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Financial Crisis Report

Written and Edited by David M. Miyoshi

Advancing in a Time of Crisis

THE COLLAPSE AFTER YELLEN

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 Collapse After Yellen

We can see why the Obama Administration selected Janet Yellen to be the Fed Chairman. After all, she definitively satisfies all of the usual qualifications for the position under the administration. These are:

- Have a passion for money printing and destroying the value of the dollar.
- Lack the ability to make economic predictions or foresee major economic crises.
- Be competent in creating massive asset bubbles.
- Believe in financial central planning and show hostility toward free markets.
- Be willing to sock it to the middle class by creating inflation.
- Have spent most of your career in academia, particularly studying economic models that don't work in real life. (If you've worked in the private sector and understand how economies really work, don't bother applying.)

Yellen is ostensibly intelligent. After all, although she has never worked in the private sector, she did have an illustrious career in academia and government.

She also believes in rampant money printing. In fact, in recent years, Yellen has been one the most forceful advocates for Quantitative Easing. That's why Wall Street loves her.

How about her belief in free markets? Well, back in 1999 she said: "Will capitalist economies operate at full employment in the absence of routine intervention? Certainly not." That means she believes in heavy intervention from the Fed and thinks that, somehow, money printing will create jobs.

She is also incompetent in economic forecasting. Back in February 2007, before the housing crash and the global credit crisis, she said this about the housing market:

"The concerns we used to hear about the possibility of a devastating collapse – one that might be big enough to cause a recession in the U.S. economy – while not fully allayed have diminished. I think there is a reasonable chance that housing is in the process of stabilizing, which would mean that it would put a considerably smaller drag on the economy going forward."

Just like Bernanke, she failed to foresee the crisis. She actually admitted her failure in 2010, when she testified in front of the Financial Crisis Inquiry Commission. In that occasion, she said: "I did not see and did not appreciate what the risks were with securitization, the credit ratings agencies, the shadow banking system – I didn't see any of that coming until it happened."

Thus under Yellen, we can expect the Fed to keep doing what it has been doing for the past decade: printing money and blowing asset bubbles.

There's no question that the Fed's reckless money printing and monetization of debt has boosted the stock market in the short term. Numerous asset classes have boomed in recent years. Those on Wall Street know this, which is why they wanted Yellen to be the Chairperson.

Well, with the money being printed, the stocks will keep dancing upward …..at least until the music stops. So stay invested but make sure you use trailing stop-loss orders for all of your stock investments.

And make sure you're dancing close to the exit door. Because when the music does stop, only those who are prepared to exit the market quickly will be able to escape the worst of what I believe will be a financial bloodbath. To be facetious, is Leonardo DiCaprio (The Wolf of WallStreet) to blame for spooking investors in the latest big downturn in the Dow? Hmmm?

In any case, if you agree that things could get ugly (or more ugly) once Yellen begins tapering, it would be wise to make some preparations now on how to handle such a change in Federal Reserve Bank policy.

Option No. 1: Do nothing. Are you going to do nothing and just ride things out? If you are a long, long, long-term investor with an iron stomach, that's a strategy that will work. However, most investors who claim to be buy-and-hold-forever investors really aren't and then cry "uncle" when the financial pain gets too intense. How did you react during the 2000-'01 bursting of the tech bubble or the 2008 financial crisis?

Option No. 2: Be a Market Timer. Have some sort of defensive, market-timing strategy in place to avoid the big downturns. What type of timing system is another entirely different subject but a great starting point is the use of protective stop-losses.

Option No. 3: Trading Places. You could diversify your portfolio into assets other than U.S. stocks, such as bonds, cash, precious metals and non-U.S. stocks. Moving some of your assets to places that don't suffer from 7% unemployment, trillion-dollar deficits and obsession with "tapering" appears to be a smart move.

One region you should consider is Asia. Although contrarian economic metrics indicate an impending fall for China, other countries in Asia such as Singapore, India and Indonesia offer some attractive investment possibilities.

So unless you think Asia is an economic wasteland, there's no reason why you shouldn't have a substantive allocation to the fastest-growing region in the world.

Wishing you good investing.

D. Miyoshi

More Drugs… More Drones… More Credit -Pushing Drivel

Dad, I've got to do something,, begins a panicky letter from one of the children.

"When I changed my job status I lost my health insurance. The best policy I can find is $550 a month. What should I do?"

"Don't buy the insurance," we suggested. "It's a waste of money.

Just don't get sick," we added helpfully.

There are two ways a government can rip off its citizens – force and/or fraud. Health care uses both.

Back in the time of Genghis, Attila, Caesar and Napoleon, things were simpler. People were conquered. They submitted. "Insurgents" were disposed of. Houses were looted. Maidens were deflowered. Those were the good ol' days –

MORE DRUGS….MORE DRONES...MORE CREDIT-PUSHING DRIVEL

before health insurance!

But even in the oldest of days, a man on his own couldn't keep a whole population under his heel. He needed help. Thus were born the ruling elites, sharing power among at least enough people to control the armed forces. There are governors of all sorts. But if they don't control the military and police, they will soon be governed by them.

The beauty of democracy is that it defrauds the average person into believing that he has been taken into the ruling elite. He thinks that, ultimately, he decides what government does. Naturally, he deserves a share in the spoils.

All government is an exercise in larceny. All governments take things away from some people – power, money, dignity, freedom – to bestow favors on the ruling elite and its clients. The masses willingly and eagerly comply, as long as they think they can get something out of it – that is, someone else's property.

A Zombie War

The argument in Congress, which when last we checked was holding up the whole parade, was over how health-care insurance works.

Roughly, $2.2 trillion is spent annually in America – more, per capita than in any other nation – on health-related consumption. The fight is over who gets the money and who gets the care.

It is a zombie war… As far as we know, no one suggests the obvious solution: Let people decide for themselves.

To win elections, governments need to give as well as take. So, in addition to public safety and national security, they offer free health care, free education, free highways, and free elections to determine who gets what.

As near as we can tell, most of the money spent on health care is simply wasted. Just compare life expectancies.

France has a nationalized system. It costs considerably less per person than the US system. Britain, France, Germany – all the developed countries have health-care programs partly or wholly run by the feds. All spend substantially less than the US and all have about the same or better life expectancies.

Taking a more extreme example, Cuba spends only a fraction as much as the US… But it too, has life expectancy rates that are not much different.

Here again, you might be tempted to say that the feds have failed to create an efficient health-care system in the US. In that, you would certainly be correct. But you would miss the larger point: The US feds succeeded better than any of their rivals in transferring wealth from the dumbbell public to their wily favorites in the insurance and health-care industries.

The Drugs Don't Work

And wait… What's this?

Researchers at the London School of Economics, Harvard Pilgrim Health Care Institute at Harvard Medical School and Stanford University School of Medicine compared the effectiveness of exercise versus drugs on mortality across four conditions (secondary prevention of coronary heart disease, rehabilitation of stroke, treatment of heart failure and prevention of diabetes).

Secondary prevention refers to treating patients with existing disease before it causes significant illness.

They analyzed the results of 305 randomized controlled trials involving 339,274 individuals and found no statistically detectable differences between exercise and drug interventions for secondary prevention of heart disease and prevention of diabetes.

Well, that's great news, isn't it dear reader? Forget the pills. Just go out and take a walk. That should save the nation hundreds of billions, right?

No, I am afraid we missed the point again. The idea is to transfer money, not help people become healthier. If the feds really wanted a healthy population and an efficient health-care system, they'd cease offering health care services to anyone who was overweight, for example, or to anyone who couldn't do at least 10 push-ups.

Get it. They'd encourage people not to need health care.

As the system works today, few people will choose exercise over drugs. When you exercise, you pay the "costs" yourself. You have to spend the time. You have to do the work. But when you get free drugs from Medicaid, someone else pays.

Get used to it: More drugs… more drones… and more Fed credit-pushing drivel.

by Bill Bonner, Chairman, Bonner & Partners

Hillary in 2016 is Just the Beginning …

Today, we look ahead – way, way ahead.

It's the spring of 2035. A debt-ceiling debate rages in Congress as lawmakers wrestle over the prospect of crossing the $40 trillion threshold for the first time, more than 1.5 times the size of America's $25 trillion economy. Just outside of Baltimore, Maryland, bureaucrats in the Social Security Administration prepare a report for Capitol Hill that details a plan to issue publicly held debt to meet Social Security payments now that the trust funds are depleted. Meanwhile, at the Ministry of Social Wellness (what was once known as the Centers for Medicare and Medicaid Services), administrators grapple with the cost of providing universal health care that has ballooned to nearly $1.5 trillion, more than 5% of GDP.

Republicans are giddy with a sense of destiny. This is the moment of opportunity they've awaited since losing the White House back in 2008 …

America is changing philosophically. You can blame demographics … and federal policies that encourage government dependence over self-reliance.

The result, I am betting, will see a Democrat reside at the White House for the next 20 years – starting with eight years of Hillary in January 2017.

The longest one-party streak in American politics won't end until a catastrophic financial crisis in the mid-2030s undermines the socialist tax-and-spend tendencies of Democrats. At that point, America will undergo a purifying catharsis that returns the country – or at least what remains of the "United" States – to its roots as the once and future bastion of free-market capitalism.

Until then, America's changing demographics and the expanding welfare rolls tell you where we're headed and why.

Who's Really Going to Kill the Golden Goose?

As a country, we are increasingly diverse in racial terms. More than 35% of America is non-white today, up more than five percentage points since 2000. A decade from now, non-whites will exceed 40% of the population. As a group, non-whites tend to vote for Democrats. And among the most-relevant race in the group – the young and fast-growing Hispanic population – 51% either are or lean toward Democrats; less than a quarter identify with Republicans.

Meanwhile, America has seen a shocking rise in welfare dependence. Since the end of the Clinton administration, participation in the food-stamps program has soared 171% to nearly 48 million Americans, meaning one out of every six people in the country relies on D.C. for food. Monthly benefits have ballooned to $133.41 per person from an inflation-adjusted $96 when Clinton left office.

More than 36% of immigrant households receive at least one form of welfare every month, and in 35 states, welfare benefits – which are untaxed – provide a better standard of living than does a minimum-wage job, a significant disincentive to work.

One in every three Americans – more than 100 million overall – participates in one or more of the 80-plus federal means-tested welfare programs, including Social Security and Medicaid. Every day, 10,000 baby boomers join the Social Security rolls and will soon account for 26% of the population. And though boomers tend to side with Republicans politically, the one glaring exception is Social Security, where boomers strongly ally with Democrats who fight against Republican efforts to privatize the failing program and, rightfully, means-test participation.

Medicaid, meanwhile, has exploded to some 53 million Americans, meaning the indigent-care program now provides health care for 17% of the country, up from just 11% of the population in 2000.

And on top of that, the largest cohort in American history – the 95-million strong millennial generation born between 1982 and 2003 – tend toward the underlying philosophies of Democrats.

If I were a Republican strategist, those data points would have me worried about my party's political future. Each one underscores a strength that will keep a Democrat in the White House for another two decades. Those who benefit the most from Democratic ideals of a more socialist-minded America – one where the supposed wealth of the nation should provide everyone a middle-class lifestyle – increasingly have the voting power.

Are Social Security recipients going to vote for a political party that fundamentally wants to change the income program they rely on, even though the program must be changed to save the nation? Are the ever-larger numbers of welfare recipients going to vote for a political party that wants to reduce welfare rolls, even though welfare must be reformed? Are immigrants and Hispanic voters going to vote for a political party that rails against immigration, though immigration reform is the answer to many of America's fiscal troubles?

In short, which group of voters will willingly slay the goose squirting out those golden eggs?

Higher Taxes on the Self-Reliant are Coming

This exercise is important for one reason: It imposes financial impacts on you and me.

Blaming D.C. for America's fiscal mess is easy, though largely wrong. Politicians are simply following the script that a plurality of voters is writing. When people pile up debts, and when voters allow their lawmakers the freedom to do so, too, they're saying two things: 1) They want more from their lifestyle than their income can afford, and they're willing to borrow at all costs to obtain it; and 2) their immediate gratification is so much more important than tomorrow's financial security that they're willing to risk poverty in the out years just to live large in the moment.

Increasing numbers of American voters – let's call them the majority – have reached that point in history where they realize they can live large without much effort simply by voting for the politicians who will give them access to the national purse through ever-larger, ever more-numerous and overly generous federal give-away programs. And American politicians – Democrats, in particular – have reached the point in history where they realize that all they need to do to maintain power is give the voters exactly what the voters want – namely, access to the national purse.

It's the perfect storm for Democrats. They have a large voting bloc emerging that either needs the government for some portion of its livelihood, or that sees government handouts as an adequate replacement for self-sufficiency (i.e., work). Neither group has reason to upset the status quo … which means future Democrats, starting with Hillary, have every reason to push for larger, more-inclusive welfare programs.

And that means higher taxes on those of us not reliant on welfare.

So, prepare yourself for the possibility that Democrats will control politics in D.C. until a major crisis forces a rethink in America.

And prepare for the taxes that are assuredly on the way …

By Jeff D. Opdyke, Editor of Profit Seeker

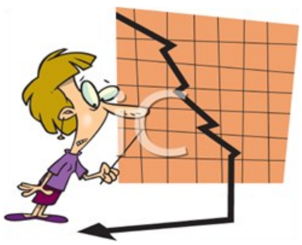
Are We In A Bubble?

If we ask Janet Yellen, the incoming head of the Federal Reserve we are told no. In fact most educated people including economic pundits are saying we are not in a bubble. But based on what happened in past bubbles, when they burst, the economic fallout is oftentimes devastating because no one is prepared for it.

Psychologically, it is understandable how this would happen.

ARE WE IN A BUBBLE?

Advancing in a Time of Crisis



Financial Crisis Report

David M. Miyoshi is a California attorney and real property broker, having earned a Bachelor of Science degree from the University of Southern California, a Juris Doctor degree from the University of California, an MBA degree from Harvard University and an international graduate degree from Waseda University in Tokyo.

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.

Everyone, including me, likes to see our economic fortunes go up and up as a bubble matures. But the fact that so many people are defending the Fed's policies that are undergirding the current bubble and arguing that this is not a bubble is the most obvious reason why this is a bubble. And unfortunately, as bubbles are want to do, they simply don't fade away, but suddenly burst, often times with disastrous consequences.

We cannot deny that the trajectory of the market, especially last year in 2013, has been classically bubble-like in its pattern. The S&P 500 has seen a larger point gain than in the dramatic late-1994 to early-2000 bubble. It is up 177% in a little less than five years, and there has only been one bull market since the early 1950s that has lasted longer than that without at least a 20% bear market pull back.

The last bubble that burst saw the S&P 500 rise 100% in five years, then crash to 58%! The Fed is creating one bubble after the next by its policy of pushing down short-term and long-term interest rates, which leads to massive speculation and returns chasing. The consequence of unprecedented quantitative easing and money printing has not been inflation in consumer prices but inflation in financial assets, such as stocks.

To help you identify a bubble, here are 10 rules written by Harry S. Dent Jr., Senior Editor of *Survive and Prosper* that will help you identify them.

The 10 rules that bubbles follow are:

1. All growth, progress and evolution is exponential, not linear.
2. All growth is cyclical, not incremental.
3. Bubbles always burst; there are no exceptions.
4. The greater the bubble, the greater the burst.
5. Bubbles tend to go back to where they started or a bit lower.
6. Financial bubbles tend to get more extreme over time as credit availability expands along with our incomes and wealth.
7. Bubbles become so attractive that they eventually suck in even the skeptics, like a succubus ensnaring unwary men.
8. No one wants the "high" and easy gains of the bubble to end, so everyone goes into denial, especially in the latter stages.
9. Major bubbles occur only about once in a human lifetime, so it is easy to forget the lessons from the last one. The last bubble of this magnitude that burst was from 1922 to 1929: the Great Depression.
10. Bubbles may seem fruitless and destructive when they burst, but they actually serve a very essential function in the process of innovation and human progress.

So next time someone tells you we're not in a bubble right now, show them this article.

I hope you find this helpful as you invest your money. Keep the Faith.

D. Miyoshi

Miyoshi Capital LLC

1055 Wilshire Blvd.
Suite 1890
Los Angeles, California 90017
U.S.A.

Phone: 310-378-0615
Fax: 310-378-0000
E-mail: david@miyoshicapital.com
www.miyoshicapital.com
http://about.me/dmiyoshi