



# Financial Crisis Report

Written and Edited by David M. Miyoshi

## Advancing in a Time of Crisis

### AMERICA'S OBLIVIOUS SOCIALISM

#### Inside this issue:

1. **America's Oblivious Socialism**
2. **The One Rule to Generate Profits**
3. **The best Economics Book I Ever Read**

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.

I wonder how many Americans consider themselves to be socialists? For sure, not me. But yet some of the tenets I hold may lend themselves to that very question.

As an economic model, socialism is now dead. It's death knell sounded with the collapse of the Soviet Union in 1989. But as a way of approaching problems, socialism appears very alive and well in America as well as in Europe and beyond. Why is that?

When I look at my extended family, I see a few of the members who are now grandparents spending their time taking care of their grandchildren. Yet, when I see most American families, it's not the grandparents but a child care service or the like looking over the children. Having grandparents taking care of grandchildren has become a rare practice in American society.

But if we look at history as described by Richard Maybury (*Early Warning Report*\*), we gain a very perceptive explanation of what has transpired.

According to Maybury, for thousands of years before the 20th century, the "extended family" was the norm. Parents and grandparents lived with or near their offspring, in tribes or clans.

It is not hard to imagine some of their economic practices, particularly specialization of labor, and the child-rearing routine growing from it.

The healthy young parents were out every day doing the dangerous, exhausting work. Males were risking their lives hunting mas-

todons, and women were dodging rattlesnakes in the effort to dig up roots, and squirm through briar patches for berries.

With the strong young parents doing the heavy lifting, the child-rearing was left to older members of the family, the grandparents.

It was a great system for raising kids. The parents were too young to know much, but grandparents had some wisdom, including, very likely, skepticism about fads.

Now let's fast forward to the 20th century. Family life changed drastically. The Federal Reserve's stop-start monetary policy caused hot and cold spots to dance all over the landscape. Extended families were destroyed as the members scattered to the four winds in search of jobs.

All that remained was the "nuclear" family. For the first time, children were raised by their parents. Grandparents, who often lived hundreds or thousands of miles away, faded from the child-rearing scene.

Parents realized they didn't know much and began reading books and articles about child-rearing. These items were written by "experts."

That's when today's economic Godzilla was hatched.

Socialism had become the latest craze – the hot new political and economic fad – and like other intellectuals, the child-rearing experts had bought into it.

The opportunity left by the breakup of the extended family enabled these socialists to take advantage of the naiveté of young par-



**AMERICA'S OBLIVIOUS SOCIALISM (continued)**

ents.

The experts spun off various child-rearing ideas based in socialist theory, but rarely disclosed this bias in their writings. Socialism was known in those days as "scientific socialism," and the experts said they were not being socialistic so much as they were being scientific.

Thus, the World War II generation was unknowingly raised under these socialist theories, which they passed along to their kids – the baby boomers – and so on thereafter.

A premise of these socialist theories is that the child's mind is the property of the state. The plan is that the mind should be programmed for statist purposes, to produce a harmonious society in which each person is a well-disciplined cog in the machine, and the machine is guided by – you guessed it – professional socialists.

The objective was to raise a nation of sheep who would understand nothing except their jobs and, perhaps, sports and entertainment.

In other words, each child was to be raised as a flaming statist with complete faith in the government's ability to plan and organize the economy. No one said it so bluntly, but that was the scheme. Like the socialists in China and the USSR, those in the U.S. were trying to create "the new socialist man," who would believe everything the government said and follow its every order.

In case parents botched the job, the education system became a backup. Schools in Gary, Indiana had been converted to a regimented, mass-production system, called platoon schools. In 1914, this merciless "Gary Plan" was adopted by the Federal Bureau of Education, then foisted onto the whole country. It's the system we have today.

In the 1940s, socialist George Orwell jumped ship and tried to warn against the brainwashing in his novels *Animal Farm* and *1984*, but he was too late. The last generation to be raised outside the great socialist experiment was born before 1910.

When that generation went to their graves, they took with them thousands of years of accumulated grandparenting wisdom. This wisdom was replaced by the ruthless procedures for creating the new socialist man.

If you will examine the behavior of the three baby-boomer presidents – Clinton, Bush, and Obama – I think you will see the middle-aged results of this kind of upbringing: an unquestioning religious faith in political power. The solution to

every problem is more government.

These presidents are not unusual. In millions of cases, the socialists were successful in creating their new breed of human.

And today, as you read this, some of their star pupils – or maybe I should say star victims – are in the White House and Congress, deciding what will happen to the rest of us.

You can't make socialists out of individualists. Children who know how to think for themselves spoil the harmony of the collective society. – John Dewey, 1859-1952, socialist, "father of modern education," member of 15 Marxist organizations, and admirer of Soviet education.

This gives us a lot of insight into what they are likely to do to us economically. It all leads to the same place, more power for the government and less freedom, peace, and abundance for us, until the economy collapses under the burden – because socialism does not work.

In other words, even in the most conservative Republican households, the World War II generation and all subsequent generations have been raised as guinea pigs in a grand socialist experiment, and very few of them realize it.

Some of us fell through the cracks — readers of the *Early Warning Report*, for instance — but nearly the whole population has been raised to be worker bees in a vast hive, and to expect the queen bee in the White House to do their thinking for them and solve their problems.

This process was repeated almost identically all over the world because, for roughly a century, nearly all intellectuals were socialists. And grandparents, who had some wisdom and skepticism, had been removed from the child-rearing mix.

The trouble with socialism is that you eventually run out of other people's money. — Margaret Thatcher

Today's economic crisis is the beginning of the failure of the global socialist experiment. The entire world population is starting to realize that all the queen bees in all the world's capitals are as lost as they are.

I think the psychological shock will be similar to that experienced by freed slaves at the end of the Civil War. Millions will have no idea how to get along without an owner to tell them what to think and do.

Again, socialism was originally called scientific socialism. A member of the WWII generation once told Maybury about





AMERICA'S OBLIVIOUS SOCIALISM

her mistakes. She said scientific child-rearing was all the rage when her baby boomer children were young. And the experts made her paranoid about germs. Following their instructions, she kept her first child's environment as sterile as possible.

In the crucial early years of his life, she rarely touched her child for fear of contaminating him.

Long after, she realized a more mature woman would never have fallen for such cold-hearted nonsense.

In addition to an obsession with cleanliness, parents were taught that right from birth, children should be instilled with strict discipline and should not be "spoiled" by hugging them when they cried.

All children were the same and required no individualized rules or care. Sweeping generalizations – such as, children need... and children should be – were applied wholesale to millions around the world. And this woman followed these generalizations.

As the sapling is bent, so grows the tree. Ever since that conversation, Maybury has wondered about the crazy, mechanistic social-engineering schemes governments have foisted onto us, especially the Federal Reserve's monetary policies. How many of these brutal schemes have been created by politicians and bureaucrats who were raised in that frigid, mechanical, neverhug-the-child way? Are these people cold and distant, incapable of caring about those they are harming?

Dr. Benjamin Spock became widely hated for trying to remove the callousness from child-rearing.

Again, as the sapling is bent. And if we judge a tree by its fruit, then the people in charge of economic policy certainly must be bent.

If you are married this awareness that we are all part of a century-long socialist experiment, may be of some help in averting domestic discord. Remind yourself often that in the most important years of your life – the first 10 – you and your spouse were probably raised by very young people who were totally baffled and much better-suited for picking berries and battling mastodons than caring for children.

Over the years, Maybury has seen many dozens of children raised by people who were, themselves, still children.

If you think you might be one of the victims of the great socialist experiment, here are some of the books that helped Maybury realize that statism isn't the only way to view the world...

- Planned Chaos by Ludwig von Mises.
- Road to Serfdom by F.A. Hayek.
- What Has Government Done to Our Money? by Murray Rothbard.
- Capitalism, the Unknown Ideal by Ayn Rand.

One thing we can be sure of is regardless of how smooth and caring government officials look on camera, they will continue being ruthless and unfeeling, because they would not have their jobs if they weren't.

These people are Dr. Frankensteins, conducting a social-engineering experiment in which I, you, Maybury and those we love are their guinea pigs.

Anyone who thinks these Frankensteins will do something that's good for the guinea pigs must have been born yesterday. The Frankensteins will do whatever they think is necessary to make their vile experiment work.

Remember the comment by Obama's chief of staff Rahm Emanuel... He said today's economic tragedy is "an opportunity to do things you could not do before... You never want a serious crisis to go to waste."

As a child, what were you?

Socialist guru Aleksandra Kollontai (1872-1952) once wrote that, after a woman has a child, "she no longer belongs to herself, she is serving the collective, producing from her own flesh and blood a new social unit of labor."

So there you have it. When we were children, we saw ourselves as children. To the pediatric and educational experts guiding our unsuspecting parents, we were social labor units.

As an economic model, socialism is stone dead. It does not work. It's an economic Godzilla. But as an unconscious, cold-hearted knee-jerk reaction to trouble, socialism is thriving. It's how we were raised.

Maybury is beginning to suspect that we are entering the most chaotic period in human history. Again, Maybury can't think of any way this economic calamity won't lead to riots, and he hopes you are building your emergency preparations.

I am definitely in his corner.

D. Miyoshi

\*for subscription information [www.chaostan.com](http://www.chaostan.com)



## THE ONE RULE TO GENERATE PROFITS

### The One Rule to Generate Profits: Follow the Money

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

I spent 17 years as a financial journalist with *The Wall Street Journal*, and there's one rule of the game you learn early on: *Follow the money.*

If you go where the money trail leads, you will typically find the reason behind the trend you're investigating.

The same holds true for investors. Follow the money and you will inevitably find the trends you should be invested in for the long haul ... which is why my *Emerging Market Strategist* subscribers are so heavily invested in Asia today.

Money is pouring into Asia and, equally important, it's flowing throughout the continent as prosperity explodes from China to Indonesia. Indeed, over the past decade every emerging market in Asia, same for Taiwan, annihilated the returns dished up by the S&P 500. (In fact, every emerging market in the world, as tracked by MSCI-Barra, annihilated the S&P 500.)

Consider that while the S&P picked up about 5.2% in the 10 years that ended Dec. 31, China gained more than 16%. Indonesia raced ahead by nearly 26%. South Korea, the Philippines and Thailand all notched gains of between 12% and more than 16%.

Simply put, the emerging markets – and, specifically, Asia – remain the destination that smart investors should be steering toward today. A few examples my *EMS* subscribers experienced in 2012 serve to illustrate the kinds of unique opportunities that arise in emerging economies and which you just don't find when you stick solely to U.S. markets. I am a Southern boy, which, by cultural definition, means I am a tea drinker – specifically, an iced-tea drinker. So it is, then, that every time I'm in Asia, I hunt down the nearest convenience store (they're just about on every street corner, literally) and I go grab multiple bottles of iced jasmine green tea to take back to my hotel room.

The abundance of iced-tea options inside the average convenience-store cooler is astounding. As someone always

looking for investment trends, the sheer number of teas compelled me to investigate why it is that in a land where hot tea is a high art, iced tea has gained such a foothold.

Turns out that iced tea is one of the hottest beverages in Asia, particularly in China, where consumption is growing at 20% a year – nearly seven times the growth rate for soft drinks like Coke and Pepsi. And in China, one of the two leading iced-tea makers is a company traded in Hong Kong – Uni-President China.

The company not only produces the iced jasmine green tea that I'm partial to, it's also a leading maker of instant noodles, another high-growth food category in a region of the world where spending on food convenience is rising rapidly alongside a burgeoning middle class.

*EMS* subscribers picked up the shares just as Uni-President China was in the process of rationalizing its operations and its brands. The benefits of that took a few months to play out, but once it did, sales growth ramped up to about 15% year ... and the stock took off.

Subscribers who grabbed Uni-President China shares ultimately pocketed gains of 64% – in a product as basic as iced tea.

A Food Play on a Massive Trend: Consuming More Calories And then there was the story of the three Chinese who died in a supermarket stampede. They were part of a crowd rushing to grab a limited supply of palm oil that was on sale that day.

Americans rarely consider palm oil. The oil-palm trees don't grow here, and, as such, we've grown up as a culture using corn oil, canola and other types of cooking oils. In Asia and elsewhere in the world, however, palm oil is the oil of choice ... and, more important to poor people trying to stretch their food dollars as far as possible, palm oil is a cheap source of calories in diets all too thin on calories.

This is the kind of unique opportunity I seek in the emerging markets – a play on trends that most Western investors aren't even aware of, but which are massive in their size and long in their duration. The emerging middle class, after all, is a trend that spans billions of new consumers and will last for at least the next three decades. And those people increasingly use their newfound wealth to add calories to their diets.



THE BEST ECONOMICS BOOK I EVER READ

Because of palm oil’s close relationship with emerging-market consumer spending, I specifically went searching for a palm-oil plantation in Asia to recommend to EMS subscribers. I found what I was looking for on the island of Borneo – a Malaysian-listed company called Sarawak Oil Palms.

Sarawak stood apart for two reasons: One, the company’s trees are young compared to the rest of the industry, and, two, those trees have just begun to enter their high-yield phase. Better still, even in their youth, the trees have proven almost as productive as the mature trees that Sarawak’s competitors farm. The upshot is that this company has several years of very fast production growth ahead of it as its trees mature, and that will ramp up net profits.

Sarawak a few years ago had projected a three-year, compound growth rate of 19%, but the company’s actual performance has more than doubled those original expectations. Little wonder, then, that EMS subscribers pocketed a 48% gain in the shares ... and we’ve recently gone back into the stock because of strong fundamentals in the industry.

Opportunities in the World’s Newest Capitalist Economy Last June, I had a meeting at the U.S. Embassy in Rangoon and was shocked at the effusiveness with which American officials viewed the radical transformations taking place in Burma. Bureaucrats are notoriously even-keeled, not prone to bouts of enthusiasm. Yet enthusiasm for the former dictatorial nation was obvious in abundance.

Burma is an exciting place to be an investor. It’s truly the last of the great frontier markets – the final country in the region to grab hold of free-market capitalism after nearly 40 years trapped by a military junta. Those opportunities do not come around very often, and when it was apparent that Burma was moving in the right direction, I went looking for ways to invest.

It was clear to me last year that as the U.S. ramped up efforts to remove the sanctions against Burma that had been in place for years, stocks tied to Burma in some fashion would do well.

I found a stock for my EMS subscribers to own in a Singaporean oil exploration and production firm – Interra Resources.

I had attended an investment symposium in Rangoon where the country’s Ministry of Energy explained the opportunities

that lie in the 17 known, oil-rich basins scattered across the country’s onshore and offshore territory. Thing is, 11 of those basins are either lightly explored or entirely unexplored. Oil-exploration firms are rushing into the country to tap into the energy wealth.

Interra, with long ties to the region, is a significant player in the still-immature market. That means years of growth for the company and its shareholders.

Interra lived up to expectations. EMS subscribers locked in a 32% gain in just a month. With Burma all over the headlines, Western investors gobbled up anything tied to the Burmese economy. In effect, EMS subscribers were some of the earliest Westerners to invest in the emergence of Asia’s newest free economy – and they benefited nicely.

Like I said: Follow the money. That’s what we do in EMS every week. We follow the money into stocks like Uni-President China, Sarawak and Interra. They represent the big trends that are taking shape in the emerging world ... the trends that create wealth.

And given all the easy money flowing out of the U.S., Chinese, Japanese and European central banks these days and looking for a place to earn a return, the emerging markets look to be in great position for 2013.

The Best Economics Book I Ever Read

You’re probably not looking for an economics book to read. After all, most of them are pretty boring.

But *Economics in One Lesson*, by Henry Hazlitt, is an exception. And it’s probably the only economics book you will ever need to read.

Read that book and I guarantee you will know more about economics than any of our central bankers who hold PhDs from MIT and Harvard. You will be able to understand how economies really work, instead of just learning abstract concepts.

I won’t give you too much detail, but the main idea of the book is that the government always focuses on the short-term results of its policies. It completely ignores the long-term effects, which usually leads to disaster.





THE BEST ECONOMICS BOOK I EVER READ (continued)



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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.

The Fed is no exception. Just like the kids who can't wait for a bigger gratification, the Fed can't implement policies that are good in the long-term. It always wants instant gratification.

Just like the kids who failed the experiment ended up with less success in life, the Fed, with its short-term policies, is also likely to see bad results in the long-term.

The Fed has No Clue

The Fed may be propping up the markets in the short-term. But this is likely to lead to much bigger problems in the future.

The truth is today's policymakers don't really care. When the next crisis comes, few of them will be around to answer for it. That's why they only focus on short-term results, even if it leads to disaster in the long-term.

Look at what Greenspan did, for example. Everyone considered him a genius for engineering a boom in the 2000s by keeping interest rates close to zero for a long time. But his policies ended up in a catastrophic disaster.

Bernanke and the current members of the Fed are doing the same... but on a much larger scale. It's highly unlikely their massive interventions won't have negative consequences, especially when they have no idea what they're doing.

In a recent speech, Dallas Fed President Richard Fisher admitted the Fed is running a monetary experiment that could easily have unintended consequences. Here's what he said: "We are sailing deeper into uncharted waters.

Nobody on our staffs at the Board of Governors and the 12 [Federal Reserve] Banks – in fact, no central bank anywhere on the planet – has the experience of successfully navigating a return home from the place in which we now find ourselves. It's not clear to me despite our theoretical ability to understand the tools very well, in practice, how we are going to get out of this."

The crisis in 2008 was caused by easy money and too much debt. The Fed is doing everything it can to perpetuate the same bad policies that caused the last crisis.

This Popular Strategy Could Ruin Your Portfolio

This will not end well. The policies are already encouraging more debt and financial speculation, instead of investments in productive assets.

So why should you care? The problem is the market has a cruel way of correcting those misallocations of capital. It usually does it through a nasty crash.

Investors who follow the popular "buy and hold" strategy will be crushed by the next Fed-induced crash... just like they were in 2000 and 2008.

I can't tell you when the next crash will happen... nobody can. That's why it's important to adjust your portfolio as the market conditions change.

By Evaldo Albuquerque Editor, Pure Income

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



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