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### **A Need for Reflection and Circumspection**

Through all the international crises that have confronted mankind there is one common thread always running through the fabric of society. It is culture. No finer illustration of this is the predicament the west finds itself in today with Russia and China. The scene is set to read W.H. Auden's poem, "The Age of Anxiety", in our quest to find clarity in a shifting world.

Meanwhile, the Independent Commission for the Reform of International Corporate Taxation, an anti-tax avoidance group, has capitalised on the purge being waged against Russian oligarchs and their assets as the Ukrainian crisis deepens. Luxurious yachts have been an easy, visible target and some of which are owned by companies registered in the Caribbean. Although you would assume the exercise would be, shall we say, plain sailing, this has not been the case and it has

exposed gaps in the transparency trail leading to beneficial ownership details.

An example of this concerns Roman Abramovich and two super yachts, Garçon and Halo that were found moored in Antigua. The authorities there wanted to confirm if the ships were the property of Mr. Abramovich, and this was confirmed by authorities in the British Virgin Islands. But the very next day the law firm Ince Germany sent letters to Antiguan customs officials stating that "Roman Abramovich is neither part of the ownership structure nor is he a beneficiary". Curiouser and curiouser, as Alice said during her adventures in Wonderland. Expect the screws to be tightened even further on Caribbean offshore centres.

Of course, the British Virgin Islands is already running the gauntlet after the premier was arrested in Florida on drug and other charges in April. This is déjà vu: we've been here before, only

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last time in the Turks and Caicos Islands, where one Chief Minister was arrested in 1986, also in Florida on similar charges.

The principal recommendation of the report on corruption in the British Virgin Islands, and released at the end of April, called for its constitution to be suspended. This is being vociferously contested by the island government and engendering outrage across the Caribbean. There appears to be, resulting from this, some confusion as to the territory's status. It is at present a dependent, not an independent, territory, of Britain, forming part of Britain's Overseas Territories. Sovereignty rests firmly with the Crown - although some would appear not to understand this. It will be interesting, however, to see how this all unfolds. At the time of writing the situation remains in limbo.

I have reflected on the fact that history – which is, after all, the study of human nature too – is the most reliable guide for making some predictions; especially those connected with both investments and political outcomes. William Faulkner, the American Nobel Prize Laureate, is attributed with saying that “The past is never dead. It’s not even the past”. Even when history is pushed to one side during a period of complacency, it is sure to return and haunt us, like the ghost of Hamlet’s father, yet again.

Søren Kierkegaard, the 19th -century Danish philosopher, said that "Life can only be understood by looking backward; but it must be lived looking forward". Still, a backward glance can serve as a reflection of a subject once addressed in order to see, for example, whether predictions, and the information upon which they were based, have proved to be accurate. But unlike historical facts, viewpoints can be subjective, rather than objective, and are often biased or self-serving. Equipped, however, with an adequate level of knowledge (often gained, as Winston Churchill and others have, in the university of books) and, at the same time, always mindful that opinions should be weighed rather than counted, just like votes in an

election, you stand a chance of being able to separate at least most of the wheat from the chaff.

The Spanish Flu (1918-1920) finally abated just like the current pandemic has and there followed the greatest consumer spending boom in history fueled by low inflation and booming share markets. Well, that was at least until 1929. But the picture today is different; we are in a perilous maze, anxiously trying to find the exit, surrounded by a political and economic landscape utterly transformed.

### **Tales and Dreams**

In times of uncertainty the confidence trickster flourishes and there is no respite from these swindlers. Homer, poet of the “Iliad” and the “Odyssey”, wrote about Hermes who was the herald of the Olympian gods as well as the Greek god of commerce and was said to be full of tricks and a bringer of dreams. Today he is emulated by the conmen who count on a steady flow of fools all year round. Bear in mind what Mark Twain reportedly had to say about April Fool’s Day: that it was the day we remember what we are the other 364 days of the year.

In the 14th century, magicians had their own bible called *Secretum Philosophorum* which included an explanation of how to turn water into wine by soaking pieces of bread in dark wine and then drying them in the sun. Subsequently the bread could be dropped, unseen, into a jug after which the “miracle” could take place. The spinners of tales today can be equally absorbing, but in a different context; they have been able to become more adept at their black art because of the greater resources and corresponding degree of sophistication at their disposal.

But it is wrong to assume that only the gullible are in danger; just because people are brilliant doesn’t mean that they possess an abundance of common sense and that they can’t be bamboozled. Far from it. This often arises, with or without duplicity, when a person doesn't understand fully



what he is getting into. Crypto currency, for example, is a hotbed of controversy at the moment and when misinformation and malevolent manipulation are included in the mix, the results can be toxic, especially for the inexperienced.

Samuel Coleridge, the Romantic Poet, famous for his poem, "The Rime of the Ancient Mariner", had this to say about experience:

*"...the light which  
experience gives is a lantern on  
the stern, which shines only on  
the waves behind us!"*

*(The Collected Words of Samuel T.  
Coleridge, 1835)*

Let's reflect and shine his lantern on the waves behind us for a moment.

### **Lessons to be Learned**

Enron Corporation, the American energy company, still remains a shining example of ignorance and chicanery that ensnared so many in its web of deceit, including lobbyists and consultants, who didn't fully grasp the facts and failed to do the proper research. Jeffrey Skilling, Enron's chief executive, was known as a dismissive boss; he publicly berated investment analysts who questioned his complex accounting methods. Enron, in fact, made any meaningful research into the depths of the company's operations so daunting that a large number of analysts did not attempt the journey. It was not that they were below-average in intelligence, it was simply because they were insufficiently qualified to understand the accounting; it would also be fair to say that others were either just not aggressive enough, failing to obtain adequate information, or were prepared to place their professional reputation on the line for generous fees.

Interestingly, Enron set up an international web of companies in 62 countries and 23 US states that at the time frustrated investor scrutiny; but the largest number of subsidiaries (685, not counting

duplicate names) were established not offshore, but in Delaware. Readers will know my view of the increasing fusion between onshore and offshore centres, underscoring how often offshore and onshore now share common ground - despite what organisations, such as the Organisation for Economic Co-operation and Development and government bureaucrats, in western Capitals might say. In 2022, with this in mind, farce and hypocrisy are two words hard to avoid.

Enron is not the only one shining example. Even absent bad faith, not understanding and relying on others can be costly. Long-Term Capital Management, the hedge fund which caused calamity in 1998, is a classic case of this. The hedge fund had \$80 billion of assets and enjoyed spectacular success until the economic collapse of Russia in August, 1998. The fund's success, in broad terms, had been the result of complex mathematics applied to discrepancies in value between different bonds and derivatives. Eventually, however, after paying out billions of US dollars in collateral on loss-making positions, its capital was wiped out.

Importantly, the firm had been led by John Meriwether, a legendary Wall Street figure at the time, who recruited not only stellar traders but distinguished academics to deal with the mathematical analysis. Some of his partners had studied at the Massachusetts Institute of Technology and Harvard Business School; two of them, Robert Merton and Myron Scholes, had won the 1997 Nobel Prize for economics for their pioneering work on option pricing.

Science's contribution to finance probably began in Paris with Louis Bachelier, who died in 1946, and who gave birth to mathematical finance. He drew up the first scientific model of how market prices change with time; his "random walks" theory formulated in 1900, was, in fact, a walk on the wild side because it was far from reality, much like the garden path along which LTCM investors were led. Investors were only given sketchy details of the investment strategy, the specifics were not



forthcoming, and the investment strategy called for the use of computer models.

The fact is that many of the private individuals and financial institutions who poured money into LTCM were mesmerized by its assembled body of talent and skill. In fairness, in its first 31 months of operation the fund achieved an annualised 48.3 per cent return to investors, according to Institutional Investor magazine. But, crucially, the sources of this achievement were not understood by so many investors and blind faith, rather than business sense, prevailed. In the end the US Federal Reserve had to step in, concerned that the collapse could trigger a wider disaster because the banks and investment houses on Wall Street would be affected by the fund's liquidation. Finally an agreement was reached among 15

financial institutions to bail out the fund. Of course, just like the rest of us, they didn't know what waited for them around the corner in the 21<sup>st</sup> century.

Can we all not find parallels between Enron and LTCM in current events? A Spanish proverb says that a wolf sheds its coat but not its vices. Whether its investments or the dishonesty of others, it is a sad fact that the light of experience doesn't shine clearly for all and some prefer to bury their heads in the sand rather than, say, informative books.

A final thought from Auden's evocative poem, "The Age of Anxiety", which reverberates to this day: "We would rather be ruined than changed. We would rather die in our dread than climb the cross of the moment and let our illusions die."



*Offshore Pilot Quarterly (independent writing for independent thinkers) has been published since 1997 by Trust Services, S. A. which is the British face of international business in Panama. It is written by Derek Sambrook, our Managing Director, a member of the Society of Trust and Estate Practitioners and a Fellow of the Institute of Bankers in South Africa who was both a member of the former Latin America and Caribbean Banking Commission and an offshore banking, trust company and insurance regulator. He has over 50 years combined private and public sector experience in the financial services industry about which he has written extensively and our website provides a broad range of related essays.*

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