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Financial Crisis Report

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Advancing in a Time of Crisis

Inside this issue:

Except for the Great Depression, we are experiencing the most economically unstable period in the history of the modern world. This period will be marked with extreme fluctuations in the stock, commodity and currency markets accompanied by severe and sometimes violent social disruptions. As is typical of such times, many fortunes will be made and lost during this period. After talking with many business owners, executives, professionals and government officials from around the world, the writer believes that for the financially astute investor, this is a time of unprecedented opportunity given the global trade unbalances and distortions in the commodity and currency markets. The *Financial Crisis Report* is a free compilation of the opinions of David Miyoshi as well as of those advisors he himself subscribes to (with appropriate credits given) on how to benefit during this time of crisis. The writer receives no compensation of any kind from any advisors whose articles or ideas may appear in this report. The reader is welcomed to check on all sources of information mentioned herein. Because the opinions and observations of this writer and other advisors are provided herein without charge, the reader is asked to make his/her own judgment on the contents.

WHY WE WILL HAVE TO WORK LONGER

My friends always ask me when I will retire. I tell them as long as I can think and write, I will keep on working. But I never considered if that would be good for my country (the good ol' U. S. of A.) Well, as I study more about what is happening in our economy I am coming to realize that is precisely what I can do as my infinitesimally small contribution to help cure our country's economic ills. I read an article by Harry Dent Jr. of *Survive and Prosper* which gave me some insight into why this is so.

We have to look across the seas to Germany to see the reasons for this coming problem. There was a recent article in *The New York Times* entitled "Germany Fights Population Drop."

Everyone knows Germany is Europe's largest economy and the most competitive in high-value-added global exports.

Recent reports continue to show it doing better than most European countries. So everyone expects Germany to hold up the euro zone… to be the financial backstop… to bail everyone else out.

The question is this: How is Germany going to do this when its workforce is set to decline by 14% over the next 17 years (and over a third during the next 50 years)?

The answer… It isn't!

At least, not unless it makes some radical changes now. In 1989, Japan was as competitive, if not more, than Germany today, yet its economy stalled for 23 years after it hit the demographic cliff Germany now faces.

Although Germany's Spending Wave doesn't turn down until around 2014, its population has already declined by 1.5 million people in recent years. And it'll lose another 14.3 million people. Over the next 47 years, its population will decline 19%, going from 81.8 million today to just 66 million in 2060.

Its fertility rate has dropped to 1.4 children per woman. That's *way* below the replacement rate of 2.1 children per woman.

But the biggest blow is this: Its workforce, those between the ages of 20 and 64, will fall from 49.5 million to 33 million, or a whopping 33% drop, between now and 2060!

This is not a country that will have the necessary power to hold the euro zone above its head like Atlas holding up the world. As the years pass, it'll become more like an emaciating mortal buckling under the pressure, until it's eventually crushed.

Already, Germany has begun tearing down unoccupied residential and commercial developments and turning them into parks. You can't see the decline as clearly through the trees as you can through the empty parking spaces and broken windows.

Also, as its workforce ages, Germany is redesigning assembly lines and work en-

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vironments to minimize bending and lifting. Arthritic knees and bad backs make for absent workers.

More companies are offering flexible and part-time hours for workers that would have otherwise retired.

Germany is also spending $265 billion a year on family subsidies to help support higher birth rates, but we all know that'll only have a limited effect. Instead, the country should encourage young immigrants, who have higher birth rates, to view Germany as the place to be.

It should offer greater maternity support for working women. *That* is the best investment any country can make. It's why birth rates in the Scandinavian countries, the U.K., and France are still close to that 2.1 child-per-woman replacement level.

But Germany has a tradition of stay-at-home moms and hasn't been good at integrating immigrants. Half the Greek and Spanish immigrants that come to Germany leave within a year (not part of the Aryan race I assume).

So what else can an aging country do?

Well, it can take the most important and obvious step: increase the retirement age (which would be just fine with me).

Kudos to Germany as it has already begun to do this, moving the retirement age from 65-years-old to 67-years-old. From 2002 to 2012, the percentage of people between the ages of 55 and 64 in Germany's workforce rose from 38.9% to 61.5%. Now *that's* a policy that works.

But that ultimately will not be nearly enough. Germany needs to increase its retirement age to 73 or 75 in the next decade or two!

Such a step is critical because our life expectancies have grown dramatically in the last several decades while retirement ages stayed where they were. That means the length of our retirement has been steadily increasing, which acts as a drain on the economy because pensions are paid out longer and health care coverage lasts longer.

But if Germany were to continue gradually increasing its retirement age to 74, by 2030 it would gain five million workers instead of losing seven million. That's a 12 million difference… or 24% of the workforce… or 1.4% a year in GDP potential.

<u>The reality is the U.S. should follow Germany's example on the retirement front and increase retirement age from 63 on average to between ages 72 and 75. In fact, *all* developed countries should undergo this shift in retirement age sooner rather than later. We are talking about having the new retirement age of 75 set by 2030.</u>

But why the rush?

Because the massive Baby Boom is already near being 50% retired in countries like the U.S. It will be fully retired by 2024 if our retirement age remains unchanged.

Yet most economists aren't recommending this obvious approach!

Why not?

What's wrong with these overly-analytical, under-sexed robots? Probably, only a global crisis will force developed countries to do the obvious… to implement this solution.

<u>Here in the U.S. alone, increasing the retirement age would be the biggest single step to solving Social Security's, Medicare's and Medicaid's $66 trillion unfunded-entitlements problem because the workers who will drain these systems would have to pay into them for longer and be recipients of the benefits for shorter.</u>

Why should we play shuffleboard or golf for 22 years? That's what we do nowadays because the average person retires at age 63 and dies at age 85?

I don't know about you, but I'm not interested in that.

I know that there are many who do not agree with me but I see a global crisis (financial and otherwise) coming between now and 2020 (about the time of the Tokyo Olympics). But you should remember, there are actually more opportunities to benefit and profit during a financial crisis than a boom time. So put on your seat belts and look to work longer, contribute more and be happier and more secure when you finally do retire.

D. Miyoshi

WHERE BABY BOOMERS WILL SPEND THEIR MONEY NEXT

This article is by Harry Dent, Harvard MBA, Senior Editor, *Survive & Prosper*

When the Baby Boomers were first having kids in the mid-1960s, Gerber baby food was a brand leader in a major growth segment.

As those kids became teenagers in the '70s, rock music and Levi jeans dominated.

When the Baby Boomers became adults in the '80s we had a major auto and housing boom focused on starter homes, not McMansions. The latter only came in the 1990s with the luxury car boom.

In the decade ahead, as Baby Boomers increasingly deal with age-related health issues, health care will become the growth industry to watch.

My point is that everything we do – from cradle to grave – is as predictable as when we'll die. Life insurance actuaries predict our deaths down to the decimal point. We predict most of the rest, thanks to decades and decades spent digging deep into the Bureau of Labor Statistics' annual Consumer Expenditures Survey, which covers more than 600 consumer-spending categories, including potato chip purchases!

Food purchases predictably shift from baby food to fast food to more upscale restaurants as we age. I remember giving a speech to the Las Vegas Chamber of Commerce way back in the mid-1990s…

I said to the audience: "You'll see a major transition to more upscale hotels and restaurants as the massive Baby Boom ages."

Since then, the Boomers have moved away from the likes of Circus-Circus in Las Vegas to places like Bellagio and Wynn. And that's where you'll find the best restaurants and chefs in the world because Boomers have snubbed the bland buffet in favor of "real cuisine."

The real estate market saw starter homes boom through the 1970s and 1980s and then saw the savings and loan bust, after developers and lenders over-invested and over-lent into that trend.

Then the sector enjoyed the trade-up home and vacation-home boom into 2005, and the first major real-estate bust since the 1930s.

And I called it. In my monthly Dent Forecast newsletter I predicted the U.S. housing bubble would peak in September of 2005. People thought I was nuts. "Real estate never goes down," they said.

Look how wrong they were!

But there's more…

We know from our research that car demand goes from low-end vehicles to light trucks to mini-vans and SUVs to heavy pick-ups to luxury and sports cars as people age from their early 20s into their early 50s.

Guess what comes next?

Recreational vehicles (RVs): the Homer Simpson retirement dream that peaks around age 60!

This tells us that the current surge in car sales is not long for this world. We expect car sales to fall off a cliff around 2014 or 2015, just like home buying did in 2006.

You see cars are the last major, durable, debt-financed item we buy in our lifetimes (on average). As Baby Boomers move through this late stage in their predictable car-purchasing habits, fewer new, expensive cars will leave the showroom floor.

We also know that travel changes from regional trips to national ones, then global ones (when we're between the ages of 54 and 60), and then on to cruise ships (when we're between 60 and 70 years old).

As we age, we predictably forget the long travel, jet lag and customs. The consensus becomes: "Just stuff me with food and booze and I'm happy!"

Interestingly, cruises are good for low-cost weddings as well, which is where the industry-phrase, "we attract the newlyweds and the nearly dead," comes from.

Key to note here is that our spending patterns change as our borrowing habits change. We tend to borrow the most when we're between the ages of 27 and 41 because that's when we're buying our homes… then raising the kids… then sending them off to college. As we get older, we borrow less and save more.

Now the Baby Boomers are done with borrowing. They will only pay down debt in the decades to come. And remember, even as they decline, this generation will remain the largest and will still have higher incomes for years when compared to the younger generation.

And the Echo Boomers aren't rushing in to fill the borrowing gap their parents are leaving behind. They're more cautious about taking on the burden after seeing the debt bubble crash in 2008.

With all of that said, here are the top 10 sectors to be in as the Baby Boomers move into the next phase of their spending cycle:

1) Discretionary health care and wellness

2) Nursing homes and assisted living facilities

3) Health and life insurance

4) Retirement and financial planning

5) Home maintenance services

6) Convenience and drug stores

7) Pharmaceuticals and vitamins

8) Urban townhouses and condos

9) Active retirement communities and vacation homes

10) Recreational Vehicles (RVs)

We have a new special publication called Spending Waves: The Scientific Key to Predicting Market Behavior for the Next 20 Years. Businesses, marketers and investors alike can use this resource to see what's going to boom next out of hundreds of consumer spending categories.

That's where the boom opportunities lie ahead.

Civil Unrest Coming to America?

In civilian society nothing evokes a "crisis" more than a riot. And if the genesis of that riot is the lack of employment, that can be an incident of a "financial crisis", the namesake of this report. This article by Jeff Opdyke, Editor of the *Sovereign Individual* describes a hauntingly realistic scenario of what may be in store for our society.

D. Miyoshi

Ask yourself this: What does it mean to be middle class in America?

It's quite the existential question gnawing at our country's collective soul today. The middle class, once the epitome of American life, the dream to which the rest of the world once aspired, is such an increasingly rare species in modern America that President Obama is now running around telling the nation that he will dedicate the rest of his term to revitalizing it. (Never mind that the pro-union, regulatory-heavy and wealth-redistributive policies he supports are precisely the wrong prescription.)

Still, his newfound concern cuts to the heart of my original question: What does it really mean to be middle class in America?

A house in the suburbs or an apartment in the city? Sure. Never sending your kids to bed hungry? That's solid. A two-week vacation every summer? The freedom to eat out at a restaurant on a regular basis? Owning your own car? We'll throw all of those onto the pile, too. They're all byproducts of a middle-class life.

But they share one, necessary commonality: a job. And jobs are our Achilles heel. They're the reason the American economy is incapable of living up to its potential. They're the reason a record number of Americans – 48 million, one in every six of us – subsist on welfare. And, I am willing to wager, they're the reason that European-style unrest is headed for American shores.

London, August 2011: Youth rampage in the U.K. capital. The post-riot analysis finds that the largest concentration of hellions is unemployed and disaffected. Greece and Spain (various times over the last few years): Youth rampage

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through local cities. The post-crisis analysis finds that with youth unemployment rates above 55% in both those countries, young people without jobs are the thorniest of the rabble-rousers. Stockholm, May 2013: Youth rampage through the otherwise calm Nordic city every night for nearly a week. The post-crisis analysis finds that unemployed young people were violently expressing their dissatisfaction with their inability to earn a living and the state's inability to alter that situation.

No one wants to hear that I think that sort of violent unrest – let's call it what is: rioting – is headed to American cities. Most of the folks in my circle of friends would vehemently disagree with my analysis. And since they're all fairly normal, average people, I have to imagine their disbelief reflects the thinking across the country as a whole.

But "American exceptionalism" does not cross into human biology. People are people no matter the national seal stamped on their passport cover. And if the European youth riot for lack of jobs, why would American youth not? Remember, please, that we're talking about Europe here – Western nations all, and some of the most enlightened and progressive cities around.

New York City, Miami, Chicago, Los Angeles … they're absolutely no different than London and Stockholm. Europe as a whole reports youth unemployment at 24%. America's unemployment today has climbed above 16%. Gallup, the polling organization, noted last week that fewer and fewer young adults have full-time jobs. Yesterday, meanwhile, the Pew Research Center reported that nearly 22 million adults (aged 18 to 31) still live at home with Mom and Dad, the highest share of the population since at least the 1970s, and largely a function of a jobs market in America that finds no place for them.

Aside from retarding the economy and creating social pressures that routinely explode into violent confrontation with governments, this situation threatens to leave what some researchers label a "wage scar" – a financial wound that follows a person deep into middle-age, when incomes are not where they otherwise would have been had the economy allowed that person to follow a more-normal job trajectory. In essence, America will continue to hurt for decades, even after this problem is alleviated – assuming it is alleviated, and there are many reasons to think it won't be.

The American Dream Has Disappeared

These statistics point to a reality in America that is hidden in plain view: We live in a deeply bifurcated country. There are, in effect, two Americas … and they won't coexist peacefully for very long.

Most of us in the Sovereign world live in an America that, for the most part, still looks vaguely like the America we've always known. Opportunities still exist. We can afford our lives. And despite the myriad of personal and financial freedoms the Congress has revoked in the last decade or so, our America still sort of works, generally speaking.

But for a different set of Americans, this country has become a massive disappointment.

For them, few opportunities exist. The American dream is a Hollywood lie. They live on the margin, with 80% of them, in one recent national survey, struggling with joblessness and straddling a very fine line between poverty and barely keeping their heads above water. They are increasingly angry, agitated and depressed. They feel cheated.

That America has been short-changed by Washington's ill-designed intrusions into corporate life (like, for instance, the knee-jerk and onerous Dodd-Frank legislation and Obamacare), D.C.'s regulatory blitzkrieg of the last 20-plus years, and the dramatic expansion of a welfare system that has removed the incentive to work. All have undermined job creation in America. The rise of technological innovation hasn't helped, of course, but government's clumsy and heavy-handed attempt to regulate too many aspects of free enterprise has stifled America's entrepreneurial spirit. The "start-up job rate" in our country – the number of jobs in newly created American companies – has fallen during the Obama administration to 7.8 per 1,000 people, a 31% decline from the first President Bush.

Those missing jobs and the resulting impact on unemployed youth are the kindling that ignites fiery riots. When our unemployed youth reach the point where they perceive that they have little left to lose, well it will be London and Stockholm and Athens all over America. That's a when, not an if.

The question I wonder is how America will react. Will the riots be enough to change the stupor in Washington and return our country to its proper path?

Or will the riots – and the resulting recognition that America is irreparably on the wrong path socially, politically and economically – give those of us with the means the reason to finally quit our homeland?

Jeff D. Opdyke, Editor of *The Sovereign Individual*

This "Trap" is Destroying America …

As an Asian American steeped in the credo that higher education leads to the "good life" the following article by Erika Nolan, CEO of the *Sovereign Society*, an organization I subscribe to, runs counter to the fundamental precepts of my rearing. However, I believe it professes one of the telling truths of why our country is beginning to globally lag behind in commerce and industry.

D. Miyoshi

I can vividly recall the hallway outside the principal's office at my high school in Bethesda, Maryland. It was littered with all sorts of posters encouraging us to do our best, pointing out that with hard work, we could be anything we wanted to be. But was that ever really true?

Of course, there are some kids who will grow up to be innovative entrepreneurs, captains of industry and groundbreaking scientists … yet most of them won't.

Today, only 35% of kids in the U.S. get a college degree, and many of those degrees no longer lead to jobs.

So why do we keep pushing our kids in only one direction? We tell our children that their best shot in life, their one chance to make it, is to get that piece of paper. But what if their dreams don't involve college? What if they want to be chefs, race-car mechanics, train engineers or ship captains?

Somewhere along the way we've lost sight of the actual goal – giving everyone a chance to pursue their unique interests and become productive members of society, while providing for themselves and their families. Instead, we've created this race toward higher education no matter how high the cost … and, often, no matter how low the benefit.

It is this education "trap" that is killing America.

But we aren't alone.

European countries like Spain and Italy also create the same higher-education funnel, with similar rates of failure. In the U.S., the youth unemployment rate for those under the age of 25 is 16.3%. That is more than double the rate for the economy as a whole. The Italian-youth unemployment rate is a stunning 36.9%, and the rate for Spain is a shocking 55.2%.

Meanwhile, plugging right along, the lowest youth unemployment rate in Europe is … Germany, with a rate of 7.9%.

It's no secret that Germany is the economic powerhouse of Europe. And when it comes to employment levels, the German economy has weathered the financial crisis far better than most. Currently, its overall unemployment stands at 6.8%.

Many claim this success is due to the country's intense focus on exports like automobiles and heavy equipment. A healthy export market is important, but a fundamental reason for Germany's economic resiliency starts long before a car is ever assembled, and even before a worker joins a company. In fact, it starts when a student is just 10 years old.

Forget the Department of Education – Look to Big Business

Germany's labor-market success can be partially attributed to the fact that so many young people leave school skillfully trained in a specific skill or vocation that addresses a pressing societal need. Such training is the product of a prudent partnership between the education system and German corporations. And what makes the training so effective is that it is an integral part of the daily education program. It is not a six- or eight-week add-on training program after high school.

In the German system, all kids attend the same type of school through the fourth grade. At this point, teachers then recommend that a student move on to one of three different types of schools for the remainder of their schooling: a hauptschule, a realschule or a gymnasium. The recommenda-

THIS TRAP IS DESTROYING AMERICA

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tions are based on factors such as a child's academic record, ability to work independently and intellectual aptitude. At the end of the day, families can choose what path they want for their kids, but teachers' recommendations are important.

A gymnasium may sound like a sports program, but it's not. It is the track for higher academics and university studies. Students who attend a hauptschule and realschule receive academic education like those attending a gymnasium, but they also receive vocational training. Hauptschule students receive less demanding academic instruction and vocational training, attending class through the equivalent of the ninth grade. Realschule students receive the same instruction as gymnasium students, along with higher vocational training, and go to school through 10th grade. Both groups have the opportunity to earn apprenticeships to provide even more real-world work experience.

For students not tracking on the college route, the opportunity to study with a trade master – a "meister" in German – is the best possible outcome short of automatically having a job at graduation.

These meisters are considered experts in their respective fields, with many years of experience under their belts. Now, they are training the youth of the country to follow in their footsteps. What's more, most of the meisters were vocational students themselves, earning apprenticeships, moving up to journeymen, and eventually achieving the coveted status of meister. In Germany, many industry leaders have followed the vocational track, not the academic gymnasium path.

Not Everyone is Cut Out for College, Thankfully

Imagine the possibilities for our country if we actually taught our children the work skills needed to succeed in life and satisfy our societal needs instead of supplying them with insipid platitudes about how they can be anything they want … even if they are still struggling with basic math in the ninth grade or graduating from college with a degree like the University of Connecticut's BFA in puppet arts.

Let's be honest — not every little Sarah is cut out to be the president or every little Johnny a cardiovascular surgeon. Two-thirds of our kids don't earn college degrees, and that's just fine with me. Our economic future depends as much on the productive contributions of this large segment of our population as it does on the kids who end up in top universities.

The sooner we stop the education trap and replace it with a real job-training system, the sooner we put our entire country on a better path.

Erika Nolan

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