



Financial Crisis Report

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Advancing in a Time of Crisis

High Frequency Trading—Is the Market Rigged Against Us?

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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.

High Frequency Trading – Is the Market Rigged Against Us?

I just finished Michael Lewis's latest book *Flash Boys*. Michael Lewis is the famed author of such financial classics as *Liar's Poker*, *Moneyball*, *Blind Side* and *The Big Short*. Because Lewis is a famous, best-selling author, *Flash Boys* got a lot of buildup and a big push in the financial media.

The book presents a very entertaining look at the use (or misuse?) of High Frequency Trading (HFT) by well-funded insiders to grab quick profits in stock transactions.

HFT is the use by traders of computer programs to swap stocks at speeds 100 times faster than the blink of an eye. The firms using this technology have spent billions to gain an edge of just milliseconds over everybody else.

Chris Mayer, Editor of *Capital & Crisis* describes an exchange that sums up the gist of the stragem, from the now-famous 60 Minutes interview with Lewis...

Michael Lewis: The insiders are able to move faster than you. They're able to see your order and play it against other orders in ways that you don't understand. They're able to front-run your order.

Steve Kroft: What do you mean front-run?

Lewis: It means they're able to identify your desire to buy shares in Microsoft and buy 'em in front of you and sell 'em back to you at a higher price. It all happens in infinitesimally small periods of time. The speed advantage that the faster

traders have is milliseconds. Some of it is fractions of milliseconds. But it's enough for them to identify what you're going to do and do it before you do it at your expense.

Lewis is making the case that the stock market is rigged against you. These thieves are just picking you clean for riskless profits.

They are.

But here's the thing. Markets, in this sense, have always been rigged. Here is Cliff Asness, co-founder of AQR Capital Management, in an op-ed in the Wall Street Journal...

Much of what HFTs do is 'make markets' – that is, be willing to buy or sell stock any time for the cost of a fraction of the bid-offer spread. They make money selling at the offer and buying at the bid more often than they have to do it the other way around. That is, they do it the same way that market makers have done it since they were making markets in Pompeii before Mount Vesuvius halted trading one day.

Well put. And true. For what it's worth, Asness – who manages some billions of dollars – has no problem with HFTs. He thinks they lower trading costs compared with the old days.

Early on in his book, Lewis paints a somewhat nostalgic picture of the day when floor traders – actual human beings – executed orders...

The world clings to its old mental picture of the stock market because it's comforting; because it's so hard to draw a picture of what has replaced it.



10 Rules for Life

The problem with this is that the "good old days" were hardly good. Those human beings were expensive. In simple trading-cost terms, investors paid way more back then than they do today. The inescapable fact is that trading costs are way down for everybody.

However, that does not justify HFT. Even if you don't know much about markets, this is something that just doesn't pass the smell test. Traders who use HFT are just a bunch of trading junkies, the market equivalent of crack addicts. And like junkies, getting rid of them may not be a realistic proposition.

Like death and taxes, life and business may always have someone skimming a little off the top.

Defenders of HFT will point to the idea that they provide liquidity. As Asness says, they make markets and allow you to buy or sell stocks quickly at prices very near where they trade. The bid-ask spread narrows. This is a service they provide, and they should get paid for it.

But Mayer's argument is that liquidity has always been a vastly overrated concept. Liquidity is there until it isn't. When markets lock up, liquidity evaporates. When everyone wants liquidity, it disappears.

Besides, back in 1960, when the annual turnover in the stock market was 14%, nobody complained that there wasn't liquidity. Mayer quotes from the wise Louis Lowenstein and his excellent (if forgotten) *Sense and Nonsense in Corporate Finance*... In 1960, when investors were holding their stocks for seven years on average – the reciprocal of 14% turnover – they did not expect to sell at a moment's notice. Despite the larger spreads, their total trading costs were less, not more.

Liquidity is like ice cream on a summer day. You want some, but you don't need a freezer full of it.

Of course, Lowenstein reveals a way you can skirt this whole issue. You simply invest long term. That does not mean you have to hold stocks for seven years. In this hyper-short-term market, looking just one year out will give you an edge.

Those who want to swap stocks at HFT speeds are not informed owners. They rent. They don't own. Actually, they make for a worse market – a market full of aggressive speculation that impedes the sensible management of the nation's companies.

It is this kind of nonsense that turns the market into a casino. The

billionaire Mark Cuban made this point on his blog in what seems a pretty sensible piece on HFT... What is the definition of a rigged market? When you are guaranteed to make a profit. In casino terms, the trader who owns the front of the line is the house. The house always wins.

So what do you do?

Very easy. You simply don't play that game. You should invest for the long term. You should aim to know the value of what you are buying – something the HFTs don't care about and don't know. To do otherwise is, to borrow from Peter Lynch, like playing poker without looking at the cards.

Lewis is a very skilled writer and a wonderful storyteller and you will probably enjoy *Flash Boys*. It gives you a look into a bizarre world where firms fight over milliseconds of time.

It also reinforces the idea that lots of people on Wall Street don't care about playing fair, and they don't care about you. If you give them the chance, they will skin you like a filet of salmon.

Here's to profitable investing for the long term.

D. Miyoshi

The following is taken from the book "*If Life is a Game, These are the Rules*" published by *Simple Truths*, a free daily inspirational publication on the web.

D. Miyoshi

!0 Rules for Life

Have you ever thought "I wish life came with an instruction manual?"

Life has often been compared to a game. But we are never told how to play nor what it means to win.

That's why the *10 Rules for Being Human* are so important.

They answer our fundamental question, "What is the purpose of Life?"





Asian Americans and the Mid Term Elections

Here are the *10 Rules for Being Human* from *If Life is a Game, These are the Rules* that has sold over 4 million copies!

Rule 1. You Will Receive a Body. Make peace with your body- Accept its imperfections and respect what your body needs to run its optimum performance.

Rule 2. You Will Be Presented With Lessons. As you travel through life, you will encounter lessons unique to you. Be open to those lessons and choose actions that align with your true path.

Rule 3. There Are No Mistakes, Only Lessons. View mistakes as opportunities to learn. Be compassionate, learn to forgive, live your life ethically and keep a sense of humor.

Rule 4. A Lesson is Repeated Until Learned. Do you find yourself repeating the same patterns in your life? Learn to recognize the patterns and the lessons that they offer.

Rule 5. Learning Does Not End. If you are alive, there are lessons to be learned. Embrace your role as a perpetual student of life.

Rule 6. "There" is No Better Than "Here." Live in the Present. Dance the fine line between living in the here and now while holding in your heart your fondest dreams and aspirations for the future.

Rule 7. Others Are Only Mirrors of You. You cannot love or hate something about another person unless it reflects something you love or hate about yourself.

Rule 8. What You Make of Your Life is Up to You. Every person creates his or her own reality. Imagine yourself at 90 years old, looking back at your life. What do you want to see?

Rule 9. Your Answers Lie Inside of You. All you need to do is to look inside, listen and trust yourself.

Rule 10. You Will Forget All of This at Birth. Somewhere along your journey from the spiritual world to the physical one, you simply forgot these Ten Rules.

So, if you apply *the Ten Rules* to your own life, you can *fulfill all your dreams!*

Asian Americans and the Mid Term Elections

For the 2014 midterm elections the Democrats face a challenge in getting the young to come out and vote. But even a greater challenge for them will be getting the Asian-Americans out to vote. According to Newsmax.com it seems that Asian-Americans will be 'Too Busy' to Vote. They report that:

Only three in 10 Asian-Americans who were eligible to vote have cast ballots in midterm elections since 1998, a far lower turnout rate than that of white and black voters, a new Pew Research Center report reveals.

In the 2010 midterms, Asian-American turnout was 31 percent, the same as for Hispanics but below whites (49 percent) and blacks (44 percent).

Research shows that people with higher levels of education are more likely to vote in U.S. elections, and 47 percent of Asian-American eligible voters in 2010 had a college education, higher than for whites (31 percent), blacks (18 percent), and Hispanics (16 percent).

Yet Asian-Americans lagged behind whites, blacks, and Hispanics among college-educated eligible voters who cast a ballot. Just 40 percent of college-educated Asian-Americans voted in 2010, compared to 64 percent of whites, 57 percent of blacks, and 50 percent of Hispanics.

"So why the lower voter turnout among Asian-Americans? Among registered voters who didn't go to the polls in 2010, Asian-Americans were most likely to say they were too busy to vote," Pew reported. "About 37 percent of Asian-Americans chose 'too busy, conflicting work or school schedule' as a reason for not voting," compared to about 25 percent of whites, blacks, and Hispanics.

An estimated 9 million Asian-Americans are eligible to vote in 2014, accounting for about 4 percent of all eligible voters.

Half of Asian-Americans are Democrats or lean Democratic, while just 28 percent are Republican or lean Republican, according to Pew.

In 2012, President Obama garnered 73 percent of their vote to Mitt Romney's 26 percent.

The six largest groups of Asian-Americans by country of origin are from China, the Philippines, India, Vietnam, Korea, and Japan.

D. Miyoshi





Humanity Now in Cities



Advancing in a Time of Crisis

Humanity Now in Cities

As a city dweller, it just seemed to me that most people lived in or around a city. But statistically that has not been the case... until now, that is. Newsmax.com reports that more than half of humanity now lives in cities

For the first time in history, more than half of the people on earth live in urban areas, and 51 percent of them — 1.92 billion — reside in urban areas with more than 500,000 residents.

That's one of the disclosures in the latest edition of Demographia World Urban Areas, which provides data on estimated population, area, and population density for the 922 urban areas with at least 500,000 population.

Demographia defines an "urban area" as a "continually built up land mass of urban development that is within a labor market (metropolitan area)." A metro area also includes economically connected rural land outside the built-up urban area, while an urban area does not.

Of the urban areas with 500,000 residents or more, 56 percent are in Asia, 14 percent in North America, 11 percent in Europe, 10 percent in Africa, 8 percent in South America, and 1 percent in Australasia.

There are now 29 megacities — urban areas with at least 10 million population — including London, which passed the 10 million threshold this year. That's according to an article on the Demographia report from Newgeography.com written by Wendell Cox, principal of Demographia, an international public policy and demographics firm.

Tokyo remains the most populous urban area, as it has been for a half-century, with 37.55 million resi-

dents, but its margin over other cities has been narrowing.

Jakarta, Indonesia, is second with 29.95 million, followed by Delhi, India (24.13 million) and Seoul-Incheon, South Korea (22.99 million).

Manila, Philippines, moves up to No. 5 with 22.71 million, passing Shanghai, China (22.65 million). Rounding out the top 10 are Karachi, Pakistan (21.58 million); New York (20.66 million); Mexico City (20.3 million); and Sao Paulo, Brazil (20.27 million).

Los Angeles ranks No. 16 with 15.25 million, and Chicago is No. 35 with 9.23 million. The least populous American urban area on the list of 922 is Toledo, Ohio, at No. 861 with 508,000 population.

In terms of land area, New York is by far the largest urban area with nearly 4,500 square miles, ahead of Tokyo with 3,300 square miles. Several other U.S. urban areas are in the top 10 in land area, including No. 3 Chicago (2,647 square miles), No. 4 Atlanta (2,645), No. 5. Los Angeles (2,432), No. 6 Boston (2,056), No. 7 Dallas-Fort Worth (1,998), No. 8 Philadelphia (1,981), and No. 10 Houston (1,793). Moscow, Russia is No. 9 with 1,800 square miles.

Due to the relatively large land area of U.S. cities, no American urban area is among the world's most densely populated. Dhaka, Bangladesh, is the most densely populated, with 114,000 people per square mile. Hyderabad, Pakistan (not India), is behind at 105,500, and Mumbai, India, has 83,800.

The most densely populated European urban area doesn't appear on the list until No. 296 — Genoa, Italy, with 20,800 per square mile.

And to find the most densely populated U.S. urban area, you'll have to go all the way to No. 794 on the list of 922. That's where you'll find Los Angeles, with 6,300 people per square mile.

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Financial Crisis Report



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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.

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



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