company Accounting Oversight Board (PCAOB).

**IT IS IMPERATIVE THAT 100 PERCENT OF THE ORGANIZATIONS EMPLOYEES UNDERSTAND HOW TO IDENTIFY FRADULENT ACTIVITY! EDUCATION THROUGH ALL LEVELS OF THE ORGANIZATIONAL STRUCTURE IS A MUST!**

## IS TERRORISM CRIMINAL ACTIVITY?

By Dr. Lionel C.M. VonFrederick Rawlins, President & CEO, The VonFrederick Group



Terrorists, despite their political motivation, can be legally classified as bandits or criminals. Within the law, there is no

distinction between a terrorist who seizes hostages for a political end and a kidnapper who holds them for ransom. Is there a difference between a child molester who abducts, rapes and buries a nine year old alive, and a “terrorist” who abducts and beheads an innocent person? Is it a criminal act, terrorism, distinct and separate, or all of the same?

In a very basic sense, all terrorism can be described as the ideology to ordinary crimes of violence such as murder, theft, rape, kidnapping, extortion and so on. Any person or group willing to commit a crime to back up its political (or religious) position can be terroristic. This includes governments as well as guerillas. Terrorism can be exerted from above by governments, which use policies of terror to subjugate the public, or formed below by criminals who use tactics of terror to attack the establishment.

Not infrequently, the same people get to exercise both forms of terrorism, first using it to bring down an existing government or win power from a reluctant populace, then, forming a new government, which continues to use terror against its citizens in order to maintain itself. This is exactly what Hitler did, using the terroristic Brown Shirts to topple the Weimar regime, then creating the SS terror network to maintain the power of the National Socialist government.

Dictators and totalitarian governments, as terrorists from above, arrogate unto

themselves a monopoly on the possession of arms and the use of force. When a state owns terrorism, all other violence is taboo, and unrest is ruthlessly suppressed. For this reason, governments, which are themselves terroristic, are much less vulnerable to terrorism than governments, which are not. China is an example of such a government today, one which has organized its use of force over a long period of time and made itself almost immune to internal dissent in the form of violence.

The proliferation of “emerging nations” that resulted from the post-cold-war collapse of the Soviet Union has complicated the game enormously by creating an influx of new players, many of them amateurs and all fiercely competitive. Most have moved to the United States. Terrorism from below has become institutionalized as guerilla warfare, and revolution has become a constant theme of the Third World. Governments everywhere, good and bad, are besieged by terrorism, from Northern Ireland to Afghanistan. And now Russia, North Korea, Iran, and China, just to mention a few, secure in their own borders, have the leisure to export terrorism, through instruction, weapons, financial aid, and even occasionally, military troops. Simultaneously, the United States, because of its alliance with anti-terrorists governments and counter-revolutionary forces, has become a major target of terrorist activities.

With these changes, the nature of terrorism, and the way we think about it, has also changed. In recent years, the word “terrorism” has taken on a particular meaning, describing apparently random acts of violence, directed un-

predictably at symbolic rather than real targets. The terrorists’ aim, as Secretary of State Condeleeza Rice observed recently, is “to impose their will by force, a special kind of force designed to create an atmosphere of fear. The terrorists want people to feel helpless and defenseless.” Does the violent spouse, burglar, rapist, or child molester make you feel helpless and defenseless?

And so they place a bomb in a crowded department store somewhere, or kidnap a worker in Iraq, or place roadside bombs for Marines traveling through the Afghan country side, or detonate a bomb at a federal government building somewhere in the United States. Since the victims are victims not because of anything they personally have done, but just because of their associations, or even just their locations at the moment of the crime, everyone can identify with their fate. The fear-inspiring question is ‘Will it be me next time?’ What if it were you?



## ***DID YOU KNOW?*** By Michelle Blevins, University of Phoenix alumna

- That just last month there was a nearly bloodless revolution in Kyrgyzstan, called the “Tulip Revolution”. This follows the mostly non-violent revolutions in Georgia and the Ukraine in 2004
- That Kyrgyzstan has over 2000 lakes, including the world’s second largest, Issyk- Kul
- That the traditional nomadic people of Kyrgyzstan live in felt and/or fur tents called yurts
- That the Kyrgyz were among the peoples who invaded Northern China giving rise to the need for the Great Wall



Kyrgyzstan’s flag is a red field with a yellow sun in the center. The sun is ringed by 40 rays, which represent the 40 Kyrgyz tribes. The curved lines crossing the center of the sun are to represent the roofline of a traditional Kyrgyz yurt.

### **OTTO HAHN**



#### **Otto Hahn** **1879 - 1968**

German chemist who is jointly credited, along with radiochemist Fritz Strassmann, with the discovery of nuclear fission. While studying the affects of the bombardment of uranium with neutrons they found one of the products of this bombardment was barium, a lighter element. This led them to conclude the uranium atoms had split into two lighter atoms. While Hahn did not pursue the possible military uses of this discovery, the information was brought to America and eventually to the Manhattan Project. Hahn was awarded the Nobel Prize in Chemistry in 1944.

# SURVIVAL OF THE FITTEST

## *How To Escape From A Sinking Car*



### 1.) As soon as you hit the water, open your window.

This is your best chance of escape, because opening the door will be very difficult given the outside water pressure. (To be safe, you should drive with the windows and doors slightly open whenever you are near water or are driving on ice.) Opening the windows allows water to come in and equalize the pressure. Once the water pressure inside and outside the car is equal, you'll be able to open the door.

### 2.) If your power windows won't work or you cannot roll your windows down all the way, attempt to break the glass with your foot or shoulder, or a heavy object such as an antitheft steering wheel lock.

### 3.) Get out.

Do not worry about leaving anything behind unless it is another person. Vehicles with engines in front will sink at a steep angle. If the water is fifteen feet or deeper, the vehicle may end up on its roof, upside down. For this reason, you must get out as soon as possible, while the car is still afloat. Depending on the vehicle, floating time will range from a few seconds to a few minutes. The more airtight the car, the longer it floats. Air in the car will quickly be forced out through the trunk and cab, and an air bubble is unlikely to remain once the car hits bottom. Get out as early as possible.

### 4.) If you are unable to open the window or break it, you have one final option.

Remain calm and do not panic. Wait until the car begins filling with water. When the water reaches your head, take a deep breath and hold it. Now the pressure should be equalized inside and outside, and you should be able to open the door and swim to the surface.

## *HOW TO AVOID BREAKING THROUGH THE ICE*



- Cars and light trucks need at least eight inches of clear, solid ice on which to drive safely.
- Driving early or late in the season is not advisable.
- Leaving your car in one place for a long period of time can weaken the ice beneath it, and cars should not be parked- or driven- close together.
- Cross any cracks at right angles, and drive slowly.
- New ice is generally thicker than old ice.
- Direct freezing of lake or stream water is stronger than refreezing, freezing of melting snow, or freezing of water bubbling up through cracks.
- If there is a layer of snow on the ice, beware: a layer of snow insulates the ice, slowing the freezing process, and the snow's weight can decrease the bearing capacity of the ice.
- Ice near the shore is weaker.
- River ice is generally weaker than lake ice.
- River mouths are dangerous, because the ice near them is weaker.

Carry several large nails in your pocket and a length of rope. The nails will help you pull yourself out of the ice, and the rope can be thrown to someone on more solid ice, or can be used to help someone else.

(Piven and Borgenicht)

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## **About us...**

Headquartered in Sacramento, California, The VonFrederick Group is the leader in providing sophisticated maritime security and corporate security training, and has provided such training on ships, in seaports, in rail yards, airports, and at corporations and organizations, domestically and internationally. Our team of experts from government, military, industry, academia, and the private sector, is uniquely qualified to meet the enormous market requirements created by the recent and impending acts of terror against the United States and its interests, and against corporate America.

The VonFrederick Group's team of experts provides corporations, governments, military, and individuals with the best training and education possible, and with geopolitical analyses that enables them to manage risk, and proactively anticipate political, economic, criminal and terrorists issues vital to their interests. Our clients include Fortune 500 companies, governmental agencies, the United States Marine Corps, and the United States Navy.

Unlike other organizations that are reactive, The VonFrederick Group places its emphasis on being proactive, and firmly believes that proper training and education allows our clients to properly and effectively manage risk and identify opportunities. The VonFrederick Group provides core expertise in terrorism, maritime terrorism, corporate terrorism, counter-terrorism, infrastructure protection, information warfare and security, technical assessments, policy development, organizational review, vulnerability and threat assessment, intelligence analysis, forensic psychotherapy, organizational management, Wall Street and the securities industry, and other aspects of homeland security.

**“Remember, we have to be right all the time, the terrorists only need to be right once.”**

**We will be blogging soon — keep an eye out for us!**

*TEMPUS FUGIT*



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