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Financial Crisis Report

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Advancing in a Time of Crisis

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.

WHERE'S THE GOLD?

When we talk of gold we think of Olympic athletes, fancy watches and Fort Knox. If we recall back in high school chemistry class we learned that gold is a yellow metal with the symbol AU and atomic number 79. It is the most malleable and ductal of all metals. Everyone knows it has always been a valuable and highly sought after precious metal for coinage, jewelry and other arts since long before the beginning of recorded history.

A total of 174,100 tons of gold have been mined in human history according to the GFMS Gold Survey as of 2012. The world consumption of new gold produced is about 50% in jewelry, 40% in investments and 10% in industry

Before 1914 our global monetary system was based on the classical gold standard. The US dollar was backed 100% by gold. But in 1914, the monetary system changed into a gold exchange standard in which the dollar was only partially backed by gold. A $50 bill, for example, was backed by just $20 in gold. Then came 1945 and a new monetary system known as Bretton Woods. Under that system, world leaders established the dollar as the gold reserve currency and linked it to gold at the rate of $35 per ounce. Finally in 1971 Nixon canceled the direct convertibility of the US dollar to gold. For the first time in American history, the Dollar was totally fiat... totally without backing in gold. The US dollar has been a fiat based currency ever since.

Since the big stock market decline in 2008, many analysts have predicted that America's out-of-control debt would destroy our country. And yet, our economy seems to be doing okay. Why? Why hasn't this ticking time bomb exploded?

It all comes down to one seemingly simple, but very important concept: TRUST. We all know that trust is the most important glue in any relationship, either in business or in our personal lives. This is also true in our global financial system. Most of us take it for granted, but trust in the US Government is a big reason why America has become such a dominant force over the past century. It's because of trust in our government that the US has been able to borrow at the lowest interest rates available in the world for years. Even in 2008, in the midst of the worse financial crisis in 80 years, our federal government was able to borrow vast sums of money at an interest rate close to 1%. It was trust that allowed our government to bailout major banks and prevent the collapse of our financial system. And it's that trust that has allowed our government to get away with the spending spree of historic proportions... for far longer than anyone might reasonably expect. But the government isn't the only one that benefits from this trust. We all do.

Because of widespread trust in our currency across the globe, we pay a relatively low-price for food, energy, clothing, electronics and other products. Since our currency is accepted everywhere around the world, we can pay for all of our imports in dollars. We've been able to buy everything we need with paper money that we can print whenever we want. In other words, America has been able to exchange paper dollars that are produced at almost no cost for valuable goods. So, trust in America has made it easier for us to import more than we export, to consume more than we produce, and to spend more than we earn. It's a huge benefit that has allowed us to live in our oversized homes, drive luxury cars, have far cheaper gasoline prices and buy HD TV's. Trust in the US government and its institutions, it turns out, has given us the greatest standard of living the world

WHERE'S THE GOLD?

as ever seen... It's what has made the American dream possible.

But if this trust was shattered, our way of life would be over.

Jeff Opdyke, editor of the *Sovereign Investor* has discovered some disturbing data that could reveal one of the biggest cover ups in US financial history.

Jeff has been researching the ST – 900 document which is a monthly publication by the US Commerce Department's Bureau of Economic Analysis. This document shows official US international trade data... everything from how much corn we export to how much oil we imported. Jeff states that under the category Miscellaneous Commodities it shows that going back to 1991 the US has consistently exported gold in amounts that are well beyond what it has on hand. Basically during the past 20 years the US had a total of 7,532 tons of gold available for consumption but the US consumed 7,605 tons. So, we consumed more than we had available to us. That implies we should have been a net importer of gold. But oddly enough, we were not. In fact we exported a massive 5,504 tons.

How could we have possibly exported more than 5,500 tons of gold after we had already consumed all the gold we had available, plus a little more? The math makes no sense. Where is all that gold we exported coming from? It had to come from somewhere

That's how Jeff reached his shocking conclusion: there is an unexplained supply gap of 5,577 tons of gold and there is only one institution in the US capable of secretly supplying such a large amount of gold: the Federal Reserve.

And Jeff is not the only one who has figured this out. Canadian billionaire Eric Sprott, founder of Sprott Asset Management says “the only US seller that would be capable of supplying such an astonishing amount is the US Government, with a reported gold holding of 8,133 tons"

Bill Gross, founder of Pimko, the world's largest bond fund, calls this scandal “the Fort Knox fairy tale", referring to the army base where the gold is supposedly being held. Here's what he said recently: “$54 trillion of credit in the US financial system based upon trusting a central bank with nothing in the vault to back it up. Amazing!"

These are not some wackos who believe in crazy conspiracy theories. They are highly respected professionals who have made hundreds of millions in the financial markets.

In the late 1950s, the US government started selling most of our gold to various European nations. From 1957 to 1972, our holdings went from 20,500 tons to 8,500, a decline of almost 60%. Since the late 1970s, America's officially reported gold reserves have remained at a constant 8,133 tons. So, according to the Fed, the US Treasury has not bought or sold a single ounce of gold for more than 3 decades. How is that possible? The Government's own document-the FT-900 report-shows the US has been exporting massive amounts of gold over the last 20 years. Yet the Fed has been telling us for more than 30 years that America's gold reserves have never changed. The math simply doesn't add up.

This gets us back to Fort Knox. Fort Knox is still viewed by many as a golden beacon of global finance….a symbol of the American empire's super power status and strength. It's the world's most secure vault. Made of a 21 inch thick material that's resistant to drills, torches and explosives, it's contained on a 109,000 acre US Army post surrounded by video cameras, mine fields, barbed wire, electric fences and armed guards. But, if what the FT – 900 document suggests is true, the last remaining symbol of American financial might could be exposed as nothing more than a monetary mirage.

The FT – 900 document suggests the vaults are empty. But we can understand why the Fed keeps reporting that it holds 8,133 tons. The Fed knows that if it disclosed that most of our gold is gone, it would lead to a major crisis of confidence in the dollar and US government bonds. Think about this for a minute. If America's gold reserves are a lie, then what else has been distorted, and where, if anywhere is the truth? The “full faith and credit of the US government” would become worthless overnight. And that would lead to a collapse of our economy and our way of life. We would reach the tipping point, where faith in America's finances and confidence in its government are lost.

Even the Treasury Department has just published a new report admitting that this kind of loss of confidence would have disastrous consequences for our nation. Here's what the report said: “it has the potential to be catastrophic: credit markets could freeze, the value of the dollar could plummet, US interest rates could skyrocket, the negative spillovers could reverberate around the world, and there might be a financial crisis and recession that could echo the events of 2008 or worse."

OK, so where has the gold gone?

WHERE'S THE GOLD?

If America's gold isn't where it should be - inside the vaults controlled by the Federal Reserve - then where is it?

There is not much transparency in the gold market so most people find it hard to pinpoint the location of gold. There are some data that shows a tremendous amount of gold has moved to other countries in the East, especially China. Data released by the Hong Kong Census and Statistics Department show that over the last couple of years alone, China has imported 2,232 tons of gold.

That's why Bloomberg recently reported: "there are signs that gold is moving from west to east."

Forbes also weighed in recently and concluded that: "the yellow metal may be in a transition stage from so-called "weak hands" in the West to "strong hands" in the East."

The problem is the Fed may not be able to conceal this matter much longer because China is about to make an announcement that may rock the world and help expose the Fed's lie.

China tends to announce its official gold holdings every 5 years or so. The last time the Chinese officially announced the size of the country's gold reserves was on April 24, 2009. The Peoples Bank of China, the Chinese version of our Federal Reserve, told the world that China's gold reserves had grown to 1,054 tons from just 600 tons 5 years earlier. And that's the last official word from the Chinese. So, the market still operates under the assumption that the Chinese Central Bank controls 1,054 tons of gold.

But, it's about time for China to make a new announcement. This may happen by April 2014.

And that announcement may shock the world.

According to Jeff's research, China has a gold hoard of at least 5,000 tons. Jim Rickards, hedge fund manager and author of the best-selling book *Currency Wars*, has come to the same conclusion. He recently said: "come April 2014, China will announced that they own 5,000 tons of gold. That should be an earthquake. I have spoken to a number of sources in Asia. I've spoken to a number of people who are very close to the physical gold market, I've done my own investigation, etc. Every time I have an estimate and try to verify it, what I get back is that I'm wrong on the low side."

Once China makes the official announcement, our allies and lenders will all know the answer to the question: what's in Fort Knox? They will figure out most of the gold China is holding must have come from the Fed. After all, that's what the document FT – 900 implies... It shows our government has been exporting massive amounts of gold. With the Chinese announcement the world will realize the Federal Reserve has been lying all these years. And everyone will know China's gold reserve is larger than the Fed's.

<u>But is gold a big deal?</u>

You would think the Fed would be smart enough not to sell off America's gold reserves.

But it's clear from recent commentary that the Fed has no interest in gold. On July 18, 2013, Fed Chairman Ben Bernanke testified to Congress that "nobody really understands gold prices, and I don't pretend to understand them either." And when former Congressman Ron Paul asked Bernanke why, then, the Fed holds gold, he said it did so only because of "tradition."

For the Fed, giving away our gold is no big deal. But Jeff Opdyke thinks that's a mistake of historical proportions. Throughout history gold has always flown to where wealth was being created. From Athens to Rome to the Byzantine Empire. Our huge gold holdings after World War II were a clear reflection of our unique economic power.

Just look at what happened to Britain when it started selling off its gold. The country was on the gold standard for nearly 200 years, from 1717 until 1914. That was a prosperous period for the British Empire. During that time the country gave birth to the industrial revolution and ruled one fourth of the earth and its people. The British pound was the reserve currency of the world and it looked like it would last forever. But Britain abandoned the gold standard in 1914 to start printing money. And it sold 30% of its gold currency. Pretty soon the country was flat broke. At one point in 1967 the British currency lost 14% of its value overnight. Inflation got out of control, reaching 27% a few years later. There were endless strikes in nearly every sector, including grave diggers, and trash collectors, and hospital workers. Things got so bad at one point mothers giving birth had to bring their own linens to the hospital. In short, Britain's whole economic system and society collapsed. And now the US is on the cusp of reliving a similar history. We're about to learn - the hard way - what the British discovered:

<u>That empires don't last forever</u>

If the US was still a manufacturing super power, if we still had one of the fastest growing economies, if we still had a thriving middle-class, we would be fine. If our country was in great financial shape, having no gold reserves wouldn't be a problem. But we all know that's not the case today.

Back in 1980, the US national debt was less than $1 trillion. Today it's more than $17 trillion, which is the greatest debt in the history of the world. And this doesn't even account for our unfunded liabilities, which our government keeps off the federal balance sheet. But Laurence Kotlikoff, a well-known Boston University economist, has estimated a total debt. Here's what he told Jeff recently: "I estimate the US's fiscal gap at US $200 trillion. The US is arguably in worse fiscal shape than any other developed country. Six decades of "take as you go" has led us to a cliff. This is effectively a nuclear economic bomb. Our country is broke. It's not broke in 50 years or 30 years or 10 years. It's broke today."

So our country is not exactly a fortress of financial health. Far from it. For all practical purposes, the country's only true collateral is its gold reserves. Most of that now appears to be gone.

Once the world discovers the truth about the Fort Knox fairy tale…… Once it realizes our gold is gone and all we have to show for are trillion's of dollars of debt that can never really be repaid…. trust in US bonds and the dollar will be shattered in an instant, catching millions of Americans unprepared. After that, our American psyche will never be the same again. Our nation will no longer be the world's financial and economic powerhouse.

As trust in the dollar disappears around the globe, all the currency we've exported will race back into the country. The increased supply of money will bid up prices seemingly overnight. Everything we consume will get much more expensive…. all the gadgets, shoes and shirts we import from China… all the beer, wine and furniture we import from Europe….. and all the coffee, fruits and vegetables we buy from South America.

We can say goodbye to "everyday low prices." We will no longer be able to find cheap electronics, toys and food in the shelves of Wal-Mart or any other retailer. Oil will shoot toward $300 a barrel pushing the price of gasoline toward $9.50 per gallon. Things like corn, wheat, milk will skyrocket. The standard of living of millions of people will collapse almost overnight… pension funds will be devalued, ruining the retirement plans of millions of Americans…. Global markets will plunge, as investors bail out of stocks. Interest rates across the board will rise dramatically. Mortgage rates will climb up to 10%, killing the recovery in the housing market. Higher borrowing costs will also kill consumer demand, sending our economy into a deep recession, much worse than the "Great Recession" of 2008. With consumers spending less, businesses will be forced to initiate a cycle of massive layoffs. The unemployment rate will double or worse. Because of higher borrowing costs, our government will have to print even more money just to meet its obligations. This will only accelerate the run on the dollar. And when all is said and done, when the shakeup finally settles, the global financial system will no longer be centered on the United States.

Most of us have lived our entire lives under the dollar reserve monetary system that built and funded the American Empire. So the majority believes that's just the way the world works. But history shows that monetary systems change every 40 years or so.

So the big question is, will we be ready when our monetary system changes this time?

D. Miyoshi

Are Democrats Plotting Against Obamacare?

A Bum Plan

We say that after reading the latest arguments about Obamacare...

"Errors Continue to Plague Government Health Site," was the top story recently in the Wall Street Journal. In the newspapers... and all across the World Wide Web... people are grousing and sniping at Obama's new healthcare program. They don't understand how it could be so mismanaged... so complicated... and so incoherent.

But what did they expect?

The Affordable Care Act is not designed to help anyone live longer or to lower the cost of healthcare.

You may care about those things. But the people who run the government have their own motives and incentives. And they are not the same as yours. Instead, they aim to satisfy a more basic desire of government: to control people and transfer wealth.

The failures of Obamacare may not make much sense to the earnest world-improver.

But the cynic sees it more clearly. He knows the real aim of Obamacare is to take wealth and power from one group – the public – and give it to the lobbyists who wrote the legislation; the politicians and professionals who will manage it; and the crony capitalists who will benefit from it most.

In other words, cynicism helps you connect the dots.

Why would Congress exempt itself from the program? Because it knows it's a bum plan.

Why would the law take more than 2,000 pages to explain? Because there are so many boondoggles and giveaways hidden in it.

Why isn't there more resistance from insurance companies, drug manufacturers and the medical industry? Because they're all in on it.

A Single-Payer System

And another pertinent question: Why is the implementation so sloppy and incompetent?

Ah... glad you asked.

Apparently, a website that was meant to service a sector that accounts for one-sixth of US economic output was set up without any significant testing. It was almost as if they didn't want it to work.

And maybe they didn't...

Why?

Maybe they are aiming for something more. The Daily Beast explains:

Could anger at the Obamacare rollout make Americans more receptive to a kind of Medicare-for-all system? That's what activists are hoping – and they're plotting a state-by-state fight. As the rollout of Obamacare clunks forward, activists who opposed the law from the beginning say it is time to seize the moment, to tear down the current healthcare edifice and start anew, especially now as frustration with the law's implementation is reaching a peak.

The other day, Sen. Bernie Sanders (I-VT) introduced the American Health Security Act, which would require each state to set up a single-payer healthcare system and would undo the exchanges that have plagued Obamacare. Meanwhile, various state-led efforts are under way that advocates hope will sweep the country statehouse by statehouse, as soon as lawmakers see the advantage of a single-payer system.

Single-payer system? Who would be the single payer?

The federales!

Wouldn't that put them in direct control of 17% of US GDP?

Yes, it would.

Are they intentionally mucking up Obamacare so they will end up with more of what they want?

Maybe...

Bill Bonner, Chairman of Bonner & Partner

How does Buffet select his stock investments?

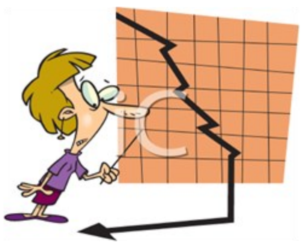
Do you ever wonder how does the world's most successful investor select the stocks he invests in? In a recent issue of *The S&A Digest Premium* published by Porter Stansberry (for subscription information contact customerservice@stansberryresearch.com), a letter written by Warren Buffet to his close friend advising her how to manage her pension account was outlined. The letter states:

"The directors and officers of the company consider themselves to be quite capable of making business decisions, including decisions regarding the long-term attractiveness of specific business operations purchased at specific prices. We have made decisions to purchase several television businesses, a newspaper business, etc. And in other relationships, we have made such judgments covering a much wider spectrum of business operations.

Negotiated prices for such purchases of entire businesses often are dramatically higher than stock market valuations attributable to well-managed similar operations. Longer term, rewards to owners in both cases will flow from such investments proportional to the economic results of the business. By buying small pieces of businesses through the stock market rather than entire businesses through negotiation, several disadvantages occur: a) the right to manage, or select manag-

HOW DOES BUFFET SELECT HIS STOCK INVESTMENTS?

Advancing in a Time of Crisis



Financial Crisis Report

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ers, is forfeited; b) the right to determine dividend policy or direct the areas of internal reinvestment is absent; c) ability to borrow long-term against the business assets (versus against the stock position) is greatly reduced; and d) the opportunity to sell the businesses on a full-value, private-owner basis is forfeited.

These disadvantages are offset by the periodic tendency of stock markets to experience excesses, which cause businesses – when changing hands in small pieces through stock transactions – to sell at prices significantly above privately determined negotiated values. At such times, holdings may be liquidated at better prices than if the whole business were owned – and, due to the impersonal nature of securities markets, no moral stigma need be attached to dealing with such unwitting buyers.

Stock market prices may bounce wildly and irrationally, but if decisions regarding internal rates of return of the business are reasonably correct – and a small portion of the business is bought at a fraction of its private-owner value – a good return for the fund should be assured over the time span against which pension fund results should be measured.

Success in large part, is a matter of attitude, whereby the results of the business become the standard against which measurements are made rather than quarterly stock prices. It embodies a long time span for judgment confirmation, just as does an investment by a corporation in a major new division, plant, or product. It treats stock ownership as business ownership with corresponding adjustment in mental set. And it demands an excess of value of price paid, not merely a favorable short-term earnings or stock market outlook. General stock market considerations simply don't enter into the purchase decisions.

Finally, success rests on a belief, which both seems logical and which has been borne out historically in securities markets, that intrinsic value is the eventual prime determinant of stock prices. In the words of my former boss: 'In the short run the market is a voting machine, but in the long run it is a weighing machine.'"

Basically, Buffet's approach is to buy individual stocks in the same way one would buy whole business operations and to ignore whatever sentiment is prevalent in the stock market. This turns out to be both the most profitable way to invest (because of the focus on long-term results and appropriate purchase price) and the safest.

The overriding counsel to all of this is use your own hard-won business judgment to guide your investment decisions. Don't buy a single share of stock in any company you wouldn't want to own forever. Don't judge the investment's success or failure by its share price, but instead by its business results. Don't allow popular sentiment to sway you from your course. Instead, use the wild, irrational swings in average share prices to give you both opportunities to buy at great discounts and opportunities to sell at unwarranted premiums. As Buffett himself says, thanks to the impersonal nature of the market you can take advantage of "unwitting buyers" without any stigma.

Here's wishing you incredible investing success.

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