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Financial Crisis Report

Written and Edited by David M. Miyoshi

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.

Profiting from Putin's Petro-Politics

The invasion by Russia of the Crimean Peninsula demonstrated to the world that President Putin is securely intent on unscrupulously resurrecting the former Union of Soviet Socialist Republics. Now that the residents of Crimea by way of a referendum voted to secede and join Russia, Putin's ignoble plan congealed further. His latest move of signing a treaty formally annexing Crimea into Russia is the capstone on what is likely stage one of his plan to take over the Ukraine. Stage two appears already in process as Putin readies his forces along the eastern border of Ukraine for an invasion. Perhaps Putin is fortunate that the Malaysian Airliner disappearance, the greatest aviation mystery ever has diverted world attention away from his geopolitical hooliganism.

When Putin was head of the KGB he wrote a thesis that outlined his vision of using the vast petroleum energy resources of Russia, especially natural gas, as a form of soft power leverage to control the countries of the former Soviet Union and of the present European Union (EU) to kick start Russia's global economic and geostrategic revival as a world hegemon.

In 2000, after the resignation of Boris Yeltsin, Putin the new president, with a vengeance put his plan into action by recentralizing state control and establishing strict vertical power over its energy sources principally the company Gazprom by making it into a state monopoly. Within the following decade Putin's plan came into fruition with the major countries of the EU becoming addicted to Russian natural gas. How addicted did they become? Below are the 4 largest economies (by GDP) of the 27 countries of the EU and how much of their natural gas imports are from Russia:

1. Germany – 36% from Russia
2. Italy – 27% from Russia
3. United Kingdom – 25% from Russia
4. France – 15% from Russia

France imports less natural gas than the other three because a majority of France's electricity is generated by nuclear reactors. Germany is Russia's largest customer in Europe for natural gas, and that percentage above will continue to rise as the country turns its back on nuclear energy.

Germany also has the most to lose if Putin decides to play "musical pipelines" turning off the faucet to teach the United Nations, United States, and the EU that Russia will not be threatened or forced to act against its own interests. With the Crimean Peninsula in the hands of Russia we can expect to see higher natural gas prices all across Europe unless a resolution to the Ukraine crisis appears very soon.

Because Europe depends on Russia for so much of its natural gas, it's quite clear why the EU countries pay more than 100% premium to United States priced natural gas.

President Obama's sanctions and the decision by the G-8 to "suspend" Russia as a member may make a political statement, but it's unlikely the Russians will be bullied any longer by the United States and United Nations. In any case, it's not America but the EU that faces a painful shortage if Russia decides to flex its muscles and shut down the flow of natural gas. Europe is not afraid of Russian missiles or Russian troops. They're afraid of Russian gas being turned off, that is about the only power Russia really has. Putin will do what's best for Russia and higher prices for gas, as well as oil and uranium are definitely within its interests.

With this backdrop, it is evident that energy companies that can create an alternative to the Russian oil and gas supplies for Germany, the UK and the other EU countries will make windfall profits and I believe investors who invest in the right companies run by the right management teams will reap spectacular rewards exceeding even those from the Bakken, Marcellus and Eagle Ford oil and gas fields in the United States.

We are in the very early stages of the European Energy Renaissance, which is nothing more than bringing modern North American fracking technology, innovation, and equipment to the oil and gas basins in Europe.

Casey Research, LLC has uncovered a small oil and gas exploration producer that is currently drill-testing wells and owns over 2,000,000 acres in Central Europe. The field it's sitting on has produced almost 100,000,000 barrels in the past, so the question is not whether the oil is there, but how much of it can be extracted economically – with cutting edge American technology. This and other similar gas mining projects in Europe promise spectacular returns to investors who act timely.

For U.S. investors who prefer to invest in natural gas processing plants, pipelines, storage facilities, container ships, etc., of shale oil and natural gas projects in the United States, the development of domestic U.S. oil and gas fields promise to provide similarly impressive rewards.

As the United States becomes the world's largest producer of shale oil and natural gas, bolstered by the opening of the Keystone Pipeline that will greatly increase the supply of oil and natural gas in the U.S., the world price of oil will likely drop to below $100 per barrel. At that price Mother Russia will become hard pressed to "make payroll."

Thus for United States investors participating in shale oil and natural gas sourcing and supply projects in Europe and processing and distribution facilities in the U.S., the geopolitical quagmire in Central Europe and Russia may prove to be a Godsend.

Here's to your profitable investments in energy.

D. Miyoshi

Three Secrets of Self-Made Billionaire Investors

By Dan Ferris, Editor, *Extreme Value*

Warren Buffett was born in 1930 and became a child of the Great Depression. Today he's worth in excess of $50 billion.

George Soros was born the same year, and became a child of the Great Depression, the Holocaust, and WWII. According to Forbes.com, he's worth over $19 billion.

Carl Icahn was born in 1936. He was once so broke, he had to sell his car to feed himself. Forbes.com says he's worth around $20 billion today.

All started with nothing. All wound up billionaires. All did it by investing.

At first glance, they don't seem to have much in common… Buffett buys stocks and whole companies and says his favorite holding period for investments is "forever." Soros became a billionaire by making huge leveraged trades in stocks and currencies. Icahn buys controlling stakes in public companies and badgers management to sell assets, buy back shares, and do anything it can to realize hidden value.

But they do have some traits in common, a few core investing ideas that helped make them billionaires. Like every great secret of life, this one is hiding in plain sight. These three self-made billionaire investors…

1. Don't diversify
2. Avoid risk
3. Don't care what anyone else thinks

No. 1: DON'T DIVERSIFY. CONCENTRATE.

Consider what is likely your greatest source of wealth generation: your career. You probably haven't diversified at all in your career. Even if you tried many different careers, you were never doing several of them at once. And, even if you do more than one job, it's highly likely you spend the great majority of your time at just one of them and that just one provides the great majority of your income.

No Deed—No Sex

Why should investing be any different?

For many years, Buffett had most of Berkshire Hathaway's money in just four stocks: American Express, Coca-Cola, Wells Fargo, and Gillette. Today, most of Berkshire Hathaway's money is still in just four stocks: Wells Fargo, Coca-Cola, IBM, and American Express.

No. 2: AVOID RISK

When Carl Icahn bought Tappan shares, he was paying around $7.50 each. But he knew by looking at the balance sheet that the company was clearly worth $20 per share if it were broken up. That's a 62% discount to fair value, a very safe bet.

After Tappan, Icahn targeted a real estate investment trust called Baird and Warner. At the time he found it, the stock was trading for $7.89 a share. Its book value was $14 a share. That's a 44% discount to book value, and a generous margin of safety.

Soros manages risk differently than Icahn and Buffett. He says the first thing he's looking to do is survive, and he's known to beat a hasty retreat when he's wrong. He keeps loss potential in mind before trading. When he shorted $10 billion of British pounds in 1992, he first calculated that his worst-case loss scenario was about 4%.

No. 3: THINK FOR THEMSELVES

Wall Street wouldn't buy shares of *The Washington Post* when Buffett started buying it in February 1973. That's true, even though most Wall Street analysts acknowledged that this was a $400 million company selling for $80 million. They were too scared because the overall market had been falling for some time.

Soros talks to lots of people to get a feel for where a market is going. But he never talks about what he's buying or selling. He just does it.

Carl Icahn doesn't need Wall Street, because he has his own research team. Icahn's people comb through thousands of listed companies to find the ones that are right for his corporate-raider style. Icahn has to have his own research team. If he bought research from Wall Street, the whole world would figure out what he was doing, and it would become difficult to buy shares cheaply.

Think for yourself, avoid risk, and don't attempt to diversify into a bunch of investments you don't understand.

If you really want to get rich in stocks, those three rules are your foundation.

Good Investing,

No Deed… No Sex

By Harry S. Dent Jr., Harvard MBA , Senior Editor, *Survive & Prosper*

When you can’t find a wife because you don’t own property, you know you have a problem.

Welcome to China, home of the biggest real estate bubble in modern history.

Home prices in Shenzhen — China’s largest coastal industrial city — are 35 times income!

Can you imagine making $50,000 a year, yet having to pay $1.75 million for a condo?

I wouldn’t be happy about that at all.

And the rest of China is not much better…

Home prices in Beijing are 30 times income. In Shanghai and Guangzhou they’re 28 times income.

That’s insane.

These numbers exceed the house-price ratio of all the major cities in the world. For example, in Hong Kong, home prices are only at 17 times income. In Mumbai, they’re at 19 times income. In London, now the most expensive city in the developed world, they’re at 15 times income.

Even in Vancouver and Sydney they’re only at 11 and 9 times income.

Without a doubt, China’s real estate bubble is unsustainable, but it gets worse…

No Deed—No Sex

Thanks to overbuilding, the bubble continues to inflate, despite massive vacancies in cities across the country. According to electricity-use surveys, average vacancies run at 27%.

Ordos, the infamous ghost town, is China's poster child for the trouble brewing in paradise. The city was constructed in the central part of the country to accommodate one million people, yet it has only 70,000 residents.

To put that in perspective, I'm talking about a city approximately the size of San Jose that is 93% vacant!

And Ordos isn't the only one. Tianduncheng (meant to look like Paris, complete with a replica of the Eiffel Tower) stands totally empty and Chengdu's New Century Global Center (the largest mall and building complex in the world) is also almost completely vacant.

In fact, since 2001, China has been building houses at a much higher rate than households have been formed.

At the top of the last bubble (2005 to 2008), China was building five million homes a year, even though average annual household formation was just 2.6 million. But instead of scaling back when everything crashed, the Chinese went in the complete opposite direction.

In 2011, there were 19 million housing starts, but only 5.8 million new households. That means nearly 70% of the new homes constructed that year alone were completely unnecessary!

China's real estate market is on the verge of utter ruin… and this is a problem for all of us. When — not if, but when — the Middle Kingdom's property bubble bursts, it will send a shockwave around the world.

First to suffer will be its citizens.

That's because Chinese love real estate. Like art, it's their investment of choice. In the second quarter of 2012, 53% of home purchases were for investment.

The Chinese have the highest level of home ownership in the world. Rural people have 92.6% ownership, whereas urban people have 85.4%. It might seem odd that urban citizens have a lower home ownership rate, but with the cost of real estate in the cities, it's not surprising.

Property investment is so entrenched in China's culture that it directly impacts a man's chances of having sex.

Chinese women must marry up… in all regards. Their spouse must be taller, wealthier, and more highly educated. He must also own a condo or some kind of real estate.

No deed… no sex.

The second to suffer will be everyone else… particularly the Pacific Rim economies of South Korea, Japan, Singapore, Australia, and New Zealand. And of course, the U.S. economy and Europe.

China's bubble burst will be the driving force behind the next Great Depression, thanks to its close connection to the world of commodities. The country has pursued its emerging-country strategy for twice as long and twice as intensely as its failed counterparts, building more than twice as big a bubble. This leaves China caught in a vicious cycle.

With falling commodity prices hurting the exports and best jobs of resource-exporting emerging markets, they'll reduce their demand for goods from China. China is then forced to reduce commodity purchases from these emerging markets, putting additional downward pressure on commodity prices, creating the vicious cycle.

And here in the U.S. we'll feel the impact in rising interest rates. As the crisis unfolds, China and the emerging markets will be forced to reduce their foreign currency reserves. They'll buy less U.S. Treasury bonds, and that will help drive up interest rates in addition to our new tapering policies.

Rising interest rates may sound great for those with sizable sums in their savings accounts, but it will be painful for the rest of us.

Higher interest rates make borrowing more expensive, and if the economy is struggling to recover with current rates at near-zero, it's not difficult to imagine the negative impact when rates start to climb.

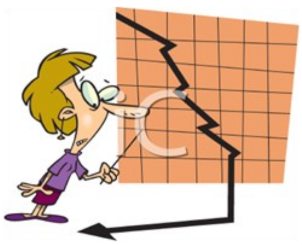
We'll see reduced business and consumer spending, more layoffs, another housing market crash of our very own, and increased overall economic malaise.

And then what was that puff of smoke? You got it… the fragile U.S. economic recovery.

My advice: Prepare now for the inevitable.

Russo-Japan Energy Alliance?

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.

Russo-Japan Energy Alliance?

After the Crimea caper, if you think Vladimir Putin is a shrewd President, the next twist may be even more impressive.

It appears the Russian leader plans to divide and conquer the U.S., Europe and Asia ... and he's using his energy clout to do it.

Putin has sent Igor Sechin, head of Russia's state-owned Rosneft energy company, to Japan to offer "cooperation" in new energy projects. It is reported Sechin will also visit India, Vietnam and South Korea.

Igor Sechin is not simply a corporate executive. He is a close Putin associate who served in Russian intelligence in the 1980s. He later worked for Vladimir Putin in the St. Petersburg mayor's office. The two have been close ever since.

Sending Sechin to Japan makes a lot of sense. With the Fukushima reactor still spewing radiation, the country depends on fossil fuels more than ever. Putin probably wants to make them depend on Russia.

As a bonus, he can create another sore spot between the U.S. and our top Asian ally.

The state-controlled *Russia Today* news service reports the meeting.

"Rosneft CEO invites Japan to make billions with Russia". This isn't even subtle.

Will Japan take the bait? It's hard to say but this could change the global energy markets in unpredictable ways. The booming shale gas energy industry in the U.S. will become even more strategic as these changes unfold.

Putin's divide-and-conquer strategy is even more impressive when you look at it globally.

- He will probably stop cooperating in the negotiations over Syria's civil war and the Iranian nuclear program.
- The European Union nations that depend on Russian energy are afraid to back the U.S. sanctions too zealously.
- Putin convinced China to abstain in the U.N. Security Council vote against Russia's Crimea acquisition. It would not have passed anyway since Russia has veto power, but the abstention signaled China would not back the West against Russia.

This chess game will now unfold before our eyes and we will eventually see if this is a resurrection of the Cold War which was essentially a conflict of ideologies or an actual Hot (or at least Warm) War involving a Russian campaign to grab more land and resources.

Globally things are becoming very interesting. Be sure to watch your energy investments.

D. Miyoshi

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

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