Bidder Arbitrage

Sales-mode produces high dividends and high returns for the ABC and county. However, because the ground rent bid at auction is such a high percentage of purchase price (they are actually bidding on the structure), it will take at least two years before any additional rent will be paid, or properties trebled.

While rental arbitrage is only a small portion of VIP$ demand, treble arbitrage makes up a good portion of VIP$ demand. These sources of demand are absent for the first two years. Although the dividend is relatively high due to sales mode, it does not become extraordinary unless the VIP$ falls below 99% of peg. Should the VIP$ deep-discount frequently, retailers might be reluctant to accept it. Thus, retail arbitrage could fall victim to sales mode, as well.

Although the destruction of VIP$ by the ABC, as they are received in the land fund, will ultimately trigger demand, this process can take many months, or even years. It is not expected that this will be a problem. A good ABC CEO will launch a marketing campaign that generates sufficient demand for the VIP$ that takes us through the first six months. Nevertheless, there is a tool that will create overly sufficient demand for the VIP$ as long as there are sales mode properties.

The tool might even be a necessity. Bidders are located all over the world. There is no way to accept a bid on faith the bidder has the assets to cover it without taking the winning bid from an escrow account. Trebling works this way. So too does the bid for an Earth Dividend. Even in Phase II dominions, where the maximum bid for an Earth Dividend is 1 VIP$, that $1 must still be placed in escrow before the close of the auction.

All AFFEERCE transactions can be conducted in U.S. dollars, VIP$ at the peg, or any combination thereof. Bidding 100,000 VIP$ has the same weight as bidding $100,000 U.S. at auction (at the 1:1 peg during the 20 years of Phase I). The escrow account can have any combination of VIP$ and U.S. dollars. The account can even have instructions on which currency to use first if the bid is successful.

There is a very good reasons to bid in VIP$. The VIP$ is always available at a discount of some kind on the market. The lower the demand, the greater the discount, and the greater the dividend paid on those funds.

What is the allure of the abandonment auction to create this demand in the first place? Here is a simple example.

Suppose the ABC purchases a $200,000, 40% land share property into the commons trust in sales mode. Then the ABC places the property up for ground rent auction. The ground rent bid is actually the price the bidder is willing to pay for the structure given that they will own the structure. In this case the structure is worth 60% or $120,000. A reasonable winning bid would be $100,000. The bidder would rent out the house for three years with the provision that the tenant gets 50% of the premium if they are still living there when it is trebled. The tenant pays $1,000 per month rent and is also responsible for utilities. When the house is trebled in 3 years, the depreciated house is still worth $120,000, due to both 2% fiat inflation and the tenants desire to keep it in tip-top shape to maximize the treble premium. The premium is 39,600 VIP$ and the tenant walks away with 19,800 VIP$. The owner of the house walks away with 139,800 VIP$. That is a 39,800 VIP$ profit from the treble, plus $36,000 profit from the renter for a total at 99% of $75,402. That is a 75.4% profit on a $100,000 investment in three years, ignoring present value calculations. However, it is a 76.2% profit if the original bid was in VIP$.

Let's say there are 50 bidders in the auction. Suppose they are planning on bidding an average of $80,000. If the VIP$ is trading at 99.05% peg, they save almost $800 if they bid with VIP$. All 50 bidders want to get an average of 80,000 VIP$. This means there is a demand for 4 million VIP$ but there are only 200,000 in existence. The VIP$ rises to 99.9% of peg and the dividend disappears, but that doesn't matter. After all, there is still about $100 savings for the bidder if they obtain VIP$.

Meanwhile, as fast as logistics will allow, the ABC is ramming and jamming. But since this is all sales mode, the demand for VIP$ at auction is greater than the VIP$ created, at least for the first few months. We are talking about a potential explosion that is far more powerful from the first day of operations than represented even by the spreadsheet in ABC – The First 20 Years. This is partly because bidder arbitrage was a late entry into the demand arbitrage set, and partly because the claims are already so fantastic, it was not worthwhile to make them even more so.