



ÆGIS journal

Addressing threats that affect your bottom line

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This month's features:

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1. Asset Location and Due Diligence — Credit rating agencies

We have never been fans of credit rating agencies. They have been a poor substitute for due diligence of debt and investment alike. We can see where they may be a valuable service for retail investors, but never for institutions such as banks, pension funds, mutual funds, hedge funds, *et cetera*.

Let us compare the rating of investments to medical studies. Do you have more confidence in a medical study if the study is funded independently or by the manufacturer? Well, based upon studies of heuristics and biases, you would be quite reasonably correct to trust the independent study. Studies that are independently funded have a greater degree of long-term relevancy.

With rating agencies, companies are submitting to have their credit rated, and they are paying a fee to do so. Strike One.

Credit Rating agencies use a model based upon history. That is all they can look at because the financials you submit to them are outdated the day they are issued. While 20 years ago this was not much of a problem, times have changed, and today it is a serious problem because an investment that has a derivative component, or one with hidden leverage, can change drastically within hours. The credit rating agencies have not yet been able to sift through these complexities and rate the investments on specific sensitivity to market changes. Further, they have not been able to construct objective models weighting changes that can be positive or negative. Strike Two.

Studies have shown that junk bond portfolios have a better yield overall than highly rated bonds. Why is this? Because rating agencies generally rate smaller companies lower than larger companies. Why? Depth of assets is what we were told several times. But why do smaller companies do better. Simple: Reactivity. Smaller companies can react to a change in the marketplace much faster than can larger companies. Further, when larger companies do react, their very size and unison of action creates perturbations in the market place. This in turn often drives the market further against them. Yes, they have the depth of capital to react, but history, what the rating agencies rely on, is history and depth of capital when it moves will move the market against the larger companies. Strike Three.

What next? Credit Rating Agencies look at past acts, yet again. They look at "Aggressive Buy Outs" when rating companies owned by Private Equity firms. This will put those companies owned by aggressive buy out firms at a disadvantage when seeking additional financing. Aggressive Buy Out now being a pejorative in a third parties academicians eyes. They have been

focusing on dividend recapitalization, the taking cash in dividends from subsidiaries to offset/recover acquisition costs. They are looking at how Private Equity firms carried out their financial strategies in the past to make rating decisions in the future.

Rating agencies are reacting to their failures by downgrading many investments from AAA to D in one month. These agencies were being paid a few million to rate these different mid-sized structures, and the wrong people were paying them.

The actions of the Rating Agencies is the equivalent of driving a car forward using only information from the rear view mirror – only an eternal optimist would be surprised when the collision occurred.

The Future? They are going to get sued and they are going to lose. New rating agencies will sprout up in the next year, both in Europe and Asia. Just as the markets have moved, so will the rating agencies.

2. OPSEC, Economic Espionage, and Competitive Intelligence — VC

While loss of intellectual property and critical information (IPCI) is costly to the country as a whole – \$300 billion a year – it affects different size companies differently. For small companies, who have never thought about the threat of competitive intelligence, economic espionage, or theft, and never heard of OPSEC, the likelihood is that they will simply go out of business, with no clue as to why they went bust.

With large companies, they will simply eat the losses. As one CFO said at IPCI 2007, “If you tell me I can save \$50,000 in insurance costs this quarter by implementing an OPSEC program I am interested. If you tell me I will increase revenues by \$75 million next quarter I don’t care: It is simply not on my radar screen.” Or, as a senior manager of another corporation put it, “So I lose \$50 or \$100 million, or have to close a division, why would I care? I am a \$35 billion corporation, and it is simply not material.”

Startups, on the other hand are extremely vulnerable, since virtually all that they have is IPCI. This is an increasing issue for venture capital firms: Pouring money into funding a good idea is prudent. Pouring money into letting someone else benefit from your investment is less prudent.

If you are involved in startups, building an OPSEC program in from the very beginning will help assure that the value of the startup’s IPCI is held for your benefit, not the benefit of those who practice competitive intelligence, economic espionage, and theft.

3. Executive Protection — Travel nutrition

Because we travel so much, health is a constant preoccupation of ours. Some parts of this equation become fairly obvious fairly quickly: It only takes one bout of cholera to learn the importance of potable water and clean food.

Nutrition has been a significant consideration in our quest to stay healthy while traveling. Two of our editors have taken different approaches.

The first is Made-to-order daily supplement packs from Vuru (<http://www.vuru.com/>). We came to Vuru after trying pre-packaged supplements from one of the big national health food chains. While their packs were fine, if we wanted to add anything different we were back to carrying additional bottles. This was a step backward, so we turned to the Internet.



We found Vuru on the web and ordered custom made daily vitamin packs. We put in the daily packs just what we wanted to take, in the size and amounts and makers of the supplements we wanted, not what some large dictatorial company told us we could have or take. In fact we liked the packs so much that, while we originally got just for the travel, we have dropped the bottles forever.

The Vuru systems is easy to use, and allows to choose from many different makers of supplements – from well know national brands to highly specialized and niche makers. Further, if you seek a supplement they do not carry, they will try to carry it just for you!

The packs for most are small and about 3 x 4 inches and are a double sealed zipper lock pouch. The pouch is sealed against tampering and from small people opening them. I tested with our four kids, the six year old could not open it, the 9 year old could not open it and the 11 year old tried twice, and than resorted to a quick snip from scissors. Once opened, the packs can be resealed with the zipper portion if you take your supplements at different intervals. The daily packs are organized into weekly packs so when you need to grab and go, you can. Your order also comes with a printout on each supplement with detailed information as well as a picture of the tablet.

When you go to <http://www.vuru.com/>, enter discount code AEGIS and you will receive a 5% discount.

The second approach was brought on by the belief of that editor that liquid supplements are more easily absorbed than pills. This means that we take the

more bulky approach of carrying bottles with us, as well as some capsules where the supplements are not available in liquid form. Putting aside specialty products for the moment, there are three important supplements we carry and recommend for you. The first is a liquid multi-vitamin, in this case Nature's Plus Source of Life Liquid Multi-Vitamin and Mineral supplement



(<http://www.naturesplus.com/products/sf.asp?criteria=sf&sf=&productNumber=30601>).

The second is Res-Q 1250 Omega-3 capsules. These pharmaceutical grade distilled capsules (they also offer Res-Q 1250 as a liquid for the same price per dose, but the capsules seemed more convenient to us) are more potent (750-850mg Omega-3 fatty acids per capsule) than others we have seen (300-600 mg/capsule), so you need only three Res-Q 1250 capsules to get the recommended two grams of Omega-3 fatty acids. Since Res-Q 1250 comes 200 per bottle, this makes Res-Q 1250 significantly more cost effective than its competitors of equal quality. We get Res-Q-1250 from Optimal Health RSQ, who will give you a ten percent discount on orders over \$99 if you go to <http://tinyurl.com/2qg6na> and use the discount code AEGIS on checkout.



The third is Embria Health Sciences' EpiCor[®] (see the March 2007 issue of AEGIS – <http://www.embriahealth.com/epicor.html>), which balances the immune system. In the two years we have been taking EpiCor we have not gotten so much as a cold. As with Res-Q 1250, we get EpiCor from Optimal Health RSQ, who will give you a ten percent discount on orders over \$99 if you go to <http://tinyurl.com/2qg6na> and use the discount code AEGIS on checkout. You always get a better price for quantity purchases at Optimal Health RSQ.



Whether you take the convenient Veru packs or the less convenient but more bio-available liquid vitamins, we urge you to adopt one of these approaches when you travel. And even when you don't travel.

