



Financial Crisis Report

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Advancing in a Time of Crisis

PUTIN 1, OBAMA 0

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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.

Geopolitically, the “chess” game being played on the Mideast board is getting brutal and the West is now losing ground to our former nemesis Russia. Putin has now pulled ahead and is preparing to finish the game.

Let’s take a look at what’s happening to Putin’s pawns Syria, Iraq and Iran on the board from the perspective of the *Wall Street Insider*.

ISIS (the jihadist Islamic State of Iraq and Syria) is marching across Iraq. These Sunni militants keep swelling their ranks... capturing town after town, village after village... as they make their way to Baghdad.

If they take Baghdad, it's game, set and match. Iraq will have fallen to the group even al-Qaeda considered too radical and dangerous to work with.

ISIS is Sunni retaliation against the Shiite uprising. The violence threatens the entire region. ISIS commits ruthless acts of terror everywhere it goes, killing tens of thousands of enemy soldiers, even crucifying Shiite sympathizers and leaving them by the side of the road.

Saudi Arabia directly supports ISIS. Behind the scenes, so does Russia. Iran, if you can believe it, supports the Iraqi government against ISIS.

Why? Because both Iran and Iraq are Shiites... while the Saudis are Sunnis. In the spreading Shiite/Sunni civil war -- that is splitting Islam in two -- that is all that matters.

Obama has ordered an aircraft carrier into the region. This will actually accomplish nothing.

The president (as well as many of his well-intentioned advisers and Generals) keep ignoring the unfortunate hard lesson that has held true all through military history: it takes boots on the ground to win a war. Bombing

cities and villages -- killing thousands of innocent civilians who are used as human shields -- will do nothing to end this conflict.

After 12 years, two invasions and three trillion dollars what did America really accomplish in Iraq?

On Friday, June 13, crude oil prices spiked up. That’s because Iraq’s pipeline in the north, which ends in Ceyhan Turkey, got bombed out of commission. This took out 500,000 barrels a day of badly-needed crude from the world’s oil markets.

On a percentage basis of Sunni and Shiite Muslims, all through the Middle East. Sunnis are the vast majority, in nearly every nation throughout the region. Syria, e.g., is 74% Sunni. Turkey is 84%.

This is mostly true the world over. Shiites at most make up 15% of world Muslim population.

Only two major countries have Shiite majorities. Iran, which is 89% Shiite; and Iraq which is 60%. Even though they are outnumbered by more than two to one in the Middle East, the Shiites are playing a very dangerous game. They are making their bid to take control of the entire region.

Here is an important dynamic to keep in mind. After 911 the Muslim world was united against what it considers 'the infidels.' i.e. America, Israel, Europe and the world's democracies. That now has changed.

Subsequently, the CIA aggressively fanned the flames of the millenium-old Sunni/Shiite rivalry. The CIA succeeded in igniting a global Sunni/Shiite war. Before it's over, tens of millions of people will die. This should go down in history as America's biggest mistake ever.



PUTIN 1, OBAMA 0

There actually is some good news out of all this. Radical Islam will have little time to directly mess with the U.S.

Another critical impact: this internal Muslim civil war will drastically cut oil flows from the Middle East. That's why we should expect oil prices to make a big, fast, ugly spike upward.

The spike will be temporary. Market forces will reassert themselves, and drive crude back to its historic price of under \$10 a barrel. But you should be there to profit on the way up; and then when oil crashes back to earth as well.

Rarely does a two-trade opportunity like this come along. Rarely do we see such bloodthirsty rivals -- who have killed each other for a thousand years and are now armed to the teeth -- running wild.

In this geopolitical investment game, you always look for a trigger for major turning points in markets. I believe the next trigger is the coming oil shock. Record-high oil prices will kick off the next global financial crisis, and send the world deeper into depression/recession. This is when we can garner significant profits.

Saudi Arabia vs Iran, in a battle to the death

Most people don't understand who the major players are in this current Middle East conflict. Basically, Iran and Saudi Arabia are at war with each other. This will escalate and escalate and escalate. The fate of the entire Middle East rests in the balance.

The Saudis and Iranians are not fighting only out of religious hatred. There is a huge economic side to this war. In a word, OIL.

Iran is desperate for money. Its current oil production -- 2 million barrels a day -- is nothing. If the ayatollahs take over Iraq and Syria, they gain the vast Kurdish and Iraqi oil fields.

Already those fields produce 5 million barrels a day... which could soon become 10 million barrels. Iran is chomping at the bit, over the huge bonanza of winning this war and taking over one of the greatest oil prizes known to man.

For the same reason, Saudi Arabia also desperately wants that oil. It would give the Saudis sales of 20 million barrels each day. At current prices, that's over \$2 billion dollars -- every day of the year. About 98% of it is profit.

This is the biggest bounty ever up for grabs. It's part of the reason the Saudi-backed ISIS forces have already started attacking the Kurdish and Iraqi oil fields.

There's another reason the Saudis take this so seriously. Their very existence is in jeopardy. It's an all-or-nothing fight to the end.

Another failed Obama notion brought on this war

Saudi Arabia and Iran are mortal enemies. Only one thing kept them separate till now: America.

Our military forces were in Iraq. Precisely in between the Saudis and the Iranians.

Then Obama made perhaps the worst series of mistakes in American history. This has put the Middle East up for grabs, and will end up in the deaths of millions of innocent people.

Obama pulled America out of Iraq. He backed down from his own red line in Syria. He supported the radical Muslim Brothers in Egypt -- and when the people kicked out the Brothers on their rear ends, Obama out of spite shut off all military aid to Egypt.

The president (and possibly the then sitting Secretary of State) sat back and watched Libya turn radical (and our ambassador get raped and murdered). He let moderate Turkey become a fundamentalist hell hole. He allowed jihadists to take over most of northern Africa.

He even refused to sell Saudi Arabia the fighter jets America had promised them... and they so desperately needed.

We must understand that Syria and Iraq are critical to the security of Saudi Arabia's borders. They serve as a buffer for the Saudis against the Iranians -- so long as the Shiites don't control that territory.

But then Syria went up in flames (with Obama's unprecedented help and even blessing). All of a sudden Syria, Jordan and now Iraq were up for grabs.

Obama, with his military naivete, pulled America out of those areas. Long before the Iraq military was able to defend them.

America has standing agreements, both public and private, with the Sunnis. Especially in Jordan and Saudi Arabia. The Sunnis agreed to stay out of the fight, and let America handle it.

But the US completely betrayed its allies, in Syria, Egypt, Turkey, Israel and everywhere else across the Middle East. This made it obvious to the Saudis: the US would let Iran's Shiites (the ayatollahs) come to power in Syria.

Think of this from the Saudis' point of view. Iran, which hates the Saudis' guts, has already gone nuclear. Now add to that Syria's vast arsenal of chemical WMDs... some of the world's biggest oil fields... plus control of the most important real estate in the Middle East.

Obama left the Saudis with no choice. They had to defend themselves, or perish.

This is another Obama delusion that will cost the world millions of lives and trillions of dollars.

But now, behind the scenes Putin is arranging the pieces on this chess board

The real inside story is that Vladimir Putin has manipulated all these events, to make Russia far richer, more powerful -- and to weaken America even further. The combination of Putin's sophisticated moves -- and Obama's oblivious misdeeds --





MY TAKE ON WALLSTREET

are ending America's era as world superpower.

Putin controls Syria's WMDs. He has ultimate influence over Assad and the ruling party there.

Putin controls Iran's nukes: Russia builds and supplies Iran's nuclear reactors. He built, services and controls Iran's radar missile defense system: the one that lets the ayatollahs sleep at night.

Putin runs Turkey: the Turks finally realize the EU is a non-starter for them. He is the superpower behind Egypt, Saudi Arabia and now even Israel.

In short, Putin controls both sides of the conflict. Sort of like being the head of the mafia and FBI at the same time. You win no matter what.

What does Putin get out of civil war in the Middle East? For one thing, skyrocketing oil prices. Russia is already the world's biggest oil producer and exporter. Soaring crude prices can more than double its annual GDP.

That is astonishing. A mature superpower -- that already is the fastest-growing economy in the world -- could double its GDP in a year or two. Every other major nation is either seeing its economy barely hold its head above water; or has negative GDP growth (i.e. recession/depression).

Not only will Putin's approval ratings go up to around 99% inside Russia. (They are already the highest of any leader in the world, at around 82%.)

Russia will have more than twice as much money to achieve its real goals: control of Europe and the rise of Russia as the world's #1 superpower.

These moves let Putin widen Russia's sphere of influence -- while narrowing America's. They let him give critical aid to South America and Africa, cementing their dependence on him. They make Russian oil all that much more critical. Both to Europe and Asia.

Putin has done all this in such a way to keep his DNA off the crime scene. In fact, the world sees him as a hero, who solves the crises Obama creates.

Let's sum it up. Saudi Arabia and Iran are at war. The stakes are the entire Middle East, along with its vast wealth and oil flows.

The whole conflict was ignited because Obama's liberal delusions -- that the world's most powerful country can stand on the sidelines as global dictators take over nation after nation -- have become U.S. policy (a terribly failed U.S. policy).

The spreading waves of violence have taken hundreds of thousands of lives. Soon tens of millions will end up dead.

And manipulating all this, behind the scenes, is the man who stands to make trillions of extra dollars every year from it. Russian president Vladimir Putin, the most dangerous man on earth. He is quietly changing the world balance of power before our eyes.

In spite of the fact that the U.S. holds the trump card to Putin with its vast shale oil fields, this obvious benefit inexplicably does not seem to resonate with Obama. This one U.S. advantage can totally change the game around. But Obama is at his core a political and ideological animal which can explain this enigma.

In any case, if the U.S. doesn't play its trump card and the score remains Putin 1 Obama 0, there will still be many opportunities for us to reap well-timed gains in energy.

D. Miyoshi

My Take on Wall Street

A question I get asked often is "is Wall Street rigged?"

My reply is there are only three types of individuals who make money on Wall Street.

There are those that never sell their investments (Warren Buffet, Bill Gates, etc.)

There are those that take profits within a micro second (see my previous article on High Frequency Trading) and inside traders.

All others (in the long run) are like gamblers in Las Vegas who usually lose money. In the short run, there are some who make money using proprietary formulas (sometimes a lot of money) but for those who stay in long enough the odds catch up.

Yes, there are ways to make relatively consistent returns (read small returns) on Wall Street but they involve acting like an insurance company by selling options on selected stocks. In our company, we use this system a lot.

Currently, for those who "like to go long" (buy certain selected stocks), the darlings of Wall Street are the Tech Stocks. Clients are always asking how good are these tech stocks?

Well, the last time I looked, Amazon.com -- the "river of no returns" -- was trading on a trailing 12-month price-earnings ratio of 454 and had earnings per share of just \$0.64. Compare that with Gazprom (the Russian energy company PINK:OGZPY), with its P/E of just 2.7 and earnings per share





HOW AMATEURS WIN IN INVESTING

of 106 rubles – or \$3.

Put one beside the other: Amazon.com is almost all P (price). Gazprom is almost all E (earnings). All things considered, we'd rather have the E.

Paucity of Earnings

But Amazon.com is not the only tech star to be all P and no E.

The "Millennials" swear that Facebook has revolutionized the way they get information. They no longer go to newspapers or news sites; they get their news, opinions, and misinformation from Facebook.

Perhaps so, but it looks more like a big time waster to me. And it's trading at 76 times trailing 12-month earnings. Profits would have to go up 700% before the P/E ratio came down to a reasonable level. Or... the stock price would have to fall by 80%.

One of those two things will happen, sooner or later. Our guess is that shareholders won't like it when it does.

And how about LinkedIn?

I use the service on occasion on the premise that it is handy for making business connections. As for the results, it appears I should be more patient. But as for a stock investment, at 749 times earnings, it would have to get me an audience with the pope to justify the price.

But at least Amazon.com, Facebook and LinkedIn have some earnings... however small. Many of these high-flying tech companies enjoy the incredible lightness of having no federal income tax to pay. Online business directory Yelp, for example, has a market cap of more than \$4 billion. But it earns nothing after costs – zero... zilch... nada. It's priced at about 18 times sales... and more than 1,000 times EBITDA. Real estate site Zillow trades at 16 times sales.

If the prices of these tech companies weren't enough to scare you away, consider the control issue. Last week, the media reported that Twitter's stock price has been cut in half this year because of "insider selling."

Now you ask why are the insiders selling? Didn't they have faith in their own company? And how did they get so many shares in the first place? Sometimes we can be so naïve.

Both government and Wall Street are run for the benefit of insiders. This is something you must keep in mind at all times.

So, when Wall Street offers to sell you a share of Twitter or

Zynga or Zillow when they IPO... do you really think it is for your benefit? Do you think they are giving you an opportunity to get in on a great investment?

Nah... not if they can avoid it!

You're the retail buyer... what Wall Streeters like to call "cannon fodder." Wall Streeters will only sell you shares they don't want themselves. They're no angels either.

And neither are the insiders who take these tech companies public. They typically keep large stockholdings... which they unload as soon as they are able. Most likely, after the initial enthusiasm wanes. And with some very public exceptions, there will always be more sellers than buyers.

The Great Capitalist Adventure

And if that weren't enough, the insiders also make sure that they retain control of the money, no matter how many moms and pops own the shares.

Facebook insiders, for example, own Class B shares giving them 10 votes for every ballot cast by mom and pop. They will make sure they direct the company's resources to themselves... one way or another.

Typically, the shareholders get no dividends... and will never get any substantial piece of the profits.

You think it's a level playing field, smoothed and policed by the SEC? You think Wall Street is there to help you finance your retirement? You think that by buying a stock you are a real investor, participating equally and fairly in the Great Capitalist Adventure?

Probably not.

D. Miyoshi

How Amateurs Win In Investing

My wife is a tennis player. And she is a very good player. That means she wins a lot of her games. But she is not a pro but is a well experienced amateur player.

On the other hand, Rafael Nadal, who just won the French Open is one of the most winningest players of all time. Both Nadal and my wife win most of their tennis games.

But they actually play a different type of tennis.



HOW AMATEURS WIN IN INVESTING



Advancing in a Time of Crisis



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.

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

In tennis, there is a "Pro Game" and an "Amateur Game" and to win in either you must know the difference. This is exactly like investing. If you don't understand the difference, you can lose a lot of money in investing and lose a lot of games in tennis.

Simon Ramo explains the fine details of this concept in his book, *Extraordinary Tennis for Ordinary Tennis Players*. His overall findings are incredibly simple...

When the professionals face off in tennis, the winner of the match determines the outcome. In amateur tennis, the loser determines the outcome.

You see, professionals tend to make fewer errors and hit more winners. Ramo found that professional tennis players tend to earn around 80% of the points. They only lose around 20% because of mistakes.

Amateur tennis is exactly the opposite... Ramo found amateurs tend to lose around 80% of their points. They only earn around 20%.

He used these simple ideas to develop a winning strategy for amateur tennis. Play conservatively. Keep the ball in play. Allow your opponent (who is almost surely an amateur) to make errors. He/she will.

Sure, once in a while he'll make a great shot or two. But over the course of a match, he'll try to beat you by winning. And he'll fail. He has no idea that amateur tennis is a Loser's Game. But his constant losing decisions will easily allow you to win the match.

Investing is a lot like amateur tennis. It's a Loser's Game...

There's a reason so few institutional investors beat the overall stock market. They spend all of their time focused on winning. They're constantly playing offense. They don't even consider playing defense.

Sure, there are a few Warren Buffetts out there. There are a few brilliant managers who find areas to exploit and consistently win. But most

professional managers who constantly play offense end up losing...

According to Standard & Poor's (S&P), 63% of actively managed mutual funds failed to beat their benchmarks from 2008-2012. Amazingly, 84% failed in 2011 alone!

Now, that is not to say you should give up, buy an index, and be done with it. But you need to focus on playing defense.

There are two simple ways to play great defense as an investor... by applying them, you'll eliminate two of the most common mistakes investors make.

The first is knowing when you'll sell. And a great way to do that is with trailing stops.

Trailing stops are a simple way to avoid catastrophic mistakes and losses in your portfolio. If you set a 25% trailing stop, the most you could ever lose is 25%. You're ahead of most managers just by focusing on your max loss... by playing defense.

The second defensive tool is never putting too much money into a single idea. A simple rule is using a max of 5% of your portfolio in a single investment. This prevents one bad trade from spoiling your entire portfolio.

Remember, we're not playing professional tennis. We're playing amateur tennis.

Investing – for the most part – is a Loser's Game. Don't spend your time playing offense and trying to win. Focus on playing defense... by using trailing stops and proper position sizes.

These two ideas will protect you from the biggest mistake an investor can make – catastrophic losses. And avoiding mistakes is how you'll win the Loser's Game of investing.

Here is to your profitable defensive investing.

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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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