



# Financial Crisis Report

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## Advancing in a Time of Crisis

### WHY OBAMA WON (or more precisely why Romney lost)

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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.

This is a provocative article by a Rabbi from Teaneck, N.J. It is a most succinct and thoughtful explanation of how our nation is changing. The article appeared in The Israel National News, and is directed to Jewish readership. Seventy percent of American Jews vote as Democrats. The Rabbi has some interesting comments in that regard.

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By Rabbi Steven Pruzansky who is the spiritual leader of Congregation Bnai Yeshurun in Teaneck, New Jersey.

The most charitable way of explaining the election results of 2012 is that Americans voted for the status quo – for the incumbent President and for a divided Congress. They must enjoy gridlock, partisanship, incompetence, economic stagnation and avoidance of responsibility. And fewer people voted.

But as we awake from the nightmare, it is important to eschew the facile explanations for the Romney defeat that will prevail among the chattering classes. Romney did not lose because of the effects of Hurricane Sandy that devastated this area, nor did he lose because he ran a poor campaign, nor did he lose because the Republicans could have chosen better candidates, nor did he lose because Obama benefited from a slight uptick in the economy due to the business cycle.

Romney lost because he didn't get enough votes to win.

That might seem obvious, but not for the obvious reasons. Romney lost because the con-

servative virtues – the traditional American virtues – of liberty, hard work, free enterprise, private initiative and aspirations to moral greatness – no longer inspire or animate a majority of the electorate.

The simplest reason why Romney lost was because it is impossible to compete against free stuff.

Every businessman knows this; that is why the “loss leader” or the giveaway is such a powerful marketing tool. Obama’s America is one in which free stuff is given away: the adults among the 47,000,000 on food stamps clearly recognized for whom they should vote, and so they did, by the tens of millions; those who – courtesy of Obama – receive two full years of unemployment benefits (which, of course, both dis-incentivizes looking for work and also motivates people to work off the books while collecting their windfall) surely know for whom to vote. The lure of free stuff is irresistible.

The defining moment of the whole campaign was the revelation of the secretly-recorded video in which Romney acknowledged the difficulty of winning an election in which “47% of the people” start off against him because they pay no taxes and just receive money – “free stuff” – from the government. Almost half of the population has no skin in the game – they don’t care about high taxes, promoting business, or creating jobs, nor do they care that the money for their free stuff is being borrowed from their children and from the Chinese. They just want the free stuff that comes their way at someone else’s expense. In the end, that 47% leaves very little margin for error for any Republican, and does not bode well for the future.

It is impossible to imagine a conservative candidate winning against such overwhelming

**WHY OBAMA WON (or more precisely why Romney lost) - continued**

odds. People do vote their pocketbooks. In essence, the people vote for a Congress who will not raise their taxes, and for a President who will give them free stuff, never mind who has to pay for it.

That engenders the second reason why Romney lost: the inescapable conclusion that the electorate is ignorant and uninformed. Indeed, it does not pay to be an informed voter, because most other voters – the clear majority – are unintelligent and easily swayed by emotion and raw populism. That is the indelicate way of saying that too many people vote with their hearts and not their heads. That is why Obama did not have to produce a second term agenda, or even defend his first-term record. He needed only to portray Mitt Romney as a rapacious capitalist who throws elderly women over a cliff, when he is not just snatching away their cancer medication, while starving the poor and cutting taxes for the rich.

During his 1956 presidential campaign, a woman called out to Adlai Stevenson: “Senator, you have the vote of every thinking person!” Stevenson called back: “That’s not enough, madam, we need a majority!” Truer words were never spoken.

Obama could get away with saying that “Romney wants the rich to play by a different set of rules” – without ever defining what those different rules were; with saying that the “rich should pay their fair share” – without ever defining what a “fair share” is; with saying that Romney wants the poor, elderly and sick to “fend for themselves” – without even acknowledging that all these government programs are going bankrupt, their current insolvency only papered over by deficit spending.

Similarly, Obama (or his surrogates) could hint to blacks that a Romney victory would lead them back into chains and proclaim to women that their abortions and birth control would be taken away. He could appeal to Hispanics that Romney would have them all arrested and shipped to Mexico and unabashedly state that he will not enforce the current immigration laws. He could espouse the furtherance of the incestuous relationship between governments and unions – in which politicians ply the unions with public money, in exchange for which the unions provide the politicians with votes, in exchange for which the politicians provide more money and the unions provide more votes, etc., even though the money is gone.

Obama also knows that the electorate has changed – that whites will soon be a minority in America (they’re already a minority in California) and that the new immigrants to the US are primarily from the Third World and do not share the traditional American values that attracted immigrants in the 19th and 20th centuries. It is a different world, and a different America. Obama is part of that different America, knows it, and knows how to tap into it. That is why he won.

Obama also proved again that negative advertising works, invective sells, and harsh personal attacks succeed. That Romney never engaged in such diatribes points to his essential goodness as a person; his “negative ads” were simple facts, never personal abuse – facts about high unemployment, lower take-home pay, a loss of American power and prestige abroad, a lack of leadership, etc. As a politician, though, Romney failed because he did not embrace the devil’s bargain of making unsustainable promises.

It turned out that it was not possible for Romney and Ryan – people of substance, depth and ideas – to compete with the shallow populism and platitudes of their opponents. Obama mastered the politics of envy – of class warfare – never reaching out to Americans as such but to individual groups, and cobbling together a winning majority from these minority groups. If an Obama could not be defeated – with his record and his vision of America, in which free stuff seduces voters – it is hard to envision any change in the future. The road to Hillary Clinton in 2016 and to a European-socialist economy – those very economies that are collapsing today in Europe – is paved.

For Jews, mostly assimilated anyway and staunch Democrats, the results demonstrate again that liberalism is their Torah. Almost 70% voted for a president widely perceived by Israelis and most committed Jews as hostile to Israel. They voted to secure Obama’s future at America’s expense and at Israel’s expense – in effect, preferring Obama to Netanyahu by a wide margin. A dangerous time is ahead. Under present circumstances, it is inconceivable that the US will take any aggressive action against Iran and will more likely thwart any Israeli initiative. The US will preach the importance of negotiations up until the production of the first Iranian nuclear weapon – and then state that the world must learn to live with this new reality.

But this election should be a wake-up call to Jews. There is no permanent empire, nor is there is an enduring haven for Jews anywhere in the exile. The American empire began to decline in 2007, and the deterioration has been exacerbated in the last five years. This election only hastens that decline. Society is permeated with sloth, greed, envy and materialistic excess. It has lost its moorings and its moral foundations. The takers outnumber the givers, and that will only increase in years to come. The “Occupy” riots across this country in the last two years were mere dress rehearsals for what lies ahead – years of unrest sparked by the increasing discontent of the unsuccessful who want to seize the fruits and the bounty of the successful, and do not appreciate the slow pace of redistribution.

If this election proves one thing, it is that the Old America is gone. And, sad for the world, it is not coming back.





### A BASIC LESSON IN STOCK INVESTING

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The principal purpose of this newsletter is to provide you a “global perspective” of the dislocating factors involved in the declining economic conditions throughout the world today and for some, perhaps unique insights into how to take financial advantage of these conditions. However, as I have learned the hard way, if one wants to make profits by investing in stocks, researching the macro issues and the grand developments pronounced by the financial media such as the GDP, The FMOc decisions, Consumer Price Index, etc., will not help you much.

As Dan Ferris writes in his well-known investment advisory publication *the 12% Letter\**,

Most people base their investing decisions on economic data, forecasts, and what they hear in the media. They obsess over unemployment numbers... the Producer Price Index... housing numbers... interest rates... factory orders... industrial capacity utilization... the Baltic Freight rate...

But the wisest, richest investors in the world say to forget it.

Business partners and billionaire investors Warren Buffett and Charlie Munger, for example, have been investing their own and other people's money for 47 years. And in all that time, they claim they've never had a single conversation about the economy. They simply don't waste time on it.

The vice chairman of investment firm Fidelity, Peter Lynch, is one of America's top money managers. He says if you spend 13 minutes thinking about economic and market forecasts, you've wasted 10 minutes. It's just not worth thinking about.

In other words, stock market investors who think it's important to worry about where the economy is headed are simply dead wrong. Every minute you spend worrying about macro data has zero value to you as an investor.

Everywhere you look, the financial news media are constantly trying to connect the two. They're obsessed with pretending to know what you should buy and sell based on all the economic data pouring out of governments, Wall Street banks, and talking heads every day. But it's all useless noise. Most of that economic news has little value at all for investors.

Instead of worrying about all that, stick to studying great businesses.

Stocks like Wal-Mart and McDonald's thrive in recessions as consumers pinch pennies. Consumer-products giant Procter & Gamble steals market share from its competitors during tough times because it has enough cash to maintain its advertising. In 2009, Berkshire Hathaway used its enormous cash hoard to make incredible deals with cash-

strapped firms who couldn't access credit anymore.

For every great business like these, there's somebody who thinks a macro wind will crush it. He has failed to learn one of the greatest lessons anyone can learn, if he seeks riches in the stock market: Great businesses are great because they can ride out and even exploit macro problems.

Great businesses aren't cyclical. They don't get better or worse with the economy. They stay profitable and continue to gush free cash flow and pay higher dividends every year.

If you focus on buying great businesses, you can turn down the volume on cable news' fretting about Europe's debt, Obamacare, and the Fed's latest pronouncement.

So don't let macro fears prevent you from buying great businesses and compounding your wealth with great stocks.

Finally, let's conclude with what may be the single most important piece of trading wisdom in the world. That is to say “It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong”.

That quote is attributed to George Soros. Whatever opinion you might have on his political and moral beliefs, he's one of the world's greatest traders. He's worth billions of dollars and he earned almost all of it trading the markets. This idea is vitally important because it describes the only way to win trading the markets: You must learn to maximize your winners and minimize your losers. If you can do this consistently, you can make a fortune being right just half the time.

Naturally, we would like to be right more often than we are wrong. But when we are wrong (and we will be wrong) we want to be wrong for a very short period of time and we want the “wrongness” to produce small losses. In other words, we want to make a lot when we are right and lose a little when we are wrong. To do this we need to use tighter stop losses of 10% to 20%. If we use a wider stop loss such as 25% we suggest taking a smaller position size to minimize the losers. Also, by using trailing stops instead of “target prices” to trigger our exit, we're letting the trades that work in our favor run as far as they possibly can and thus maximize our winners.

Hopefully, these suggestions may improve your market trading performance.

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## GLOBAL FORECAST FOR EARLY 2013

**S**ocial unrest will remain a prominent theme into 2013..

Europe is perhaps the most obvious illustration of this trend. We will see another quarter filled with high-profile meetings as EU leaders cling to the idea of integration as a path toward resolving the current crisis. The markets may find some temporary relief as further stopgap measures are discussed, but European governments will find themselves caught between the demands of the European Union and more pressing demands at home. Ongoing protests in Spain, Greece and Portugal will expose Europe's contradictory impulses of austerity and integration.

**Eurozone's Structural Problem**

The ongoing economic crisis will dominate discussions at the monthly EU ministerial and heads of state meetings. EU officials and member countries will debate proposals aimed at overcoming the eurozone's structural problems and centralizing oversight, but no concrete measures will be implemented during the quarter. Talks will likely center on the creation of a potential banking, fiscal and political union; the structure of the EU budget for 2014-2016; and potential changes to the EU treaty. Debates over these issues will demonstrate how differing national interests are exacerbating the divide between eurozone and non-eurozone members, prolonging Europe's crisis.

While members of the political elite manage the financial crisis in the near term and debate long-term structural reforms, popular discontent throughout Europe will grow. In countries with high unemployment, such as Greece, Portugal, Spain and Italy, we can expect to see protests, strikes and discord within government coalitions as spending cuts for the 2013 budgets are decided. This discontent will slow the implementation of structural reforms, but is unlikely to cause the collapse of any government in the European core.

Germany will continue to be the strongest advocate for centralized supervision and austerity in overcoming the crisis. However, Berlin will continue to accept a relaxation of austerity measures in troubled eurozone countries and will not derail further bailout efforts. This paradox will lead to conflict within Germany's conservative governing coalition, especially as parties start positioning themselves for the parliamentary elections set for September or October of 2013.

French President Francois Hollande will be forced to apply unpopular austerity measures that contradict his campaign promises. Though the austerity measures will be unpopular, they will still be approved at the parliamentary level. However, on a Europe-wide level, Hollande will argue for less austerity and will show skepticism toward Germany's plans to overcome the European Union's structural crisis.

To shift attention away from domestic economic problems, the French government will highlight France's role on the international stage. Paris will continue to be the strongest European supporter of an international military intervention in Syria, in part to reassert influence in its former colonial sphere in the Mediterranean basin. However, France's efforts will not have a decisive impact this quarter due to the complexity of the conflict, a lack of U.S. interest in deepening its involvement, and continued fissures within the Syrian opposition. On the diplomatic level, France will try to help the Syrian opposition consolidate its leadership and work with other Western countries to create the conditions for further defections in the hopes of accelerating the fall of Syrian President Bashar al Assad's regime.

The European slowdown will weigh down China, as the country's high-growth, coastal export-oriented model continues to wane. China's leadership will undergo its much-anticipated leadership transition this quarter, a period in which the Communist Party will struggle to demonstrate unity amid worsening economic conditions. The Chinese leadership will be looking for additional release valves for social and economic pressures at home. At the same time, the Party is also learning the limits of exploiting nationalist sentiment in public protests as it faces an underlying fear of having public discontent turn on the Party itself.

Labor and social unrest will likely rise this quarter as overall economic activity slows, but with the leadership transition under way, Beijing will work even harder to maintain tight security and social media controls. Even if unemployment-related social tensions ease slightly during the holiday season, unrest over working conditions in the country's manufacturing sector is likely to continue. In search of alternative release valves for domestic social pressure, Beijing may allow anti-Japanese demonstrations to continue on a limited basis. But because such displays can quickly transform into protests on problems within China or the Party itself, the central government will attempt to keep them to a minimum.

**Maritime Disputes**

At a regional level, maritime tensions will not likely rise beyond the peak reached during the first half of 2012 as Chinese, Japanese and South Korean leaders focus on internal political transitions, domestic issues and, in South Korea's case, a presidential election. The Diaoyu/Senkaku Islands dispute in the East China Sea cannot be resolved through diplomacy. Therefore, unless any country involved wants to start a war -- and we do not believe this is the case -- each will try to prevent the ultimately rhetorical battle intended for domestic audiences from escalating into an open conflict. Nonetheless, as fishing season begins in the waters around the Diaoyu/Senkaku chain, the possibility of small-scale provocations and even conflict cannot be completely ruled out.

Russia faced a tense fourth quarter in 2012 with pockets of political opposition preparing for regional and municipal elections. Spreading disillusionment with Russian President Vladimir Putin's United Russia party threatens to undermine the Kremlin's political machinery at a time when social and ethnic tensions are rising. However, a contentious debate over Russia's federal budget for the next three years reveals that internal security -- and thus the Kremlin's propensity to engage in more stringent crackdowns -- will not be compromised.

**Russia's Relations with the West**

Russia's relationship with the West will remain complicated as tensions with the United States grow and new disagreements with Europe emerge.

Relations with the United States will continue to be tense due to trade and diplomatic issues. In the third quarter of 2012, Russia was forced to reassess its position on Syria, a key pressure point it used with Washington. Russia could exploit the stalemate in Syria in the near future to maintain a stake in the negotiation over the country's transition. Russia will likely be more reserved in openly defying the West on Syria this quarter, but Moscow will maintain its influence over al Assad's regime through possible oil shipments, weapons sales and loans.

Russia's larger problems with the West are in Europe, where Central European countries are trying to undermine Russia's energy leverage on

GLOBAL FORECAST FOR EARLY 2013



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the Continent. Moscow recognizes that its energy presence in Poland and the Baltics is declining, but it will not be without options as it accelerates plans for new pipelines and looks for deals with other countries. In the fourth quarter, Russia will be able to manage the EU legal push against Gazprom's assets while it works on long-term deals with strategic energy partners for the future, such as Bulgaria and Croatia.

While civil war persists in Syria, social unrest will remain a defining feature of the Arab world. The initial euphoria of the Arab Spring has given way to a tumultuous struggle among clans and factions over the political evolution of fledgling democratic states. One country that deserves close attention this quarter is the oft-overlooked Hashemite Kingdom of Jordan, where social agitation against the monarchy is entering a more serious phase.

The Arab Spring, Phase Two

Though civil war continues in Syria, much of the Middle East's attention has shifted away from overthrowing unpopular regimes to the contentious issue of defining the political values of weak, newly democratic states. Islamist forces, both moderate and radical, will try to shape the political evolution of states in the region, especially those that have undergone some degree of political transformation since the Arab Spring began in the fourth quarter of 2010, namely Libya, Egypt, Tunisia and Yemen. The lack of institutional control in many of these states will allow a variety of political forces to exploit anti-U.S. and anti-Israeli sentiment in the streets. While this trend is unlikely to translate into transnational jihadist activity on the scale al Qaeda achieved in the early 2000s, localized mob violence, political protests and sporadic attacks will characterize this new phase of the Arab Spring and expose the limitations of U.S. influence in the region.

Iran also may not be immune to this trend, as the U.S.-led economic warfare campaign against the country's financial system begins to take a toll on Iran's currency. Iran still has the tools to manage public unrest and garner the cooperation of its frustrated merchant class this quarter, but the economic constraints on the regime are rising, as are the hopes of outside powers looking to halt Iran's regional ascent. Beneath the saber rattling over a potential U.S. or Israeli strike against Iran -- a scenario that Stratfor considered unlikely in 2012 -- the

underlying social and economic tensions in Iran and how they intersect with the regime's internal power struggle need to be watched closely in the months ahead.

Iran-U.S. Competition

Regional tensions over Iran will remain high through the quarter. In spite of its continued threats, Israel is unlikely to risk a unilateral strike against Iran, and the United States does not have the appetite for such a military engagement. However, Israel will use the politically sensitive presidential election season in the United States to try to extract security guarantees on a potential coordinated strike in the future. An underlying U.S.-Israeli disagreement over what constitutes a "redline" for a strike will hamper Israel's efforts in this regard.

The United States will put off the question of a strike through further demonstrations of its military capabilities in the Persian Gulf and a sustained economic warfare campaign against Iran. Though the sanctions are not airtight, the regime's struggle in managing the depreciation of the rial will agitate the country's critical merchant class, thereby threatening to provide momentum for wider social unrest. The Iranian government will deploy a heavy security presence to enforce a stricter currency regime with traders and to contain potential unrest, but the growing economic stresses will continue to drain foreign exchange reserves while also widening regime fissures.

Iran will not be sufficiently threatened by such pressure tactics to alter its position on the nuclear issue this quarter, but it could try to engage the United States (using Turkey as a possible mediator) regarding Syria. Limited concessions may be aired in backchannel talks as Iran tries to shape the negotiations over a post-al Assad transition in Syria and to preserve a political space for its Lebanese proxy Hezbollah in the long term. Iran will use the current stalemate in Syria to explore this dialogue with Washington, but political constraints on both sides will likely prevent more substantial negotiations from developing.

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