



Financial Crisis Report

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Advancing in a Time of Crisis

Words of Financial Wisdom: Take an expert to lunch and you pay. It is the most cost-effective way to obtain information without any phone interruptions.

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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.

The Challenges of Terrorists Weaponizing Ebola

Last month we published an article that covered the Ebola crisis and how terrorists could use the virus in a terrorist attack. This article inspired by Scott Stewart of *Stratfor* challenges that assertion and shows how difficult such a task can be.

The 2014 Outbreak

In the past, there have been several outbreaks of Ebola in Africa. Countries included Sudan, Uganda, the Republic of the Congo and the Democratic Republic of the Congo, and several comparatively small outbreaks occurred in Gabon as well. In most cases, people who handled or ate animals infected with the disease started the outbreaks. "Bushmeat," or portions of roasted meat from a variety of wild animals, is considered by many to be a delicacy in Africa, and in a continent where hunger is widespread, it is also a necessity for many hungry people. After several months of medical investigations, epidemiologists believe the current outbreak most likely began when a two-year-old child in Guinea touched or perhaps ate part of an infected animal such as a bat or monkey.

The source of the disease means it is highly unlikely that some malevolent actor intentionally caused the latest outbreak. Besides

the fact that the current outbreak's cause has been identified as a natural one, even if a transnational militant group such as the Islamic State was able to somehow develop an Ebola weapon, it would have chosen to deploy the weapon against a far more desirable target than a small village in Guinea. We would have seen the militants use their weapon in a location such as New York, Paris or London, or against their local enemies in Syria and Iraq.

As far as intent goes, there is very little doubt that such a group would employ a biological weapon. As we noted last month when there was increased talk about the Islamic State possibly weaponizing plague for a biological attack, terrorist attacks are intended to have a psychological impact that outweighs the physical damage they cause. The Islamic State itself has a long history of conducting brutal actions to foster panic.

In 2006 and 2007, the Islamic State's predecessor, al Qaeda in Iraq, included large quantities of chlorine in vehicle bombs deployed against U.S. and Iraqi troops in an attempt to produce mass casualties. The explosives in the vehicle bombs killed more people than the chlorine did, and after several unsuccessful attempts, al Qaeda in Iraq gave up on its chlorine bombings because the results were not worth the effort. Al Qaeda in Iraq also included chemical artillery rounds in improvised explosive devices used in attacks against American



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troops in Iraq on several occasions. Again, these attacks failed to produce mass casualties. Finally, according to human rights organizations, the Islamic State appears to have recently used some artillery rounds containing mustard gas against its enemies in Syria; the group presumably recovered the rounds from a former Saddam-era chemical weapons facility in Iraq or from Syrian stockpiles.

The problem, then, lies not with the Islamic State's intent but instead with its capability to obtain and weaponize the Ebola virus. Creating a biological weapon is far more difficult than using a chemical such as chlorine or manufactured chemical munitions. Contrary to how the media frequently portrays them, biological weapons are not easy to obtain, they are not easy to deploy effectively and they do not always cause mass casualties.

The Difficulty of Weaponization

Ebola and terrorism are not new. Nor is the possibility of terrorist groups using the Ebola virus in an attack. As we have previously noted, the Japanese cult Aum Shinrikyo attempted to obtain the Ebola virus as part of its biological warfare program. The group sent a medical team to Africa under the pretext of being aid workers with the intent of obtaining samples of the virus. It failed in that mission, but even if it had succeeded, the group would have faced the challenge of getting the sample back to its biological warfare laboratory in Japan. The Ebola virus is relatively fragile. Its lifetime on dry surfaces outside of a host is only a couple of hours, and while some studies have shown that the virus can survive on surfaces for days when still in bodily fluids, this requires ideal conditions that would be difficult to replicate during transport.

If the group had been able to get the virus back to its laboratory, it would have then faced the challenge of reproducing the Ebola virus with enough volume to be used in a large-scale biological warfare attack, similar to its failed attacks on Tokyo and other Japanese cities in which the group sprayed thousands of gallons of botulinum toxin and Anthrax spores. Reproducing the Ebola virus would present additional challenges because it is an extremely dangerous virus to work with. It has infected researchers, even when they were working in laboratories with advanced bi-

osafety measures in place. Although Aum Shinrikyo had a large staff of trained scientists and a state-of-the-art biological weapons laboratory, it was still unable to effectively weaponize the virus.

The challenges Aum Shinrikyo's biological weapons program faced would be multiplied for the Islamic State. Aum Shinrikyo operatives were given a great deal of operational freedom until their plans were discovered after the 1995 sarin attacks on the Tokyo subway. (The group's previous biological weapons attacks were so unsuccessful that nobody knew they had been carried out until after its members were arrested and its chemical and biological weapons factories were raided.) Unlike the Japanese cult, the Islamic State's every move is under heavy scrutiny by most of the world's intelligence and security agencies. This means jihadist operatives would have far more difficulty assembling the personnel and equipment needed to construct a biological weapons laboratory. Since randomly encountering an infected Ebola patient would be unreliable, the group would have to travel to a country impacted by the outbreak. This would be a difficult task for the group to complete without drawing attention to itself. Furthermore, once group members reached the infected countries, they would have to enter quarantined areas of medical facilities, retrieve the samples and then escape the country unnoticed, since they could not count on randomly encountering an infected Ebola patient.

Even if Islamic State operatives were somehow able to accomplish all of this -- without killing themselves in the process -- Ebola is not an ideal biological warfare vector. The virus is hard to pass from person to person. In fact, on average, its basic reproductive rate (the average amount of people that are infected by an Ebola patient) is only between one and two people. There are far more infectious diseases such as measles, which has a basic reproductive rate of 12-18, or smallpox, which has a basic reproductive rate of five to seven. Even HIV, which is only passed via sexual contact or intravenous blood transmission, has a basic reproductive rate of two to five.

Ebola's Weakness as a Weapon

The Ebola disease is also somewhat slow to take effect,





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and infected individuals do not become symptomatic and contagious for an average of 8-10 days. The disease's full incubation period can last anywhere from two to 21 days. As a comparison, influenza, which can be transmitted as quickly as three days after being contracted, can be spread before symptoms begin showing. This means that an Ebola attack would take longer to spread and would be easier to contain because infected people would be easier to identify.

Besides the fact that Ebola can only be passed through the bodily fluids of a person showing symptoms at the time, the virus in those bodily fluids must also somehow bypass the protection of a person's skin. The infectious fluid must enter the body through a cut or abrasion, or come into contact with the mucus membranes in the eyes, nose or mouth. This is different from more contagious viruses like measles and smallpox, which are airborne viruses and do not require any direct contact or transfer of bodily fluids. Additionally, the Ebola virus is quite fragile and sensitive to light, heat and low-humidity environments, and bleach and other common disinfectants can kill it. This means it is difficult to spread the virus by contaminating surfaces with it. The only way to infect a large amount of people with Ebola would be to spray them with a fluid containing the virus, something that would be difficult to do and easily detectable.

In Mark Thiessen's editorial piece in the *Washington Post* he suggested that the Islamic State might implement an attack strategy of infecting suicide operatives with Ebola and then having them blow themselves up in a crowded place, spraying people with infected bodily fluids. One problem with this scenario is that it would be extremely difficult to get an infected operative from the group's laboratory to the United States without being detected. As we have discussed elsewhere, jihadist groups have struggled to get operatives to the West to conduct conventional terrorist attacks using guns and bombs, a constraint that would also affect their ability to deploy a biological weapon.

Even if a hostile group did manage to get an operative in place, it would still face several important obstacles. By the time Ebola patients are highly contagious, they are normally very ill and bedridden with high fever, fatigue, vomiting and diarrhea, meaning they are not strong enough to

walk into a crowded area. The heat and shock of the suicide device's explosion would likely kill most of the virus. Anyone close enough to be exposed to the virus would also likely be injured by the blast and taken to a hospital, where they would then be quarantined and treated for the virus.

In conclusion, biological weapons look great in the movies, but they are difficult and expensive to develop in real life. That is why we have rarely seen them used in terrorist attacks. As we have noted for a decade now, jihadists can kill far more people with far less expense and effort by utilizing traditional terrorist tactics, which makes the threat of a successful attack using the Ebola virus extremely unlikely.

D. Miyoshi

Race and the Ugly Politics of America

As I saw the burning and looting that took place in Ferguson, I couldn't help but recall the popular refrain that "young black men in America suffer from widespread racism and stereotyping, by all society — including African-Americans themselves".

But research in the last couple of decades suggests that the problem is not so much overt racists. Rather, the larger problem is a broad swath of people who consider themselves enlightened, who intellectually believe in racial equality, who deplore discrimination, yet who harbor unconscious attitudes that result in discriminatory policies and behavior toward minorities. We can all recall Michael Gerson's famed phrase "the soft bigotry of low expectations".

But more than being an obvious scourge on the human experience, it is almost incontrovertible that in America race is more or less stratified by economic class....that is, whites are generally thought of as part of the privileged class and the blacks and browns as part of the underclass.

And in a fundamental democratic society, where each citizen, no matter their income, gets a vote, it is unfortunate that the leading politicians and community leaders in America have begun to use race as a tool to seize and hold onto political power.



Race and the Ugly Politics of America

We know that Obama has mobilized black voters, like no politician in history. They put him over the top in two presidential elections.

Now the Spanish voting bloc has become a major constituency. It is far larger than blacks. And so with the stroke of a pen, Obama made 5 million new Latino friends. Perhaps, in the next few years, another 20 million will follow.

So, like it or not, race is a big issue in America.

Blacks and Latinos vote in a bloc, that is overwhelmingly Democrat. White voters are more diverse. But as seen in the November mid-term elections, they too are starting to line up in one camp. More and more whites are voting Republican.

It's not politically correct to discuss racial differences. We all feel that awkward hesitancy to bring up the topic but modern America is now fracturing along racial lines.

More white people are self-employed. High paid business persons and professionals. They are taxpayers, with wealth.

More blacks and Latinos are on the government dole. Even when they are employed, on average they have low-paying jobs that still leave them eligible for welfare and social benefits.

Whites tend to be more self-determined. Capitalists. Fierce supporters of the Constitution and the free enterprise system.

Blacks and Latinos are more under-educated... staunch socialists... who usually scorn free enterprise. They believe government and the "rich" (this includes the middle class) owe them.

This is not racist discourse. It's the unfortunate facts of a capitalist society that is disintegrating. America has already gone far down the road towards a socialist, nanny state, European style. Driven by minorities, who don't have a heritage of working here, and have not assimilated into American culture or ways of living.

The new immigrants (and arguably they may be less than a majority) are coming to the U.S. because it's seen as a big welfare state. Their leaders constantly drum into them the cancerous belief, that government owes them big-time.

For the last six years we have had a black president. It now seems evident, he was elected by playing the race card. And he plays that card skillfully and repeatedly, as often as he can. Most likely because it works.

I believe the argument can be made that he is a latent socialist, who hates freedom, capital markets, and the American way of life (as his black father and white mother did).

America has fought major moves towards socialism before. During the 1930s Great Depression, the impoverished masses embraced socialism wholesale. They repeatedly elected Franklin Roosevelt as president.

This gave birth to the great U.S. social welfare state and to programs like Social Security, unemployment insurance and welfare. All came out of the 1930s. These programs do offer positive benefits to our society but unfortunately they are now beginning to spin out of control.

The economic downturn (i.e. financial crisis) that started in 2007/08 led to another huge leap into socialism: the great socialization of U.S. health care, more commonly known as Obamacare. Obama's newly-legalized aliens will only make this situation worse. Not only will the millions of new residents vote Democrat. To make sure they vote, the politicians will have to promise them more and more welfare benefits that will have to be paid out of the public till.

Which means the dark forces that led to the Ferguson shooting will only gain in strength.

The two anti-heroes in Ferguson -- Michael Brown and his buddy Dorian Johnson -- were unemployed and on welfare. They lived in public housing. They came from broken homes.

They had just robbed a convenience store, and roughed up the owner. Both had criminal records. Both of their families had members with criminal records. This is said not to justify Brown's killing. This is simply to add perspective to the problem.

It is evident, America is turning into a polarized society of haves and have-nots. But allow me to give my own personal perspective. I am the grandson of poor Japanese immigrant farmers. They came to America, with only a suit case and a few dollars on their person. They lived in the poorer parts of Los Angeles.

But they and their offspring (my parents) gave me a warm house to live in, nourishing food and a college education for which I will be forever grateful. They paid their taxes and none went on welfare.

The point is, most all of us have our own immigrant stories. But we must realize that the great American melting pot will not work, if we are unable to integrate people into our society. It will not work, if they don't embrace and become part of the capitalist system.



Profit From Lower Oil

The great evil we are fighting is the fact that malevolent men (and women) want to keep these people poor. Dependent. Groveling for crumbs, from the hands of power hungry politicians.

Obama is indeed a manipulative man. He constantly and skillfully plays the race and class cards. Under his leadership (or lack thereof, especially in the area of foreign affairs), America has become more polarized than ever. Reverse discrimination -- where being white makes you bad -- keeps growing in strength.

Obama and his devotees such as Al Sharpton appear to want to keep Ferguson ablaze as a racial and class issue to solidify their constituency against their perceived political adversary. But racial hatred and economic envy create an abysmal state of affairs. They split societies apart. People do awful things, in the name of race, religion and class envy.

The last thing America needs is for racial and class hatred to be stoked. But leaders of our highest office keep doing just that to attain and maintain power. Unfortunately, the cities in America are turning into a sea of black/Latino poverty. America has a growing black/Latino underclass. As a group they are under-educated, earn little, and are becoming increasingly hostile to whites.

But it's not all one-sided. A large underclass of poor whites is growing as well. They also have their own racial and class prejudices.

We all know of the growing poverty in America. Actually, the economy is shrinking into the abyss. The 75+ million adults with no jobs... and many of the others underemployed, working part-time, making minimum wage.

If you had any doubt that politicians and community organizers the likes of Sharpton are fostering racial prejudice and inciting hatred, it could not be clearer than Ferguson. Could Ferguson be the rallying cry for a downward spiral of ever-greater racial violence? Can the fires of Ferguson be put out -- before they reign throughout the country?

I hope and think they can. But even if Ferguson fades away, similar ugly events will occur from terrorism borne either from within or outside of our country. The handwriting is now being written on the wall.

Welcome to the new age of Obamaism. Where we have the weakest, most disrespected and most polarized America, at least within my lifetime, and perhaps in history.

And let's not kid ourselves. The consequences of this social/economic/political and geopolitical collapse will be severe.

For more and more people, America doesn't work. They are looking for someone to blame for their misery: blacks blaming whites... whites blaming blacks... and everyone blaming everyone else.

This is not a one-off situation. It's a blueprint for a society going through profound change. Which is exactly what Obama promised us. Fundamental change (maybe akin to what was once promised by a German dictator back in the 30's). Of course Obama can't be compared to the evil of that German dictator but Obama does tries to rule by executive decree and not through the laws passed by Congress.

In the final analysis, despite the positive performance of our stock market (provisionally buoyed by our own Fed, shale oil and Abenomics) our nation is in the midst of a crisis (social, political, military and financial) that grows deeper by the day.

Yet the vast majority of people seemed to be in denial.

But only a fool ignores these winds of change.

Be safe and stay prosperous.

D. Miyoshi

Profit From Lower Oil

According to Christopher Rowe of the Oxford Club, there's a seismic macroeconomic shift going on right now. It's happening on a global scale, and it will shake up investment portfolios everywhere in the world.

Mistakes will be made, but fortunes will be made, too.

The price of oil is at a four-year low, and investors are asking these questions:

- If I step in and buy energy stocks here, am I trying to catch a falling dagger?
- Should I get the heck out now before the real pain begins?

Is this the greatest buying opportunity I'm going to see for



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many years to come?

But I think the most profitable question you can ask yourself is: Which companies are being sold off for the wrong reasons?

Let me back up for a moment. Take a look at this 20-year chart of light sweet crude oil futures



So let's start with the very basic technical picture. Oil is at super oversold levels. We just hit a four-year low and the weekly momentum, as measured by the very popular "RSI Wilders" indicator (at the bottom of the chart), is at a level not seen anywhere else on the chart. The closest we've been to being this oversold in two decades was back at the 2008 bottom.

The unprecedented strength in the U.S. dollar index and revolutionary drilling technologies have combined to send oil prices lower. Thanks to hydraulic fracturing and horizontal drilling, the U.S. is seeing its highest crude oil production in more than 2 1/2 decades.

But the old adage says, "Oversold doesn't necessarily mean over." Even if crude oil is a "bargain" at this level, it doesn't necessarily mean it's a great "buy," because it can decline further.

So what's the best way to profit from a bloodbath? Many investors think a decline in oil means "the oil sector"

is a bad place to be. But that's only true if you don't understand the sector. If you know *which* stocks are likely to benefit from this huge change in price, you can exploit the mistakes of those who don't.

That means energy companies whose bottom lines are not very affected by low oil prices, such as midstream companies involved in the gathering and storage of oil, tankers and oil pipeline companies. These are companies that make money from higher volume (oil through their pipes) and higher oil production.

Mergers and Acquisitions

Halliburton (NYSE: HAL), which is the second-largest oil services provider just acquired **Baker Hughes** (NYSE: BHI). Baker Hughes is up 34% in the last two trading days alone.

Because crude sold off so dramatically, equipment makers and oil explorers have had their stock prices hit, which turns well-capitalized companies like Halliburton into interested buyers.

The same set of circumstances that brought these two firms together is likely to create an environment for more M&A activity to come. Halliburton's purchase of Baker Hughes, which makes drill bits and pressure-pumping tools, helps insulate it from a sustained oil market downturn.

Who Benefits From Lower Oil?

Preparing to own the right energy stocks within a severely oversold energy sector is one way to take advantage of this rare market environment. But don't forget that some companies' stocks are benefiting from lower oil prices right now. For example, **United Parcel Service** (NYSE: UPS), which generally has a huge energy expense, just broke out to a new all-time high, reaching \$109.40.

Stocks in the airline sector are hitting new highs too. Among the strongest are **Southwest Airlines** (NYSE: LUV), **Hawaiian Holdings Inc.** (Nasdaq: HA) and **United Continental Holdings** (NYSE: UAL), which just broke out past its 2007 bull market high.

I hope this article helps you avoid making the costly mistakes that many investors will make during this energy sell-

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off. There's huge money to be made if you look in the right parts of the sector - and there are huge mistakes to be made if you think all energy stocks are the same.

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Profit from Japan's Nuclear Problem

Japan is the only country to suffer nuclear disaster both in war (Hiroshima, Nagasaki) and in peace (Fukushima). It is understandable why such a country would eschew anything to do with nuclear reactions. However, in the wake of the Fukushima disaster and the shutting of its nuclear plants, Japan is now in the process of restarting these plants...

Why? Simple, because they have no choice!

After Fukushima, Japan tried to do without nuclear power and it was a disaster. Electricity bills in Japan soared five-fold. The cost of their liquefied natural gas doubled. They racked up a record trade deficit of \$113 billion... their first deficit in 30 years...

And their debt now stands at a staggering 250% of GDP.

This is unsustainable.

Either Japan goes back to nuclear power, or the country will never recover.

Already, Japan's new Prime Minister, Shinzo Abe, has promised the restart of nuclear power, saying it's vital to keep Japan competitive.

In fact, Japan is so eager to re-launch their nuclear industry, they just inked a deal with Uzbekistan to supply them with uranium.

In addition, they've submitted applications to re-start their plants.

So nuclear power is back in Japan...

And remember, Japan's plants are built and ready to go. This means an immediate uranium demand spike of over 35 million pounds.

But there simply isn't enough supply to handle this. Prices must rise. For those so inclined, this provides an opportunity to make a lot of money by investing in uranium stocks.

This has happened twice before...

The first time, in the 1970s, uranium prices soared 10-fold... and early investors saw 100-fold gains on uranium stocks.

The second time it happened was in 2003. And the conditions were almost identical to today.

Excess supply pushed uranium price down to \$10 per pound... about half of break-even. Suppliers stopped supplying. Stockpiles depleted. And the price of uranium took off.

In fact, it soared 13-fold.

Amazing. But nothing compared to what uranium stocks did...

One company, Paladin Energy, went from 1 cent to \$10 per share. That's good enough to turn \$1,000 into \$1 million in four years.

Imagine if one had put \$10,000 into that trade. That person could now be sitting on \$10 million.

Things are now lining up for this to happen for the third time.

Big time commodity traders such as Li Ka-Shing, the richest man in Asia and Rick Rule, the man who turned \$15 million into \$445 million for his clients during the last uranium boom are once again becoming heavily involved in uranium investments. There must be a good reason for their actions.

So as Japan goes nuclear again, we should be looking at uranium stocks again.

D. Miyoshi



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