Strategy White Paper

Objective: The objective of this white paper is to lay out the vision and mission of Crystal World Holdings ("CWH", or "the Company") and the Company strategy.

Vision: To become the global leader of educational, financial and other related services to the sports industry.

Mission: Providing finance education using a sports-based curriculum so the public can make better financial decisions and developing financial products that will serve all sports-related business. This dual mission can be summarized as follows:

Learn finance through sports.

Trade teams like stocks.

Educating the public

The recent financial crisis has touched the lives of many people. Jobs were lost, homes were vacated and businesses went bankrupt. Morale declined significantly, retirement ceased being an option for a lot of individuals and pessimism took over. While the economy seems to be improving slightly, a broad recovery is yet to be felt by the general public. The experience is likely to stay with us and change our behavior for many years to come.

The financial markets became so complex that uncovering the exact reasons of the crisis is an elusive task. However, the evidence is undisputed that the broader public was removed from the intricacies of the financial world more than ever before. While this cannot start a crisis on its own, it certainly made the effects felt more widespread and the path to a recovery longer.

So, what do we do? Financial reform is a step in the right direction for certain. But, the best protection comes from understanding the risks and inner workings of the financial world, not from eliminating certain practices or creating a few more agencies with oversight responsibilities. To be clear, better oversight is sorely needed and will, to some extent, ensure that corporations do not benefit at the expense of the consumer. However, unless the consumer is well-educated and understands the risks and what can be done to manage those risks, the cycle is likely to repeat placing wide-ranging policy decisions in the hands of a handful of people once again.

We believe that the public is smart but it is unfair to expect them to be up to date with everything going on in the financial sector. Making things worse, money attracts all types of people into the finance business. There are those who are very skilled at what they do and hold themselves to the highest ethical standards. There are some whose practices are technically legal but not necessarily ethical. Finally there are con artists and crooks doing everything possible to make a quick buck at your expense.

So, how do you separate one from another?

There is only way: knowledge and understanding. Every individual and every family must understand finance and money at a basic level to distinguish between the good, the bad and the ugly.

Of course, teaching finance is already a lucrative business. There are many excellent books and advisors providing good advice. But the same problem exists: how do you separate the good from the bad and good intentions from crooked ones? The business of making money may be bigger than the business of teaching money but the latter is still significant so it draws a mixed crowd to the field.

Finally, the ever increasing complexity of finance makes it very difficult for the general public to digest advanced concepts.

Overall, there are some decent attempts in the marketplace. But, is it really working? No, not really.

The rules of financial education need to be rewritten.

The solution is to go back to square one and start the learning process over. The best way to learn something is start at a familiar place and work your way up the learning curve identifying similarities and differences.

That familiar place is sports.

Most of us watch sports, play sports and consume it heavily. We talk sports and we live sports.

We know sports.

The idea of using sports to educate is not new but it presently exists in disconnected and unorganized pieces. A college professor may use the technique in his class. A company may encourage sports for team building and morale. Those efforts are laudable but they don't achieve a certain threshold to become widespread and meaningful for the society at large. The process has to be more organized to reach a tipping point and to make a lasting difference.

That can only be done by operating in areas that combine sports and finance in unique ways. This is, in fact, the sports trading aspect of the Company's dual mission.

The core of the second idea is that teams and other sports related businesses are exposed to risks they need to manage like most other major industries. However, until now, these risks could not be managed.

Risks are everywhere and affect our decisions both at a personal and professional level. A person who could lose his shirt if he gets into a car accident buys car insurance. In this case, insurance is simply a tool that transfers the risk from the individual, who would lose quite a bit, to an insurance company who is willing to take that risk for a premium.

Another example: Let's say you are a producer of corn tortillas and you are worried about increasing corn prices. Your boss told you that he will fire you if profitability goes below a certain level. What do you do?

Thanks to the financial markets, you can buy corn at the price you desire and will know, with certainty, how much you will pay for your main ingredient. Even if corn prices increase considerably, you can sleep well at night because you transferred your risk to someone else. Your job is secure.

But who did you transfer your risk to and why is that person willing to take a risk you don't want?

It could be someone who has an opposite risk. For example, it could be a corn farmer who does not wish to take a chance with corn prices and is satisfied with a reasonable price. Once you trade with the farmer, you are happy because your job is secure and the farmer is happy because he can feed his family from the guaranteed price for his crop.

Or it could be someone who thinks corn prices will go in a certain direction and wants to profit from it. This is a speculator. They are very important for properly functioning markets because they are sellers to buyers and buyers to the sellers. Without them, risk transfer would be much more difficult.

You may not care about corn prices at all because you are not a farmer or a tortilla maker. Maybe you don't care about speculating on corn prices either. Maybe you are just someone who happens to like corn tortillas with your fajitas. So, you take a position because you have an affinity for the product.

In most cases, however, there is a risk that you or your company does care about. The question is: Do you have tools to manage that risk or speculate?

For orange juice? YES.

To manage gold prices? NO PROBLEM.

To hedge energy costs? OF COURSE. This is one of the largest markets.

Weather? YES, even weather. If no snow is a problem for you (hey, some of you own and operate ski resorts), you can manage that risk. Or do you think this winter will be especially cold? Trade on that hunch. There are weather contracts to trade in the markets right now.

And let's say you are the broadcaster of NFL games for the next five years. If a lockout happens, you will lose quite a bit of money. So you have a sports-related risk. There is a tool for everything, so you are covered, right?

NO. Well, not until now, anyway. This is our second mission.

Crystal World Holdings Inc. created the SportsRiskIndex™ ("SRI") to provide sports-based risk management products to sports-related businesses

How does the SRI work? It is a tool that uses inputs that are publicly available and related to a team's finances. Specifically, the inputs in the model are attendance, TV ratings, population and income characteristics where the team is located and finally, whether another local team competes in the same league. Think Chicago Cubs and Chicago White Sox, for example.

All these elements are significant factors that have a major impact on revenues. This has been argued in the sports economic literature and verified by Crystal through rigorous economic analysis. Higher attendance is an important revenue driver. Higher TV ratings lead to lucrative media contracts. The sheer number of people, as well as their income level, increase revenues through a variety of channels such as higher ticket prices and merchandise sales. Finally, a competing local team, while great for sports consumption, often has a negative effect on revenues.

It should be noted that game outcomes are not presently part of the model as their effect on revenues is less clear and indirect.

All the above factors are assigned a specific weight driven by Crystal's economic analysis. Attendance, for example, has a higher weight than population. This means that while both are important to revenues, a 1% increase in attendance has a higher impact on approximate team value than a 1% increase in population. These weights, however, are different for each sport.

The index for a team can be considered an approximate financial value for a sports franchise. It is not a direct substitute for a valuation which requires detailed analysis of team financials (that are often private) and market conditions. But, it is a very useful benchmark and especially helpful in tracking the financial health of teams over time and across leagues.

Index Futures

While the index alone is a useful benchmark, an additional step must be taken to convert the index into something that can be traded in the financial markets. This is a necessary step because if we just stop at the index, the value is limited. It must be converted into something that can be bought and sold so that industry participants have a tool to manage their risks and sleep better at night.

What do you do if you are the broadcaster mentioned earlier? Through our instruments, you can "sell" the NFL index. There are two possibilities. Either the lockout does not occur and you are happy to have paid a relatively small premium or we get a gridlock and you financially recover through your SRI trading. The lockout means no TV ratings and no attendance which would drive the SRI value down. You then "buy back" at a cheaper price and pocket the difference.

This is very similar to the driver who may have an accident. With no accident, you paid a premium but you had piece of mind. If you do have an accident, the insurance company picks up the tab and you only lose your deductible. Either way, you don't lose your shirt.

SRI futures provide a risk management tool to participants in the sports industry.

Some professional traders may not be exposed to certain risks that move together with franchise values but they may be looking for something that can spice up their portfolio. Diversification, or NOT putting your eggs into the same basket (so to speak…), has immense benefits.

SRI futures give traders an alternative investment tool in managing their portfolios.

More than likely you are neither in the sports industry nor a professional trader. But, you probably play sports, watch sports and talk sports. In fact, most people will fall in this category.

How can you benefit from this product? It provides a novel way to participate in your team's financial success or speculate on any team's financial health. While speculation sometimes gets a "bad rap", the speculator is actually crucial for the success of any financial market. Without them, the markets would not function as well and trading would decrease.

At the same time, it is important to know your objectives and understand the products. Be aware that you are speculating and only a small portion of your wealth should be deployed for that purpose. As long as these conditions are satisfied, you are helping to make the markets work. And, what you are doing is not at all different from the same role you play in the equity markets… just in sports.

Speculative traders vote with their money and help markets function efficiently.