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# Financial Crisis Report

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## Advancing in a Time of Crisis

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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.**

## What to do in an Economic "Eclipse"

The term eclipse can mean either a celestial body covering another or a decline of something.

I witnessed the first type of eclipse in the wee hours of April 15 (Tax Day) when the earth blocked the rays of the sun from the moon creating what we saw as a "Blood Moon". That same term reminded me of the famous saying by Baron Rothschild, an 18th century British nobleman and member of the Rothschild banking family, when he said "The time to buy is when there's blood in the streets." referring to how to make money when an economy "eclipses" or declines.

After all, Baron Rothschild should know. He made a fortune buying in the panic that followed the Battle of Waterloo against Napoleon. But that's not the whole story. The original quote is believed to be "Buy when there's blood in the streets, even if the blood is your own."

This is contrarian investing at its heart - the strongly-held belief that the worse things seem in the market, the better the opportunities are for profit.

Most people only want winners in their portfolios, but as Warren Buffett warned, "You pay a very high price in the stock market for a cheery consensus." In other words, if everyone agrees with your investment decision, then it's probably not a good one.

### Going Against the Crowd

Contrarians, as the name implies, try to do the opposite of the crowd. They get excited when an otherwise good company has a sharp, but undeserved drop in share price. They swim against the current, and assume the market is usually wrong at both its extreme lows and highs. The more prices swing, the more misguided they believe the rest of the market to be.

### Bad Times Make for Good Buys

Contrarian investors have historically made their best investments during times of market turmoil. In the crash of 1987, the Dow dropped 22% in one day in the U.S. In the 1973-74 bear market, the market lost 45% in about 22 months. The September 11, 2001, attacks also resulted in a market drop. The list goes on and on, but those are times when contrarians found their best investments.

The 1973-74 bear market gave Warren Buffett the opportunity to purchase a stake in the Washington Post Company - an investment that has subsequently increased by more than 100-times the purchase price - that's before dividends are included. At the time, Buffett said he was buying shares in the company at a deep discount, as evidenced by the fact that the company could have "… sold the (Post's) assets to any one of 10 buyers for not less than $400 million, probably appreciably more." Meanwhile, the Washington Post Company had only an $80 million market cap at the time.

After the September 11 terrorist attacks, the world stopped flying for a while. Suppose that at this time, you had made an investment in Boeing, one of the world's largest builders of commercial aircraft. Boeing's stock didn't bottom until about a year after September 11, but from there, it rose more than four-times in value over the next five years. Clearly, although September 11th soured market sentiment about the airline industry for quite some time, those who did their research and were willing to bet that Boeing would survive were well rewarded.

# Tech Investor's Personality Test

Sir John Templeton ran the Templeton Growth Fund from 1954 to 1992, when he sold it. Each $10,000 invested in the fund's Class A shares in 1954 would have grown to $2 million by 1992, with dividends reinvested, or an annualized return of about 14.5%. Templeton pioneered international investing. He was also a serious contrarian investor, buying into countries and companies when, according to his principle, they hit the "point of maximum pessimism." As an example of this strategy, Templeton bought shares of every public European company at the outset of World War II in 1939, including many that were in bankruptcy. He did this with borrowed money to boot. After four years, he sold the shares for a very large profit.

But there are risks to contrarian investing. While the most famous contrarian investors put big money on the line, swam against the current of common opinion and came out on top, they also did some serious research to ensure that the crowd was indeed wrong. So, when a stock takes a nosedive, this doesn't prompt a contrarian investor to put in an immediate buy order, but to find out what has driven the stock down, and whether the drop in price is justified.

**Conclusion**

While each of these successful contrarian investors has his own strategy for valuing potential investments, they all have the one strategy in common - they let the market bring the deals to them, rather than chasing after them.

D. Miyoshi

For those who like to invest in "Tech" stocks, Michael A. Robinson, the preeminent tech stock guru and editor of *Strategic Tech Investor* gives us an instructive test on how our personalities affect our investing in tech stocks.

## Tech Investor's Personality Test

In Plato's Republic, protagonist Socrates takes the Delphic aphorism "Know Thyself" as his personal motto.

It's a great motto … especially for investors.

As a market veteran of many years, I can tell you that this is one of the biggest weaknesses most investors have.

They don't know themselves …

I watch as folks take losses and miss out on profits – mistakes they could have easily avoided if they'd only taken the time to know their investing personalities just a little bit better.

So today I want to demonstrate how to transform yourself into the "Socrates of High-Tech Investing."

It's easier than you'd think.

And the profits you'll reap will make it well worth your time.

It Ain't No Rorschach Test

The whole "Know Thyself" philosophy is actually the basis of modern psychotherapy. In that realm, knowing thyself can involve quite a bit of very sophisticated analysis and testing.

But we're not talking about "ink-blot tests" here.

Indeed, when it comes to investing, knowing thyself can be a pretty straightforward endeavor.

Here, in fact, I've narrowed this effort down to the five main tech-investing "types" or personalities. I've related them to my Five Tech-Wealth Rules. And once you've identified your type, I've also showed you how to avoid the pitfalls that are inherent with your particular investing personality.

When we're done here, you'll "know thyself." And you'll be ready to benefit.

Tech Investor Personality No. 1: The Race Car Driver

The Race Car Driver is someone who wants to profit from companies with above-average growth in sales, earnings and cash flow. For this growth-investor type, those three financial categories are much more important than the stock's sticker price.

If you're a Race-Car-Driver investor, you're more than willing to pay a premium for growth as measured by key metrics. For instance, you probably won't mind paying 40 times forward earnings when the overall market trades at just 15 times next year's profits.

# Tech Investor's Personality Test

For this type of growth investor, paying five times book value (P/BV) or sales (P/S) is just fine – even though the general "rule of thumb" is a maximum of two times. The reason: They're looking for firms that grow their earnings by 25% to 40% a year. With growth like that, a company's stock could double in as little as 18 months.

Amazon.com Inc. (NasdaqGS: AMZN) is a classic growth stock. Trading at $375, the stock has gained 435% over the past five years. The company has a 20% increase in annual sales, but miniscule operating margins of 1%, which is why the stock is trading at 89 times forward earnings.

The Know-Thyself Risk: With a stock like this, the danger is quite clear: If they miss the expected earnings target by as little as a penny, the share price will get a "haircut."

A way to manage that risk is follow my Tech Wealth Rule No. 4: Focus on Growth. When I told you about my rules last year, I said that focusing on growth means you have to sleuth out firms that have strong fundamentals.

Good candidates are companies that have demonstrated consistent double-digit sales growth. That way, when the company's breakthrough technology finally achieves its potential, all that cash flow will fall to the bottom line.

Tech Investor Personality No. 2: The Banker

The Banker values income and is more concerned about the size and quality of a company's dividend than on the firm's earnings growth.

While this may seem contradictory for a "tech investor," it's become surprisingly prevalent since the bear-market bottom of early 2009. There's a growing sense among investors that – in a low-interest-rate environment like this one – getting a steady dividend stream is a great way to bring in extra cash and increase the stock's overall return.

And consider this: Over the last several years, the tech sector has steadily courted this type of investor by either introducing a dividend or by boosting the "payout ratio" on an existing dividend program.

A big reason for this is that tech firms can generate huge amounts of cash. U.S. firms today hold a combined $1.5 trillion in cash and equivalents, and tech accounts for a whopping 40% of the total.

Microsoft Inc. (NasdaqGS: MSFT) is a classic income-oriented tech stock. With a current yield of 3%, the stock has had four dividend increases in five years. Over the period, the stock itself had gains of 121% but when you add in the value of the dividends that rises to at least 143%.

The Know-Thyself Risk: If you're a Banker, the biggest concern is that, if you tie up most of your capital in these "Steady Eddie" stocks, your returns may fall short of what you need to save to live on.

A way to manage that risk is to take a balanced approach to building a tech portfolio, getting an overall blend of both growth and income.

For this, you can use my Tech Wealth Rule No. 5: Target Stocks That Can Double Your Money. These are companies that are growing earnings at high rates, but that also have the ability to sustain their operations and reward investors with cash.

If you value both growth and income, keep an eye out for stocks like Honeywell International Inc. (NYSE: HON), which we talked about on March 14. This is a stock that offers double-digit earnings growth along with a 1.9% yield and a history of dividend increases.

Tech Investor Personality No. 3: The Power Player

If you're a Power Player, you're a "momentum" investor who's looking for share-price action. You tend to focus on stocks that are on the move, often without regard to any underlying fundamentals favoring the company or its industry.

At its most basic, this approach appeals to investors who eschew "brand loyalty." All that matters is that you're invested in a stock, and that stock is headed up. You're looking for "fast-movers" capable of providing a quick profit.

Power Players are far more likely to go long on the way up but then turn right around and short the stock once it tops out.

Small-cap Plug Power Inc. (NasdaqCM: PLUG) exemplifies "momentum investing." The company is losing money hand over fist, has negative cash flow and trades at 130 times next year's earnings. But the stock zoomed from $3.63 on Feb. 21 all the way to $11.71 on March 10 – and then collapsed when the "momentum" faltered.

# Tech Investor's Personality Test

The Know-Thyself Risk: To be a successful Power Player, you must be able to quickly and unemotionally pull the trigger quickly at the first hint of trouble. But you have to take care that you don't engage in so much trading that your gains are eaten up by transaction costs.

This is where Tech Wealth Rule No. 3: Ride the Unstoppable Trends comes into play. To make these plays profitable over the long haul, you must differentiate between a stock that's benefitting from a temporary surge and one that's getting a run thanks to meaningful catalysts like a "disruptive" new product.

Tech Investing Personality No. 4: The Opportunist

The Opportunist is a personality type I know well. During the summer, I sail two times a month with a group of tech-investing friends of mine.

One of them is Bob, a retired engineer. It's not unusual in a single two-hour sail for us to discuss turnaround stocks, initial public offerings (IPOs), dividend plays, and small-cap biotech firms that may report progress on blockbuster drugs.

So, he's always on the lookout for a great opportunity whether that's growth, income, momentum, IPOs, workouts, or spinoffs – as long as there is a strong investment case.

In the past we've actually discussed several opportunistic plays here at Strategic Tech Investor. Most of them fall in the category of "special-situation" plays, including corporate turnarounds.

Adept Technology Inc. (NasdaqCM: ADEP) is an opportunistic play on a small-cap turnaround in the robotics industry. Since I first told you about this stock on March 19, 2013, Adept is up 487%.

The Know-Thyself Risk: Opportunists must remember that there are many "moving parts" to investments like this. So if you don't have the time and discipline to review your holdings several times a day – as Bob does – you run a very good risk of being blindsided.

If you want to be an all-around player, you can mitigate the risk by following my Tech Wealth Rule No. 1: Great Companies Have Great Operations. By focusing on companies that have proven leadership they are more likely to be innovative and nimble and thus able to execute their vision to deliver wealth-building opportunities.

Tech Investing Personality No. 5: Good Time Charlie

This type of investor likes to be "in the know" at all times and jump on the latest trends. Good Time Charlies can chew up a lot of time and energy trying to stay abreast of investment news from newspapers, blogs, television and the Internet.

These are people who take a lot of pride in picking the right stock at the right time. But just like teens who swoon over the flavor-of-the-month pop stars, Good Time Charlies focus heavily on the stock du jour.

The Know-Thyself Risk: The downside of being a Good Time Charlie is when a stock or the whole market heads down, they take it personally – or blame the tipster. They often sell too early because they can't stomach the dips, or the volatility.

Because they really only love big rallies, these investors tend to "gut out" the sort of choppy, sideways markets we've experienced recently. Thus, they often miss great buying opportunities.

Take the case of Apple Inc. (NasdaqGS: AAPL). As long as the company seemed invincible, it was an easy stock to love. But the minute it hit a bumpy patch in mid-2012, investors dumped it en masse.

Apple has a PEG (Price/Earnings to Growth Rate) Ratio of 0.59, or 59% of its "fair value." That means Apple remains a screaming buy at $536 a share. So, where are the Good Time Charlies now?

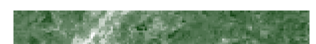
This is where Tech Wealth Rule No. 2: Separate the Signal From the Noise comes in handy. Rather than be overwhelmed by the constant buzz, Good Time Charlies should ignore the hype and discern whether the touted stock has the rock-solid fundamentals needed to generate strong returns.

Bringing It All Together

Let me be clear on one thing. There is no right or wrong approach here. Any investment strategy can work well – and pay off big – as long as you are consistent in its application … and are honest with yourself.

By that, I mean you have to be honest with yourself about your true goals and motivations. And it's even more important to be honest with yourself about your weaknesses or flaws. It's there that "knowing thyself" can pay off the most.

So pick an approach that suits your sentiment, and run with it.



# Obamacare and Opportunity

Do that and you'll remember this as the day that you really came to terms with yourself – and put yourself on a pathway to wealth.

## Obamacare and Opportunity

Now that April Fool's day and the deadline to sign up for the Affordable Care Act has passed, there is no question that things will be different going forward.

The following are some comments taken from an article by Tony Sagami of *Uncommon Wisdom*.

I think one of the most pressing practical questions is: "How does our healthcare system add 30 million more patients and take care of them with the same number of physicians?"

For the moment, forget about how to pay for the coverage of those 30 million (or whatever number of formerly uninsured people you believe Obamacare will cover) …

Instead let's focus on how to take care of all those newly insured, as well as the millions who are already covered.

The answer is that those hard-working physicians won't be able to handle the extra workload.

Why is that? It is projected that in 2020 in the U.S. under Obamacare, there will be a need for 850,000 physicians of all specialties to adequately treat the projected number of patients that will be covered by insurance. However, at that time the projected number of practicing physicians will be only 750,000, about the same amount as are practicing today.

And, according to the Association of American Medical Colleges, it will get even worse. They say the United States will have a shortage of 130,600 by 2025.

The great physician/healthcare shortage will have two consequences:

1. You will either have to wait longer to receive treatment, or

2. The limited supply of healthcare will be delivered through some sort of rationing program.

I don't know about you, but the time spent in waiting rooms is already long enough. You simply cannot add tens of millions of more people into the system without longer wait times.

Some people, however, have more time than money and will grumble over the delays. However, the concept of rationing is more troublesome … if not unacceptable.

Remember Sarah Palin's warning about "death panels"? Palin may be guilty of hyperbole, but some sort of healthcare rationing could very well be in our future.

Japan Today; U.S. Tomorrow?

Like the U.S., Japan has a rapidly aging population. It is also dealing with the harsh realities from decades of budget deficits, a ballooning national debt, and crushing government-paid healthcare benefits.

Roughly 25% of Japan's population is over 65 years old now. That number will likely hit 40% by 2060. Plus, a shrinking labor force leaves fewer taxpayers to pay for government-funded healthcare.

Japan faces some tough decisions between budget realities and healthcare compassion. The country spent $376 billion on healthcare in 2013. The government is doing all it can to slow down its healthcare expenditures.

One option is to cut back or ration healthcare services for the fatally ill. Example:About a quarter-million Japanese elderly at an average age of 81 years old are being kept alive through feeding tubes.

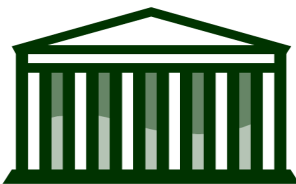
New regulations will require the release of patients from hospitals faster. For many, this will mean a transfer to hospice care or a quiet death at home.

"That would NEVER happen in the U.S.," you might say.

Maybe you're right, but I'm not so sure. My point isn't to trash the new U.S. healthcare system, but instead to illustrate the problems.

And in my business, companies that solve problems make big profits. A question you should be asking is …

# Obamacare and Opportunity



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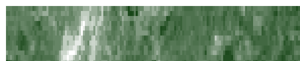

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**He is CEO of Miyoshi Capital LLC, an international investment advisory company. In Vietnam, he led a Combined Action Platoon as an officer in the U.S. Marine Corps.**

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

How Can We Spend Less Time in Waiting Rooms?

As a growing number of companies choose to pay the Obamacare penalty and drop their employee-sponsored health coverage, we could see more — not fewer — Americans without health insurance.

The only things that I ever saw my vegetable-farmer father read were the local newspaper and the Bible. And he read both cover to cover, and over and over.

I'm nowhere near the Bible reader that my father was and my reading list is a lot more diverse. If I could twist your arm into reading ONE book, that book would be *Younger Next Year* by Chris Crowley.

All the wealth that we're accumulating won't do us much good if were not healthy enough to enjoy it. It is no exaggeration to say that this book changed — and I mean REALLY changed — my life.

I don't receive a penny from mentioning this book; it just made a lot of sense to me and I wanted to share it with those who could benefit the way I have.

What companies are poised to prosper in the new era of rising demand/shrinking supply healthcare industry?

There are many answers. Here are two stocks that most investors aren't aware of.

Example #1: Accretive Health (AH), in simple terms, is a debt collector that specializes in collecting unpaid medical bills.

Accretive Health also has a proactive database management service that identifies patients who likely need preventive care, rather than waiting for people to check into hospitals or emergency rooms.

Example #2: HMS Holdings (HMSY) is a watchdog that identifies medical billing errors, primarily from Medicaid and Medicare, and gets paid by retaining a percentage of the mistakes that it catches.

According to the Department of Health and Human Services, there are billions of dollars worth of improper Medicare/Medicaid payments made and most are not recovered.

That means HMS Holdings is sitting on a potential goldmine.

Tony is not suggesting that you rush out and buy either of those stocks tomorrow morning. As always, timing is everything so he recommends that you wait for his buy signal.

Nonetheless, healthcare is big business … and it's going to get bigger thanks to the heavy hand of government.

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