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Due Diligence – Flight Capital

By L Burke Files, CDDP, President, Financial Examinations & Evaluations, Inc (01/03/2014)

Part of due diligence is anticipatory in nature, what risks do you see in your organization, industry, or market space that you can either - assume, transfer, hedge or accept. But also what risk events occur that may signal a developing market for your products and services?

The offshore industry is all about transferring and or mitigating risk. Legal risks, civil risks, political risks, and how they impact the corporate and individual investors. The idea of offshore is an anathema to those who think competition is good for business but not between governments or that any one would choose to diversity their portfolio not just based upon industries, but currencies and domiciles as well. These are the dim country leaders of today. What is also a tragi-comedy is that much of the flight capital heads to the USA and the EU – the principle parties who hate offshore competition.

In the last FY of 2013 over 12 Billion dollars left the stock markets in the emerging world and came back to the USA or EU. Last month another nine Billion fled in one week. There are the markets where offshore services providers would have a more receptive market place for their diversification services.

The list of fragile countries includes, Turkey, Brazil, India, Indonesia and South Africa. Turkey, with corruption investigations, and local social unrest had prompted the government to “censor” the Internet is ripe for new clients seeking a hedge. Crackdowns, on anything, are a harbinger of bad things to come. Brazil started to place investment and capital controls to stem the rise in their currency – only to have those very same laws exacerbate the downward spiral in the economy post boom. The level of corruption in Brazil is also a concern as it exploded during the good years under both Lula Da Silva as well as Rousseff making effective reforms difficult. India has nothing but problems with investment laws, poor political judgment and too much debt. India too is very corrupt, the leadership has been weak, demonstrated very poor integrity, and is still playing the card of protectionism. Indonesia is a boom and bust country with serious fiscal and legal structural problems as laid bare by the lopsided and corrupt battle between Rothschild and the Bakrie family over Bumi Coal. The Bumi coal saga – really tells the story of how to buy a judge. South Africa is just absolutely corrupt and is lead by a cabal of inept socialistic fools.

Other countries that present opportunities – any Arab Speaking nation as they are up for grabs and all of the wealthy persons in the Arab lands are look for a hedge to their fortunes – or even mini fortunes. They see the television with the rioting in Cairo and Tunis, as well as the civil war in Syria. They are also very concerned that even if peace breaks out after a short time, will the banks ever reopen? Will the banks even have their deposited funds? For example, the banks are still closed in Libya and business today is transacted with cash. You can spot a businessman or merchant as they are hauling the dinars, dollars, and euros about in roll-on-board cases down the streets.

The Russian Federation and CIS states wander between pure upheaval such as in Ukraine – where locals fear a Russian Military invasion, to peace and profiteering in Places like Russia, Turkmenistan and Kazakhstan. But this is a difficult market to penetrate as the population has just lived through a few revolutions and old money will



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already have established their safe havens, so you must find the new money – without corruption legacy issues. Also, most people in this region only work with trusted friends – not a new shop or a new foreign professional.

Angola presents an interesting opportunity. The current President Jose Eduardo dos Santos has been the President since 1979. He appoints all of the State Governors, Generals, and Ministers. He runs one of the most breathtakingly efficient and corrupt countries in the world. Recently dos Santos has traveled twice to Barcelona possibly for cancer treatments. Thus, dos Santos' reign is coming to an end and those who have become wealthy under dos Santos are already looking for safe homes for assets and asses.

Countries that are well past their prime are markets such as Venezuela and Argentina – these countries are done – it is just time to wait for the eventual bloody change of government. It is the end to all Latin American corrupt regimes – they last for a period of time then someone has to be shot.

Doing one's due diligence on purchase triggers for offshore financial services does lead one to some interesting corners of the world. Offshore is a hedge, even an escape valve, for money and the people suffering under the tyranny of inept governments, corrupt governments, violent governments, in part by denying them the capital to pursue their utopian goals as well as denying them the souls to sacrifice when they fail to reach utopia.

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