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3407 Lake Pointe Cove
Memphis, TN 38125
901-552-5700
www.mbassets.com

Private Placement Programs, Blocked Funds, Administrative Holds & The Tooth Fairy

By Dane Brigadier, Director of Marketing

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The Tooth Fairy is a wonderful myth of childhood. Children would place their tooth under their pillow and wake up excitedly the following morning to find a shiny coin under their pillow; this is a childhood joy many of us experienced. Alas, the sad reality is there is no Tooth Fairy; the money came from mom and pop's pockets. There is no free money in life.

Blocked funds and administrative hold reside in the same mythical village as the Tooth Fairy, Santa and the Easter Bunny. Let's imagine you wish to buy a rare automobile. You are lucky enough find a 1967 Ferrari P4, you are indeed very fortunate, and the seller tells you there are two other wealthy potential buyers. He wants a deposit of 10 percent to hold the car for you. You tell him that's not a problem; I have been searching worldwide for years for such a car here is my check. The dealer deposits your check in his account only to be told by his bank it is not good funds. What! It was written on funds in a blocked account. But not a problem for the dealer, he simply sells the car to one of the other buyers with real money. Your blocked funds could not facilitate a transaction and your P4 belongs to a buyer operating in the real world.

The trading of real financial instruments in Private Placement Memorandums, such as CMO's, Treasury Bonds, Securities, MTN's, CD's, Commodities and Currencies, is no different than the example of the rare car purchase. Sellers of securities want to be paid in cash. Platform trading relies on the ebb and flow of billions of dollars every day. Trading platforms also rely on heavy utilization of leverage to generate high returns. Leverage in turn is dependent on margin utilization. To see how margin works let's take an example most people are familiar with, buying real estate.

If you buy a house for $100, 000 and you pay a down payment, let's say 10 %, you pay $10,000 cash and a bank lends you the balance. You are controlling a $100,000 investment with $10, 000. This is leverage. You have significantly leveraged your $10,000. In fact your leverage is 10 to 1 or 10x. If the house was to double in price, you have made a $100,000 on your investment. Of course you have to deduct expenses, although still a nice return. The $10,000 you put down on the house was a cash payment. Think about it. When have you made a down payment, paid a utility bill, paid taxes or paid for anything with blocked funds? When a trade platform places a trade, they use a deposit called margin. Let's say a trader wants to buy 1,000,000 shares of stock and that stock, XYZ stock, is trading at $50 a share. He is going to utilize leverage by buying on margin. Margin in the U.S. is set by the Federal Reserve at 50% under Regulation T. The trader draws $25,000,000 from the customer's segregated funds account at the broker dealer through which he is executing and the broker/dealer pays the seller through an exchange such as the New York Stock Exchange, the Chicago mercantile Exchange the London Stock Exchange or an Over the Counter Exchange. The broker/dealer lends him the other $25,000,000 and charges him an interest rate called the broker loan rate. Now let's say the investors in this particular trade platform have all invested with blocked funds or funds on administrative hold. The institution that sold your trader $50,000,000 of XYZ stock wants to be paid. If they don't get paid in cash your trader gets no stock and it is a D/K or a busted transaction. Your trader needs $25,000,000 cash to pay the seller. Remember the broker/dealer is going to lend the platform 50%, so $25,000,000 has been paid. Where does the trader get his $25,000,000? Well, he would get it from the investors in the trading platform; however, their funds are blocked. He can perhaps look at a bank statement where he may see the blocked funds, although he cannot use them to trade. So he uses his own funds to buy the stock. Now, think about this. He is going to risk his own money in order to pay you the profits. Why? The answer is he is not. All trading of any financial instrument requires a buyer and a seller. It does not matter what financial instrument, whether it be CMO's, MTN's, Bonds, Stocks, Commodities, Metals or Currencies. Stop and ask yourself; would you accept blocked funds for selling any asset of yours?

Every financial transaction on earth matches a buyer and a seller. The buyers and sellers may be banks, governments, insurance companies, institutions, shadow governments, or ultra wealthy individuals. There is one unassailable fact; the seller wants to be paid. You cannot pay with blocked funds. You cannot pay with funds on administrative hold. You can pay with cash, period. An investor can borrow against real financial assets, such as real estate, stocks, bonds, gold, etc. However, the trading platform is not a bank and it is not in the business of lending investors' money. Investors can make their own loan arrangements and then invest into the trade platform the only thing that will facilitate the platform's margin requirements, cash.

In addition to every financial transaction having a buyer and a seller, every transaction has some level of risk. Let's come back to our trader's purchase of $50,000,000 of XYZ stock. The trade platform is required to maintain a margin to equity ratio by regulation. If the price of XYZ drops $10 per share, the platform needs to deposit additional $5,000,000 cash with the broker/dealer. Where does that come from, from the investors in the platform? The broker/dealer is not going to accept some inane concept of we have the $5,000,000 but it is blocked. They need cash in 3 business days. By now, if you are deeply into the fantasy of free money, you are saying to yourself, this poor writer does not understand that there is no risk and a secret government trading platform in Switzerland will accept blocked funds. I would say to you, you are most likely beyond help because avarice has blocked any sense of logic you may have.

No one is going to give you hundreds of millions of dollars unless you are fortunate enough to win a national lottery or inherit the money. There is no free money. Trading is a capital intensive business and it is a highly liquid business. Capital freely flows between buyers and sellers. It moves around the globe on a 24 hour basis. Blocked funds would be an anathema to trading. If such a thing really existed it would only serve to impede the very life blood of trading, which is the rapid flow of capital between buyers and sellers.