PUBLISHED BY MIYOSHI CAPITAL LLC

November 2014

Volume 1, Issue 37

Financial Crisis Report

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Advancing in a Time of Crisis

Words of Financial Wisdom: The road to success is always under construction

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.

The Ebola Crisis…What To Do

John F. Kennedy said that when written in Chinese, the word "crisis" is composed of two characters. One represents danger and the other represents opportunity. So in a crisis be aware of the danger – but recognize the opportunity.

The world is now facing a crisis with Ebola. This is the danger. What is the opportunity?

According to James DiGeorgia, chief editor or the publication *Mr. Macro,* the Ebola crisis will start to roil the world financial markets as the rate of infection in Africa accelerates. Can we understand the dangers this poses to our financial security?

The World Health Organization warns that Ebola is now "entrenched" in three West African capital cities … and spreading.

Five people are being infected with Ebola every hour in Africa, and the transmission rate continues to accelerate.

Tevy Troy, former Deputy Secretary of the U.S. Department of Health and Human Services, recently warned in the *Wall Street Journal* that if the Ebola virus continues to spread in West Africa at its current pace, much larger global outbreaks will become likely.

With the lack of hospitals and healthcare workers in West Africa — coupled with a slow international response — the rate of infection could dramatically increase to 10, 20 or even 100 people an hour.

However, the numbers reported are hopelessly inaccurate. People with infected family members are not reporting many of the infections out of fear …

- Fear that the infections are being made worse in the region's care centers
- Fear that families living with Ebola victims will be shunned or quarantined by their communities

These fears and lack of healthcare options could lead to victims being cared for at home and, as a result, entire families are being infected with this deadly disease.

250K Victims by New Year's Eve?

An estimated 22,000 people are infected at this point in time. By the time you finish reading this article, 500 to 750 people could become infected (assuming the infection rate doesn't accelerate).

Currently, WHO and the Centers for Disease Control and Prevention are not

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mathematically discussing how the increasing number of infections could multiply the speed with which Ebola spreads throughout Africa and the world.

It's entirely possible that, by New Year's Eve, 250,000 people will come into direct contact with this disease that kills 7 out of 10 of those infected (NOTE, THIS FIGURE PERTAINS TO THE ENTIRE WORLD, NOT TO THE U.S.)

Reports of individual infections in Spain and the U.S. have people outside of Africa very concerned. Western governments are assuring their citizens that Ebola does not present a serious risk in countries that have plentiful and competent medical infrastructures. There are several vaccines currently being tested. However for human use, they are still in the early first quarter of the game. Recently, it was announced that the U.S. will open 17 speedy blood sampling mobile laboratories in West Africa and will organize a rapid response military medical team for any new cases diagnosed in the U.S. But will this be enough to stem the epidemic tide especially in West Africa?

Ebola: From an Outbreak to an Epidemic

The Ebola outbreak was confirmed in Guinea about eight months ago. Now that it is an epidemic, some experts wonder whether it could have been stopped at its source.

The problem of course is that most of Africa lacks abundant and sophisticated medical resources. At the current infection rate, we would have to send 40,000 health workers, along with tens of thousands of fully equipped support personnel, capable of setting up quarantine-ready field hospitals.

And now, with Ebola showing up outside of Africa in the U.S. and Spain so far, the international community is pledging to unite and provide the needed resources.

After all, a lack of action in the world community would open the risk of Ebola spreading through the African continent — from the poorest populations in Egypt, Sudan and Yemen to India, Indochina and beyond.

At current rates, by the end of summer 2015, the numbers infected could very well reach 25 million people. Though the numbers of those infected in the U.S. and Europe will likely still be very small, the effect on the world financial markets will have increased exponentially.

If the international community doesn't make the needed effort to stop the spread of the disease, a genuine panic will ensue. Borders will shut down, air travel will be restricted and xenophobia will affect the world economy.

Economic growth will slow down and bring with it wild swings in the equities, commodities and bond markets. And that's not all …

Here is Mr. DiGeorgia's 2 Biggest Fears About the Ebola Crisis

1. Ebola infections reach India, Indochina, Cambodia, Laos and then China. Most people think of India and China as well — developed nations with plenty of medical care.

Unfortunately, this couldn't be any further from the truth. The fact is there are hundreds of millions of extremely poor people throughout the Arab, Indian, Indochinese and Chinese regions.

If radical efforts are not taken to stop the rate of infection, the New York Times headlines on New Year's Eve 2015 could read:

"An Estimated 100 Million Infected
Going into New Year!"

"20 Million Dead,
Governments Collapse!"

"Vast regions of Africa & Asia Quarantined"

"Martial law invoked in
New Delhi as riots breakout"

"Bodies going unburied –

Typhoid Threat Grows"

Here is his other big fear …

2. Terrorists "weaponize" Ebola: such as using aerosol cans or Ebola dirty bombs.

On Oct 20, Mark Theissen published an editorial in the

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Washington Post wherein he claims it would be easy for a group such as the Islamic State to use Ebola in a terrorist attack. On Oct 31 as this is written Fox News reported that the Islamic State is planning to use Ebola as a terrorist weapon. Back in 2001, before 9/11, former Clinton administration officials conducted a simulation experiment called “Dark Winter” wherein small pox is brought into the U.S. by terrorists. The consequences of that small pox simulation echo what is forecasted below for Ebola. (NOTE, IN NEXT MONTHS ISSUE OF *THE FINANCIAL CRISIS REPORT*, WE WILL FEATURE AN ARTICLE OPINING ON THE DIFFICULTY OF WEAPONIZING EBOLA).

It is evident there are potentially hundreds of hardcore Jihadists who would gladly give their lives to wreak havoc on Europe, the U.S. and their allies. In this day and age, with everything we know about terrorists, no honest politician or health official will argue that suicide terrorists don’t exist in potentially great numbers. If the first fear happens, it will accelerate the opportunities and probability for this second fear to occur.

The very fact that the incubation period can take as long as 21 days (or longer), places the risk of Ebola-suicide Jihadists near the top of its concern list for the international community.

On Sept. 11, 2001, 19 al-Qaeda terrorists attacked our country.

Now just imagine …

What if 19 more Jihadists decided to unleash Ebola in just three of our most densely populated cities?

Suppose, in New York, Chicago and Boston, the 19 al-Qaeda Jihadists terrorists, now divided in three groups, are met by five additional suicide terrorists.

At that point, in New York, there are 11 infected terrorists coordinating efforts to infect that city’s population during its two daily rush hours. They plan to achieve this in the most densely populated areas of New York:

Grand Central Station, Penn Station and Port Authority.

Terrorists take action by becoming infection vectors and begin handing out $5 bills or packs of cigarettes as a disguised advertising campaign …

In the process, they touch as many people as possible with unwashed hands, arms, even elbows if possible …

In the evenings, they distribute dinner boxes to hundreds of street people at night, making as much contact with those receiving food as possible …

This all goes on for several days, until the terrorists cannot disguise their symptoms …

Then, before committing suicide, they stage one last contact attack in densely populated areas of the city. Their suicide tapes hit the Internet and the U.S., British and French watch as we all discover that terrorists have infected 15,000+ of our family and friends …

For those of us who would be fortunate enough to be out of the immediate area of infection, we would also watch the Dow Jones drop 5,000 points in three raucous days before the exchanges are closed and calm can be restored …

All of this may sound farfetched, but the danger builds each day that we don’t take massive steps to contain this Ebola epidemic that is occurring just a plane ride or ship cruise away.

And that may be reason enough for the government to keep perpetuating the lie.

But the markets sense Ebola is a bigger deal than the authorities are letting on. The recent volatile markets are right. The odds are at least 50/50 Ebola will become a global plague.

Ebola is one huge market factor. In this crisis 236 medical personnel have died of Ebola. Seventeen doctors who are members of the medical aid organization Doctors Without Borders, all highly experienced with infectious disease, have gotten Ebola. Most of them have died. Recently, one doctor even returned to New York City and stayed for a week before he was diagnosed with Ebola.

Why? Most likely because the CDC misled them. Dr.

Thomas Frieden, the Director of the CDC said Ebola does not spread air-borne. And why would he say that? At what stage of the emergence of symptoms, does the virus start to spread? Also, why hasn't Obama banned all traffic out of Africa, especially air?

Perhaps it’s because the administration is reluctant to stigmatize African countries. In addition, airlines have a huge lobby. They are powerful, with enormous clout. There are lots of politicians up for reelection, and they need all the financial support they can get. Airlines have been, shall we say, 'liberal' with their political contributions. Unfortunately, it has become apparent the CDC, the IRS, the FBI, the VA and most of the other departments of the Federal government have become politicized under the Obama administration. The planes flying from Ebola-stricken regions of Africa give new meaning to the term “out of Africa.”

So watch this crisis very closely. If the danger keeps growing then perhaps one should start buying deep out-of-the-money put options on the S&P 500 and Dow Industrials.

The thought of making money on mass carnage and misery is just as off-putting and distasteful as many people will surely express.

However, it is not profiting on terrorism or misfortune — it’s protecting and insuring yourself from what could become the worst crisis in human history.

The challenge is to be in the right positions at the right time and to be out of those positions and in cash by the time the financial markets in the U.S. shut down (to regain calm and stability).

If either of the above 2 fearful scenarios occur, it might make good sense to buy 90% pre-1964 silver coins and small 1/10 oz. U.S. Gold Eagles.

In strenuous scenarios like these, even making a fortune might not mean much on a financial institution holiday like the one we saw after the Sept. 11, 2001, attacks. A market holiday could take a week or two instead of days.

Also, note that paper money can carry disease and could become impossible to use.

Make no mistake about it. This Ebola outbreak in West Africa and the risks it poses to the world should officially be on your radar now.

If and when it starts rocking the market, you do not want to be ill-prepared.

D. Miyoshi

Social Costs: Why Oil Has To Go Up

Last month we reported that in the very long run we believe oil will come down as it becomes in surplus due to dwindling demand and increasing supplies from fracking. That being said, recently, the price of oil has come down significantly. But this is not due to a surplus caused by fracking but because of a recent policy instituted by Saudi Arabia. The following article by Chad Shoop, Editor of *Pure Income* explains the reason for this policy and its inevitable pressure to increase the price of oil in the medium term.

Cheap gas for everyone!

The consumer is celebrating the drastic drop in gas prices at the pump. More than six states have reported an average price lower than $3 and prices are still falling. Crude oil slipped below $80 a barrel during trading recently, and experts are clamoring for it to head even lower.

The reality is that oil could fall as far as the high $60s.

And I’ve never seen a better time to get into oil …

Saudi Arabia is playing a dangerous game of chicken with the other oil producers, but this drop in the price of black gold is temporary, making it a great time to load up on oil-related investments.

The recent plunge in oil is due to a glut of supply on the market. Oil supply currently exceeds demand by about 300,000 barrels of oil per day. Not only has output from the United States ramped up, but production has also increased in several other countries around the world. At the same time, Saudi Arabia has kept its production levels incredibly high.

But unlike the United States, Canada, Russia and many other countries, Saudi Arabia can tolerate $80 oil. Saudi Arabia can even stomach $60 … for a while.

Production from unconventional sources such as Canadian oil sands and U.S. oil shale, which have breakeven prices on average of $100 and $75 respectively, will ultimately have to shut-in production rather than continue to hemorrhage money.

And that’s exactly what the Saudis want — to price out the marginal competitors.

The Inevitable Rise in Oil Prices

While Saudi Arabia can pull oil out of the ground cheaply, it can’t afford to allow the price to stay low for too long. The social cost of oil demands that the price of black gold stay above $100 per barrel.

Jeff Opdyke, Investment Director for *The Sovereign Society*, has been discussing this for several years now. In the February 2013 issue of *Sovereign Investor*, he explained:

More important, however, are the social costs built into OPEC oil. Oppressive Middle Eastern governments use oil revenue to buy the peace, without which regimes all over the region would crumble under the same pressures that toppled governments in Tunisia and Egypt and which are now destroying Syria. By various estimates, the social costs of oil in various countries run from about $70 a barrel up past $120.

If oil stays too low for too long, oil-dependent countries such as Iran, Venezuela, Saudi Arabia and even Russia will become rampant with riots, violence, terrorism and ultimately financial collapse — not something their leaders want if they wish to stay in power.

No, it’s not pretty. But it is exactly why the price of oil will be well into the $100 price range this time next year — these countries won’t allow the price of oil to stay low for long.

When Saudi Arabia is done pricing out the competition, oil is going to pop back up to $100 and higher…

Jumping Into Oil

One of the best opportunities is to grab oil companies that shadow the price of oil — companies such as FMC Technologies does this nearly perfectly.

FMC Technologies provides technology solutions for the energy sector in various aspects of exploration and production.

The company has a five-year correlation of 0.83 to the price of oil. A one-for-one move would be a perfect correlation, but you will never find that with a stock and commodity. 0.83 is about as close as it gets.

Purchasing this stock is an easy way to ride the oil rebound, although a higher-risk/higher-reward opportunity exists in the options market.

D. Miyoshi

How to Make Money in a Crisis

This newsletter is about the ongoing financial crisis in the world. During this period you will see many episodes of high market volatility like the current one. Therefore, I thought it would be opportune to present an article by Amber Lee Mason, editor of *Daily Wealth Trader* and contributor to the *Growth Stock Wire* that gives important pointers on how to make money in big downturns in the market.

Here is how to use one of the world's most valuable trading strategies…

This idea can make you hundreds-of-percent profits in under a year. It's an incredible wealth-building strategy that should be in every investor's "toolbox."

And it begins with a good crisis…

As regular *Growth Stock Wire* readers know, when assets suffer big declines because of industry downturns, military conflicts, or political problems, they become very

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out-of-favor… and very cheap. When conditions and sentiment improve just a tiny bit, these depressed assets can jump higher like coiled springs.

My colleagues and I have shown you a few of these situations in these pages recently – like the crises in corn, offshore drillers, and coal. Eventually, these markets will rebound… and double or triple your money.

So is it time to buy?

To understand what exactly what we need to see in order to get the best possible odds in our favor, let's revisit a foundational piece of trading wisdom… It comes from George Soros, one of the world's greatest traders. And I consider it "the most important thing ever said about trading."

"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."

When you're trading a crisis, it's easy to lose too much money when you're wrong. Remember, a bad situation can get worse. And it can burn a lot of capital while it does. The downside from here is always 100%.

That's why we wait for the price to stop falling. We want to be in position for the rally. A rally can't start until the correction ends.

When you're trading a crisis situation, I also suggest setting a tight stop… If the asset starts to fall again, we can step aside quickly.

And I suggest trading crisis situations with a small position size. These trades are "high risk." They're as likely to move in our favor as a flipped coin is to land on heads.

A 50-50 shot at profits might sound terrible. But let's go back to Soros' quote: "It's not whether you're right or wrong that's important…"

When you're trading "bad to less bad" scenarios, as my colleague Steve Sjuggerud calls them, your batting average barely matters. What matters is that you occasionally knock the ball out of the park. What matters is that you make a LOT of money when you're right.

Trading deeply depressed assets is a great way to set yourself up to make a lot of money. But it's likely you'll strike out a few times before you hit that home run. The first three rules of trading a crisis situation are designed to keep your losses small when you do strike out.

The last rule is keep coming back to the plate.

Don't be afraid to stop out for small losses several times. Wait for the asset to stop falling, put a little bit of money into the trade, and if it doesn't work out, no problem. Exit quickly and watch for the next good setup.

Consider the chart below of aluminum giant Alcoa (AA). We recommended the trade in *DailyWealth Trader* in October of last year.

That was extraordinary timing… Alcoa took off the day after we published the issue.

That doesn't usually happen.

If you look at the chart above, you'll see the stock spent about 18 months see-sawing along a bottom before it finally started to climb. Someone trying to "crisis trade" aluminum might have stopped out two or three times along the way.

It would have been a shame if he had given up… The triple-digit rally that began in October more than made up for a handful of 10% or 15% drops.

Crisis trading isn't easy. You'll occasionally see us buy in "too early" when an asset suffers an extreme selloff.

But as long as we keep our losses small, I consider those good trades. They're worth a shot… Because when they work out, you make much more money than you lose when they don't.

In sum, the four rules of crisis trading are:

1. Wait for the price to stop falling.
2. Use a tight stop.
3. Keep your position size small.
4. Give the trade a few chances to work out.

I expect at least one or two of the crisis situations we've shown you recently to reverse… and begin a triple-digit rally.

You'll be able to use these four rules to make hundreds of percent when that happens… again and again in the years to come.

D. Miyoshi

Terrorists and Money Flow

The world knows all about terrorist organizations and extremist militias: Al Qaeda, which downed twin towers in the world's largest financial center … Hezbollah and Hamas, which lob rockets randomly on civilian towns and cities … the Shiite Mahdi Army, which killed hundreds of Americans in Iraq's civil war.

The world also knows all about rogue states — Iran, ruled by feudal mullahs who finance global terrorists and Syria, which bombs its own people with banned chemical weapons.

But this is the first time since the dark ages that mankind has seen a rogue state AND terrorist horde rolled into one — the Islamic State the first ever modern terrorist state with a well-equipped terrorist ARMY!

A terrorist state with 30,000 soldiers and millions of subjects …

A terrorist state that collects taxes and exports crude oil …

That targets every minority group for genocide …

That beheads innocent civilians from foreign lands, and …

That instantly transmits the gory images to the far corners of the earth.

A state so powerful that, in order to stop it, the world's leading democracies find themselves fighting on the same side with the same terrorists (Hezbollah), the same Shiite militia that killed Americans (Mahdi Army) and the same two rogue states I just mentioned (Iran and Syria).

It's a threat so frightening that even those terrorists and rogue states are said to be the "lesser of evils."

<u>Money Flowing to the U.S.</u>

This is creating one of the Greatest Migrations of Wealth in the History of Money

In Saudi Arabia, Kuwait, the UAE, Oman and other Middle Eastern nations — including Israel — wealthy investors and institutions are increasingly desperate to get their assets to safety.

Meanwhile, wealthy investors in other world trouble spots — China, Hong Kong, Russia, Eastern Europe and the European Union — are following suit.

Much of that wealth is already coming to the U.S. — arguably to the world's safest large haven. Much more is bound to follow.

Will it go mostly into cash and equivalents? For now, probably yes.

Will it also flow into stocks? Probably. That has been the pattern so far … and that's the pattern we could see

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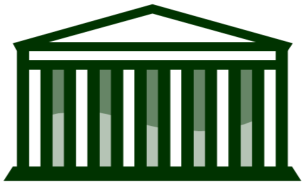

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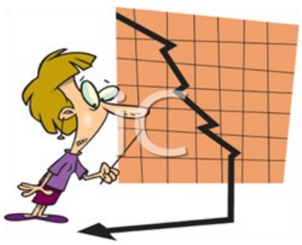

Financial Crisis Report

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

again.

But beware: This is money fleeing from danger. It is not looking for more risk. It will target almost exclusively the highest possible quality investments in the world today.

<u>America the World's Largest Tax Haven</u>

Although the U.S. has one of the highest tax rates for U.S. individuals and corporations, for non-resident aliens with no office or place of business in the U.S. the interest on their funds is totally free of U.S. tax making America the largest tax haven in the world.

Ever since the French loaned money to the struggling revolutionaries who defeated the British to create the United States of America, the U.S. has become a huge tax haven for foreigners. Today the Chinese buy enormous amounts of U.S. Treasury debt to enable the United States to maintain its economy. The U.S. simply cannot advertise the fact that it is a splendid tax haven for foreigners because it would cause dissent among the local U.S. citizenry.

Starting in the early 1980s the United States was made into the largest tax and regulatory haven in the world for foreign citizens who are not resident in the US. This was done pursuant to a deliberate national policy change in the early 1980s. At that time many of America's top financial banks and insurance companies were technically bankrupt. Their loans to the third world countries and a 20%+ prime rate had put billion dollar debts on the balance sheets of these banks and insurance companies. The solution was simple and effective – stop taxing international investors and watch the money flow back into America's financial institutions. This policy change has been wildly successful, pulling in trillions of dollars of capital into the U.S. economy.

Because of these policy changes, today non-resident alien investors who do not operate businesses in the U.S. can make investments in the United States either totally tax free or almost tax free — in structures that are legally protected from liability.

With fairly simple planning, a foreign investor can avoid U.S. federal tax on interest as well as gains from sale of securities in the U.S. — all protected by the U.S. legal system and with the U.S. government guaranteeing the solvency of the financial system.

To avoid state income tax, investors can set up a legal entity in one of the tax-free states (Nevada, Florida, Alaska, South Dakota, Texas, Washington and Wyoming) and invest using that state entity. A favorite form of entity to invest with is the limited liability company because it is simple to set up and provides limited liability protection. A bank account can be opened in the name of the limited liability company and by using a discount online stock broker the non-resident alien investor can trade stocks and gains made will be tax free.

Note that while interest and capital gains are free of tax, dividends issued by companies will be taxable at the rate specified in the treaty between the U.S. and the home country of the investor.

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