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Financial Crisis Report

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Advancing in a Time of Crisis

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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.

FORTY CAN MEAN A LONG TIME

In the Bible, the expression "40 days and 40 nights" meant a very long time rather than a specifically defined chronologic duration.

In the same vain, the following 40 statistics about the U.S. economy (taken from the Economic Collapse Blog) can mean we as a nation are in for a very long time of financial tribulation brought on by the accumulated misguided and power mongering policies of our political leaders (both Democrat and Republican) and the avaricious practices of our banks and corporations.

#1 Back in 1980, the U.S. national debt was less than one trillion dollars. Today, it is rapidly approaching 17 trillion dollars...

#2 During Obama's first term, the federal government accumulated more debt than it did under the first 42 U.S presidents combined.

#3 The U.S. national debt is now more than 23 times larger than it was when Jimmy Carter became president.

#4 If you started paying off just the new debt that the U.S. has accumulated during the Obama administration at the rate of one dollar per second, it would take more than 184,000 years to pay it off.

#5 The federal government is stealing more than 100 million dollars from our children and our grandchildren every single hour of every single day.

#6 Back in 1970, the total amount of debt in the United States (government debt + business debt + consumer debt, etc.) was less than 2 trillion dollars. Today it is over 56 trillion dollars...

#7 According to the World Bank, U.S. GDP accounted for 31.8 percent of all global economic activity in 2001. That number dropped to 21.6 percent in 2011.

#8 The United States has fallen in the global economic competitiveness rankings compiled by the World Economic Forum for four years in a row.

#9 According to *The Economist*, the United States was the best place in the world to be born into back in 1988. Today, the United States is only tied for 16th place.

#10 Incredibly, more than 56,000 manufacturing facilities in the United States have been permanently shut down since 2001.

#11 There are less Americans working in manufacturing today than there was in 1950 even though the population of the country has more than doubled since then.

#12 According to the *New York Times*, there are now approximately 70,000 abandoned buildings in Detroit.

#13 When NAFTA was pushed through Congress in 1993, the United States had a trade surplus with Mexico of 1.6 billion dollars. By

FORTY CAN MEAN A LONG TIME

2010, we had a trade deficit with Mexico of 61.6 billion dollars.

#14 Back in 1985, our trade deficit with China was approximately 6 million dollars (million with a little "m") for the entire year. In 2012, our trade deficit with China was 315 billion dollars. That was the largest trade deficit that one nation has had with another nation in the history of the world.

#15 Overall, the United States has run a trade deficit of more than 8 trillion dollars with the rest of the world since 1975.

#16 According to the Economic Policy Institute, the United States is losing half a million jobs to China every single year.

#17 Back in 1950, more than 80 percent of all men in the United States had jobs. Today, less than 65 percent of all men in the United States have jobs.

#18 At this point, an astounding 53 percent of all American workers make less than $30,000 a year.

#19 Small business is rapidly dying in America. At this point, only about 7 percent of all non-farm workers in the United States are self-employed. That is an all-time record low.

#20 Back in 1983, the bottom 95 percent of all income earners in the United States had 62 cents of debt for every dollar that they earned. By 2007, that figure had soared to $1.48.

#21 In the United States today, the wealthiest one percent of all Americans have a greater net worth than the bottom 90 percent combined.

#22 According to Forbes, the 400 wealthiest Americans have more wealth than the bottom 150 million Americans combined.

#23 The six heirs of Wal-Mart founder Sam Walton have as much wealth as the bottom one-third of all Americans combined.

#24 According to the U.S. Census Bureau, more than 146 million Americans are either "poor" or "low income".

#25 According to the U.S. Census Bureau, 49 percent of all Americans live in a home that receives direct monetary benefits from the federal government. Back in 1983, less than a third of all Americans lived in a home that received direct monetary benefits from the federal government.

#26 Overall, the federal government runs nearly 80 different "means-tested welfare programs", and at this point more than 100 million Americans are enrolled in at least one of them.

#27 Back in 1965, only one out of every 50 Americans was on Medicaid. Today, one out of every 6 Americans is on Medicaid, and things are about to get a whole lot worse. It is being projected that Obamacare will add 16 million more Americans to the Medicaid rolls.

#28 It is projected that the number of Americans on Medicare will grow from 50.7 million in 2012 to 73.2 million in 2025.

#29 At this point, Medicare is facing unfunded liabilities of more than 38 trillion dollars over the next 75 years. That comes to approximately $328,404 for every single household in the United States.

#30 Right now, there are approximately 56 million Americans collecting Social Security benefits. By 2035, that number is projected to soar to an astounding 91 million.

#31 Overall, the Social Security system is facing a 134 trillion dollar shortfall over the next 75 years.

#32 Today, the number of Americans on Social Security Disability now exceeds the entire population of Greece, and the number of Americans on food stamps now exceeds the entire population of Spain.

#33 According to a report recently issued by the Pew Research Center, on average Americans over the age of 65 have 47 times as much wealth as Americans under the age of 35.

#34 U.S. families that have a head of household that is under the age of 30 have a poverty rate of 37 percent.

#35 The homeownership rate in America is now at its lowest level in nearly 18 years.

#36 There are now 20.2 million Americans that spend more than half of their incomes on housing. That represents a 46 percent increase from 2001.

#37 Forty-Five percent of all children are living in poverty in Miami, more than 50 percent of all children are living in poverty in Cleveland, and about 60 percent of all children are living in poverty in Detroit.

#38 Today, more than a million public school students in the United States are homeless. This is the first time that has ever happened in our history.

#39 When Barack Obama first entered the White House, about 32 million Americans were on food stamps. Now, more than 47 million Americans are on food stamps.

#40 According to one calculation, the number of Americans on food stamps now exceeds the combined populations of "Alaska, Arkansas, Connecticut, Delaware, District of Columbia, Hawaii, Idaho, Iowa, Kansas, Maine, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Dakota, Oklahoma, Oregon, Rhode Island, South Dakota, Utah, Vermont, West Virginia, and Wyoming."

Although the following 41st entry is my own prognostication instead of a statistic, I think it can provide us some emotional redemption from the financial crisis that is now upon us. This prognostication is:

#41 THERE WILL BE MORE MONEY MADE BY ASTUTE INVESTORS FROM THE CURRENT FINANCIAL CRISIS THAN IN ANY TIME IN THE HISTORY OF MANKIND.

D. Miyoshi

DIVIDENDS OR CAPITAL GAINS? - PART 2

Here is one more argument from the stand point of taxes to seek dividend paying stocks written by Chris Hunter of Bill Bonner's *Diary of a Rogue Economist*.

One of the concerns Bill has about dividend investing is that you get hit hard by taxes. But one of the analysts, Jim Nelson says that the tax issue is overblown:

This is a common misperception.

Last December, there was lots of speculation about what Washington was going to do about the expiring Bush tax cuts.

Obama floated the idea of taxing dividends at a different rate than capital gains. And that got a lot of people worried. But that's not what ended up happening.

The agreement finally reached was to increase investment taxes only on the top tax bracket... and only from 15% to 20%. But that increase applies to qualified dividends (which covers nearly all domestic and even many foreign stock dividends) and long-term capital gains.

Contrary to popular belief, dividend income is taxed at the exact same rate as capital gains. But there are plenty of smart ways to minimize the taxes you pay on your dividends.

I recommend income investors split their portfolio in two: stocks for a tax-advantaged account (IRAs, 401ks, etc.) in one half and stocks for a "taxable account" in the other half.

Take Dividend Reinvestment Plans (DRIPs), for example. These are plans offered by companies that allow you to reinvest your dividends, commission free, into more shares.

You should always have these DRIPs in your tax-advantaged account. That means you don't pay taxes on the dividends you receive each year. Instead you'll pay taxes only when you withdraw from these accounts. And those taxes are identical to capital gains taxes.

There are other ways to minimize the taxes you pay on your income too.

When market conditions are right, I recommend Master Limited Partnerships or Real Estate Investment Trusts as ways to compound wealth through income.

Because shareholders in MLPs and REITs are technically "partners" and "trustees," their distribution income is treated differently than traditional dividends.

For instance, a portion of each distribution MLP or REIT shareholders receive is often considered "a return of capital." So even though they received a cash payment in the form of a distribution, it is only added on to capital gains later.

In other words, your taxes are deferred. But your income is not.

A GOOD WAY TO USE CONTRARIAN STRATEGY

Because of these inherent tax advantages, you should definitely hold those in the taxable account portfolio.

Okay... so there are ways to avoid taking hits on your dividend income.

But what about Jim's central claim that dividend investing is a great way to compound wealth over time?

As Bill put it,

This sounds like it would be good for producing income a family might live on...

But to me, it's capital that counts. And I still don't see how this kind of strategy helps you build capital. Surely, you're better off investing in companies that have the most capital gains potential, not the ones that pay out income?

Isn't that how you really build wealth over time? By investing in stocks that offer you the best capital gains?

This certainly makes sense. But Jim reckons it's not so black and white.

Again, if you take an extreme view – either an "income only" view or a "capital gains only" view – you're probably going to lose in the end.

I look for companies that are cheap, offer great capital gain potential AND pay large, growing dividends.

Not only does that give you an ideal situation to reinvest your growing dividends into more shares, it allows you to have more control of your money no matter what stocks are doing.

Let's say we go through another 2008-09 crisis and the S&P 500 falls 50% in a matter of weeks.

Sitting on stocks that don't pay dividends (and only offer potential capital gains down the road) leaves you with no cash to take advantage of discounted prices.

Stocks that pay income work best in these markets.

That's because, if you pick the right dividend-paying stocks, the dividend payments you receive haven't fallen, but prices are cheaper. So your dividends can buy even more shares than before.

Market volatility is almost always seen as a negative. But as an income investor, I love when markets dip. Because I am able to take advantage of this in ways others can't. (I have regular cash payments, in the form of dividends, I can put to work.)

Again, if done in a tax-advantaged account, there are no extra tax consequences to this strategy.

A GOOD WAY TO USE CONTRARIAN STRATEGY

By Evaldo Albuquerque, Editor of *Retirement Strategist*

In October 2011, *The Economist* magazine featured the following headline: "The world economy: Be afraid."

At the time, investors were jittery because of the debt-ceiling debate in the U.S. and the ongoing debt crisis in Europe. With a picture of a black hole on its cover, the magazine suggested the global economy was heading into dark times.

The article read: "Even if a catastrophe in Europe is avoided, the prospects for the world economy are darkening, as the rich world's fiscal austerity intensifies and slowing emerging economies provide less of a cushion for global growth. These developments point to a perilous period ahead."

So, how have stocks performed since that gloomy prediction?

Well, both U.S. and European stocks have rallied 50%!

This provides us with a valuable lesson.

Mainstream magazines, such as *The Economist*, publish cover stories about popular topics in their respective niches. They don't really care about providing sound advice. Their goal is to sell issues.

When something appears on the cover of a financial magazine, it usually means the investment story – while still important – has already been priced into the market.

That's why you will never make money by following the mainstream media. They're always behind the curve. In fact, savvy investors use the mainstream media as a contrarian indicator.

Playing Media Memes for Profits

Let's look at another example.

In November 2009, the cover headline of *The Economist* was "Brazil takes off." That year, the Brazilian economy grew an impressive 7%. Investors were bullish on Brazilian stocks, which had doubled the previous year.

Here's the consensus view that The Economist reported at that time:

"Brazil is also on a roll. It did not avoid the [2008] downturn, but was among the last in and the first out. Its economy is growing again at an annualized rate of 5%. It should pick up more speed over the next few years as big new deep-sea oil-

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fields come on stream, and as Asian countries still hunger for food and minerals from Brazil's vast and bountiful land."

So, how would you have fared if you listened to *The Economist*'s advice back then and invested in Brazilian stocks?

Not very well. Four years later, the Brazilian stock market is still down 20%.

This weekend, *The Economist* published another story on Brazil. Everyone knows its economy isn't doing well these days. So, guess what the magazine's cover story is?

"Has Brazil blown it?"

The article states that a lot has changed since the magazine published its "Brazil takes off" story in 2009. In short, the piece points out that the Brazilian government failed to implement necessary reforms, such as increasing infrastructure investment, reducing import tariffs and implementing pension reform.

Once again, *The Economist* is only reporting a popular, consensus opinion. After four years of poor performance, investors have fallen out of love with Brazil.

The Economist's Poor Market Timing

We can see that *The Economist* published its "Brazil takes off" story after Brazilian stocks had already rallied 105%. It timed the peak of the market almost perfectly. Since then, the Brazilian stock-market index Bovespa is down 20%.

Now that we have *The Economist* publishing a bearish story on Brazil, I have Brazilian stocks on my watch list. Once I see additional signs of a turnaround, I will be looking to invest in Brazil.

Remember, it's important to pay attention to what the mainstream media is reporting. They're always behind the curve. Use their stories as a contrarian indicator. You can usually gain some stellar returns by doing the very opposite of what they suggest.

WHAT DOES A SUCCESSFUL INVESTOR NEED TO KNOW?

This is as question I get asked many times. Although at business school, we studied the general principles of investing, we never boiled it down to a one page "punch list" of rules that investors need to follow to insure the best chance of earning profits. It appeared my professors desired to broach the subject using a more academic methodology. But the average investor is more interested in action points leading to profits rather than a scholarly thesis on why an investment should result in a profit or loss.

In a recent article Dr. Steve Sjuggerud of *Stansberry Research Publications* gave 10 important basic points leading to successful investing. These points boil down an entire investing class into three minutes of concise useful knowledge points. They are presented below.

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1. You aren't going to get rich overnight through investing.

A proper investment is one that has at least a two-year horizon. Said another way… Any investment that can double your money in a month is likely risky. You could lose all your money just as quickly. If you don't adjust your thinking in line with this, chances are you'll end up losing a lot of money.

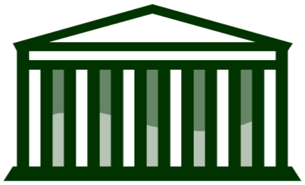
2. Start small. That keeps your investing "tuition cost" low.

I don't mean "tuition cost" in the traditional sense… I call your "investing tuition" the money that you inevitably lose on your first investments because of something you didn't know or understand. Start small, and keep that tuition cost low.

3. Don't invest in something you don't understand.

One of the fastest ways to lose money is to put your funds into something you don't really understand. If you don't understand how you'll make money on the investment – and you can't point out your risks – you are not ready for that investment. Go study some more. And if you still don't understand, simply skip that investment.

WHAT DOES A SUCCESSFUL INVESTOR NEED TO KNOW?



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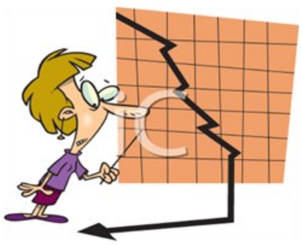

Financial Crisis Report

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He is CEO of Miyoshi Capital LLC, an international investment advisory company. In Vietnam, he led a Combined Action Platoon as an officer in the U.S. Marine Corps.

He is listed in 14 Who's Who publications and specializes in international business and finance.

4. What's a good return these days?

Is 5% a good return? A decade ago, 5% was a bad return… But today, 5% is (sadly) a good return on your safe money. That's because banks today are paying near-0% interest. And you get paid less than 2% for putting your money away for 10 years. Any more than that and you are taking on real risk.

5. Where should you invest now?

Younger investors (under age 50) should focus their learning on property and the stock market. Both property (in Florida, at least) and stocks are the best values they've been in decades (with the exception of the March 2009 bottom in stocks). I could be wrong. You could lose money. But I think these are your best shots at making "real" money investing in the next three to five years.

6. Don't put all your eggs in one basket.

Don't put your entire net worth in one property… And make sure you spread your stock holdings around as well by first investing in funds that hold a bunch of stocks. Something like the SPDR Dow Jones Industrial Average Fund (DIA) – which holds 30 stocks, including IBM, ExxonMobil, and Wal-Mart – is a good, "one click" way to own a basket of stocks.

7. History repeats – or at least it rhymes.

It's amazing how investors never learn that history repeats. The recent bust in property prices is a good example. In 2006, people thought property prices could never go down. And now, people think property prices can never go up. The truth is somewhere in between.

Keep in mind… you want to SELL an investment when it's expensive and everybody loves it (like housing in 2006). And you want to BUY an investment when everybody hates it (like housing today). But…

8. Don't fight the trend.

To increase your odds of making money, you don't want to try to catch a falling knife. That is gambling, not investing. Instead, it is much safer to grab that knife once it's hit and settled a bit. In other words, don't buy a stock that is going down. Instead, buy something that has started going up…

9. Cut your losses early.

There's no better way to prevent massive losses than to set – and stick to – an exit strategy on every investment you make. It's the simplest thing you can do to continually increase the value of your portfolio. The best way to do this is by using a "trailing stop."

10. When in doubt, don't do it.

If you have any doubt about putting your money into a new investment… don't do it. Instead, keep reading and learning. That keeps your investing "tuition cost" way down!

These are rules to live by. And they're not just for beginners. Every investor – experienced or novice – should stick to these rules.

Past issues of the *Financial Crisis Report* can be found at the company website www.miyoshicapital.com

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