



# **ÆGIS** journal

## ***Addressing threats that affect your bottom line***

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From the case files of

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**This month's features:**

- **Special Announcement**

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- **Special Announcement: The LUBRINCO Group was awarded a development contract by the *Asian Development Bank* related to strengthening anti money laundering in Pakistan.**

## **1. Asset Location and Due Diligence — Avoiding the Bernard L. Madoff Investment Securities LLC debacle**

As anyone not locked in a closet is aware, Bernard Madoff was arrested for running a Ponzi scheme that cost investors something on the order of \$50 billion. Wall street was stunned, as were the apparently-primarily-Jewish investors, both individual, organizational, and fund-to-fund who had invested in this high-return scheme without bothering to exercise due diligence. After all, why bother to spend a thousand bucks to look at someone of Madoff's stature. It would be practically insulting to do so!

After the scandal broke we got a thank-you call from a client who habitually has us look at any investment before he makes it. In the case of Bernard L. Madoff Investment Securities LLC, we told our client that as funds get larger the return tends toward the mean of all investment fund payoffs. However, as BMIS got larger, the return was heading away from the mean. While we did not know what was happening inside the fund, this was a very big red flag. Our client prudently decided to put his money elsewhere.

We spend a lot of time looking for concealed assets – something between \$600 million and \$800 million in an average year – and find a number of common factors in these frauds. First, the participants choose not to exercise due diligence before forking over their money to the fraudster. Second, the participants ignore the fact that the returns are irrationally high, even though they may know intellectually that if it sounds too good to be true it probably is. Third, there is almost always a religious element involved.

This last is an astonishingly good filter. When someone calls us to say that they lost all their money in investment, and wants to know if it was a fraud or a legitimate operating loss, we ask what the people running the fund are like. If the response is that they are wonderful God-fearing folk, and start off each meeting with a prayer, then we know it's a fraud.

It is as true today as it was when WC Fields movie came out in 1939 that "You Can't Cheat an Honest Man." You can, however, cheat someone who is too smart to exercise due diligence, who is willing to take advantage of preternaturally high returns, and who is willing to accept a cloak of religiosity as representing character. We are not attacking religion. What we

are doing is letting you know, yet again, that people who regularly make faith-based choices can be convinced to make faith-based choices on investments, when one should use a fact based choice making system.

Many innocent people have been hurt by Madoff, but, sadly, we do not expect that this will lead to an appropriate exercise of due diligence by the next generation of investors, who will be defrauded by the next generation of fraudsters.

## **2. OPSEC, Economic Espionage, and Competitive Intelligence — The new era of IPCI theft**

We were recently on a farm. One of the concerns we heard expressed was that as we slide into the depression (if we believe the economic indicators) racing toward us there will be an increase in burglaries by people who drive in from surrounding urban areas. We anticipate that there will be an equal increase in theft of IPCI, intellectual property and critical information.

There are a number of reasons for this increase. One is that as R&D dollars become more expensive, theft dollars will become cheaper. Another is that protection of IPCI, which at the best of times is almost nonexistent, will likely be cut entirely from most budgets as being nonessential. Yet another is that as unemployment rises and wages fall, there will be increased temptation for employees to turn to theft of IPCI as a way to make ends meet.

These thefts are both costly and avoidable. Unfortunately, we expect to see the cost of loss of IPCI to American companies, estimated at over \$300 billion annually, increase.

## **3. Executive Protection — The Unbreakable Umbrella**

We have written in the past (see the November and December 2006 issues of *ÆGIS*) of the virtues of a cane for self-defense. While the cane is an appropriate emergency safety tool for people of a certain age, it is unlikely that many under 50 will choose to carry a cane.

We recently became aware of another option: The *Unbreakable Umbrella*, which we obtained from Thomas Kurtz of *Real Self Defense* ([http://www.real-self-defense.com/unbreakable\\_umbrella.html](http://www.real-self-defense.com/unbreakable_umbrella.html)). While not cheap at \$179.95 for either the crooked or straight version, it is certainly not the most expensive umbrella we have seen on the market.



The umbrella weighs less than two pounds, and is as strong as they claim. Besides being an excellent impact weapon, it is also an excellent umbrella. Ours, by chance, arrived on a day when there was a strong wind advisory and we were not able to make it turn inside out in spite of our best efforts.

If you need to carry an impact weapon, but are not in a position to carry either a baton or a cane, we strongly recommend the *Unbreakable Umbrella*. If you are merely looking for one of the best umbrellas available, we strongly recommend the *Unbreakable Umbrella*.

#### **4. Technical Issues — Giving money to children**

We recently saw an episode of *Two and a Half Men* in which Jake acquired some money which he promptly wasted, a scenario that should come as no surprise to anyone with young children. This was funny on TV, but was less amusing with the 2008 bailout of financial institutions.

While some assumed that the bailout would increase liquidity, others assumed that the money would go directly to senior managers, since it was being given largely to bad managers whose companies were in trouble because of greed, fraud, and incompetence. And, in fact, we are given to understand that the bailout money given to one investment bank went to bonuses. In another bank, \$50 million was budgeted for renovation of the already luxurious executive floor. One insurance company budgeted \$500,000 for the redecoration of the interior of their corporate jet, a redecoration that required a reduction in fuel capacity because of the increased weight. One bank used the money to buy a bank in China.

At least two banks told the government that they did not need or want bailout money. They were told that if they did not take it, there would be unpleasant consequences in future dealings with the government.

It is clear that we suffered a lack of liquidity that had to be dealt with promptly. But how immediate is promptly? We once asked our instrument simulator flight instructor – a man with an extraordinary 3 years of flight time (that is over 30,000 hours in the air!), who had flown Pan Am Clippers, who had forgotten more about flying than we would ever know – what was the first thing he did in case of an emergency. He said, “First, I wind my watch...” We suspect that the economy would not have suffered if congress had taken a few days to put on at least minimal constraints, such as prohibiting the companies from using the money for fruitless purposes that many feel should be criminalized.

## **5. Real Stories from the Field — Perseverance pays**

Former Defense Secretary Donald Rumsfeld famously said, “Democracy is messy.” That observation surely applies to the states which emerged from the U.S.S.R.

Call them what you will, Russia, Kazakhstan, Moldova, Ukraine and the other ex-soviet socialist republics remain far from the Jeffersonian model of law and order. Perhaps best described as “kleptocracies,” these regimes are run by maverick military leaders, unreconstructed KGB officers and various, assorted, sordid thugs. Their legislatures and judiciaries are similarly riddled with Mafia-style corruption.

Even Armenia, once thought of as quasi-Western because of its large Christian Diaspora, is today in the grips of organized (and often, not-so-organized) criminals. Armenia is nestled in the Caucasus Mountains between Turkey, Georgia, and Iran – and victimized by twenty years of war with its other neighbor, Azerbaijan. The two countries are in a suspended state of military conflict over the disputed territory called Nagorno-Karabagh.

In addition to threats against national security, individual Armenians are at risk. Problems range from ordinary street crime to high-level fraud. But it is possible to prevail in the face of all those obstacles. As one Armenian-American couple learned, the key to fighting crime in the old Soviet Union is perseverance.

Philanthropist George Najarian of suburban Boston has been actively involved in rebuilding Armenia ever since a devastating earthquake killed tens of thousands on Dec. 7, 1988 and left half a million homeless. For the past twenty years, he and his wife, Dr. Carolann Najarian, have devoted their energy and resources to providing humanitarian aid through the non-profit Armenian Health Alliance.

For nearly a decade, the couple has been trying to recover from a multi-million dollar swindle, followed by legal maneuvering and delays.

This case dates back to 1996 when, at the urging of Armenian translator Grigor Igityan, the Najarians purchased a photo shop on Abovian Street in the capital city of Yerevan. Igityan had attached himself as an assistant to George Najarian following the earthquake.

The American couple took this new friend under their wing. As Carolann Najarian put it, “Igityan eagerly accepted and wore George’s old clothes and shoes. We also brought him to the U.S. for corrective surgery which allowed him to have children.”

Over the next two years, the Najarians invested in the development of other property in Armenia for residential and commercial use, including offices for their non-profit medical aid organization. It was agreed that the Americans would provide the money and that Igityan would do the work.

In 2001, according court records, Igityan, illegally converted all of the Najarian properties to his own name using a limited power of attorney. After two years of attempting to resolve the situation out of court, the Najarians filed a criminal suit against Igityan with the Yerevan City Prosecutor's office. The case was repeatedly dismissed and re-instated amid suspicions of powerful, behind-the-scenes pressures.

At one point, the Prosecutor General was replaced by a man whose brother had been hired to help the defendant avoid prosecution.

Transcripts indicate that prosecution witnesses were threatened with tax investigations and worse if they did not change their testimonies. The defense came up with one delay tactic after another. Even the most optimistic observers said the Najarians' chances of success ranged from zero to forget about it. Hope had all but run out.

Finally, in an unexpected landmark decision on Sept. 13, 2008, the Court of First Intention found Igityan guilty on all counts of theft and fraud against the Najarians. On Dec. 24, the Armenian Court of Appeal upheld that ruling which is now final.

"We are thrilled, as you can imagine," said George Najarian. "It will take time for the reality of this verdict to sink in and become part of our new reality."

Igityan was sentenced to 4½ years in prison and ordered to return all properties taken from the Najarians. Throughout this process, the convicted conman remained free on his own recognizance. An arrest warrant has been issued, but as of this writing he is at large.

## **6. Book and Product Reviews**

*406 MHz MicroPLB™ Type GXL Personal Locator Beacon*

Microwave Monolithics Incorporated

\$698

<http://www.wireless-concepts.com/> 1-805-582-9000

As readers know, we are big believers in personal locator beacons (see the October 2003, December 2005, January 2007, and April 2008 issues of *ÆGIS*). We carry one when we are traveling in remote locations abroad, and find it comforting to know that if something goes wrong while traveling in

remote areas someone will know about it within seconds of our deploying the beacon, and that search and rescue will be located.

We also carry it with us when we go camping, and even when we know we will be sufficiently far from a road (and a mobile phone signal) as to cause problems if we have an accident. As an example, if we were visiting a friend in the country, went for a walk in the countryside and broke an ankle, even a quarter of a mile from his house, it is not beyond conception that we wouldn't be found. And if we are going on a long road trip we take it, on the off chance that we go off the road and nobody comes along to rescue us.

Our formerly-favorite PLB, the GX from Microwave Monolithics (see the April 2008 issue of *ÆGIS*), has gotten smaller and lighter and less expensive with their new GXL model. The GXL is 1.1" X 2.35" X 4.75" where the GX was 1.1" x 2.4" x 5.9". The GXL weighs less than eight ounces where the GX was about 10 ounces. This is small enough and light enough to comfortably put in your pocket, as was the GX, and the price is now competitive with other 48 hour PLBs.



All of the features we liked in the GX have been retained in the GXL. These include the fact that each unit is burned in and tested throughout its temperature range, the DOT approved batteries, and the ability to update the internal almanac to compensate for satellite drift, and the fact that there is no warm-up, so that the initial burst goes out quickly and accurately.

Who should have a PLB? Anyone who travels abroad outside of major cities, or hikes, or camps, or skis, or climbs mountains, or drives in remote areas, or spends time out of urban areas. And if you are looking for a PLB, we recommend the GXL.

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