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# Financial Crisis Report

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## Advancing in a Time of Crisis

**Words of Financial Wisdom:** It is difficult, if not impossible, to prepare an economic model when this model can be influenced by political decisions.

**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.**

## Wars of the World

The purpose of the Financial Crisis Report is to provide you the reader with ideas on how to financially benefit from the looming crisis in the U.S. and the world. When I first published this newsletter in October 2011, the only perceptible predicament in the world was that the Euro Market was in the doldrums. Fast forward to today in the U.S. we see the momentous problems involving the Department of Veterans Affairs, the IRS, Obamacare and the southern border influx of Central American refugees. But these problems pale in significance to the crisis now happening on the world stage. The winds of war are now starting to blow and these geopolitical problems present great opportunities to financially benefit from your energy and precious metals investments.

In college I took a world history course and in graduate school I studied the history of world business. These classes made it evident to me that in the course of human affairs, war is the constant and peace is the interlude. It seems that humans go to war as they do in work and for peace they take a vacation. The last time humans were at work was in Iraq and Afghanistan. Now that our vacation is coming to end on the world stage we (i.e. everyone in the world) seem to be preparing to go back to work (i.e. war).

If I had to write a "job schedule" of my idea of the coming wars in the world, it would be as follows:

By this winter, most of Iraq will fall to the ruthless ISIS or as it is now called the Islamic State. This assures that Iraq will never ever be governed by a central government again. In the wake of these events, Lebanon will be destabilized. It's only a matter of time before the "Jihad Spring" will engulf the region. To the west, Israel will be cut off, its airport closed for longer and longer periods, as temporary truce after truce fails, and rockets start hitting Tel Aviv in earnest. Israel will unfortunately be fighting not only Hamas in Gaza but Fatah in the West Bank.

The Muslim Brotherhood radicals in Egypt will continue to destabilize that country and its economy. ISIS will work its way further south and the noose around Kuwait will be tightened.

The Syrian crisis will spill over into Jordan. Iran will take this opportunity to attack its nearby Middle East enemies along the Strait of Hormuz.

War now rages across most of the Middle East. Saudi Arabia's oil fields, which are impossible to defend, will be attacked. By the summer of 2015, much of the region's oil supply will be cut off.

## Wars of the World

In October, as the emergency elections in Ukraine come closer, Putin will find an excuse to cut off the Ukrainians' gas supply. The Ukrainians, in misery, will be eager to change leaders.

Russian troops will cross the border into Ukraine and start full scale warfare. They will have huge support from the masses: over half of the populace speak Russian as their everyday language; and are raring to join the Putin revolution. Pro-Russian politicians from the old regime will make a surprising comeback.

By the end of this year oil will soar to $150 a barrel. The sanctions against Russian oil companies begin to bite. Just as the harsh winter starts to set in, Russia retaliates by cutting off much of its gas and oil to Europe.

By the winter of 2015, oil will go to $200 a barrel. Thousands of Europeans will freeze in their homes. The EU economy will plunge and manufacturers across the continent will be forced to cut back to a 3-day work week. In America, the Dow will lose 10,000 points.

By the fall of 2015 the free world will face $250 a barrel oil.

Former Soviet states will form a new alliance with Russia. They will do this out of survival: in return for coming under Putin's umbrella, they will get cheap energy. In fact, Russia is aggressively working to produce oil in the Arctic Circle. Recently, Exxon Mobil ignored the US/EU sanctions and began drilling there with its Russian partner, Rosneft.

Kuwait and Jordan will fall to ISIS. Iran and the Gulf states will begin war with each other. Iran will then launch its first strike at Saudi Arabia, its biggest enemy within Islam. Israel, which is allied with the Saudis, will retaliate with a strike against Tehran.

Currently nearly 20% of world oil production flows through the Strait of Hormuz each day. That will fall to near zero, as oil tankers are routinely attacked and sunk.

All oil exports out of Nigeria will stop: the Boko Haram Islamic terrorists will sabotage pipelines and fields. Russia's pipeline to China which is scheduled to take 4 years to complete will be finished in half the time.

War will break out along the entire north coast of Africa, as ISIS crosses the Mediterranean from Syria into Africa. Fighting there stops all oil from N. Africa, including the critical supply into Spain.

Spain, Portugal and Italy will be the first to leave the EU. Germany will be starved for energy and also leaves the EU and forms an alliance with Russia, which supplies oil to Germany alone.

France, Holland and the northern European nations will form a new alliance. The port of Rotterdam, in Holland, will become the major oil import center for Europe.

England will revitalize its North Sea oil fields; harnesses its vast coal reserves; and frantically begins fracking its oil fields. The English become energy self-sufficient. Using existing pipelines, they export huge amounts of natural gas to Northern Europe.

The English pound becomes one of the world's most valuable currencies. It will return to nearly $3.00 where it was in 1955. The euro wipes out and is worth $.30 or less.

Waves of desperate Latin American immigrants will attack the southern border of America. Civil unrest will spread around the U.S., as Latin gangs wage open warfare with police.

Around the next election in 2016, oil prices will peak. Those who made the right energy investments will make huge gains.

Fracking will become the order of the day. Obama will not be able to stop this. In a world starved for oil and energy, the masses will demand fracking.

## What's Your Rank in the Consumer Army?

By 2017, oil and gas pipelines are approved, and in the U.S. are operational. A multitude of export terminals will go up. America becomes oil independent, and again the world's biggest oil exporter.

In 2018, oil prices will fall to $70 a barrel. By 2020 oil will fall to under $50.

Now admittedly, this appears to be an extreme Hollywood disaster movie script, but as history has taught us the improbable will happen sooner than we expect, the impossible just takes a little longer.

Just be sure to begin concentrating on your energy investments (especially oil producers and infrastructure contractors in the stable areas of the U.S. and Canada) and precious metals investments.

D. Miyoshi

### What's your rank in the Consumer Army?

The other day at a military veterans gathering, someone asked the question are officers more satisfied than enlisted personnel? Well, aside from receiving the usual perks of rank (being chauffeured, white table coverings at the mess hall, being saluted and so forth) during my stint in the Marine Corps I can't say the satisfaction score of officers was perceptively any higher than the enlisted ranks.  But in the "Consumer Army" the officer's satisfaction score may be actually lower than that of the rank and file. Below is an article by Bill Bonner of Bonner & Partners to support that assertion.

D. Miyoshi

Officers' Insignias in the Consumer Army

Top end? Bottom end? What's the difference? At the top end, you can buy more stuff. But that doesn't mean you're a happy camper.

Remember, money itself is worthless. After the bare minimum you need to keep yourself alive, the rest is "positional." It just tells you where you stand compared to others. More money means you can get more stuff than other people can.

"And you can get more expensive stuff," wife Elizabeth adds. "They are now selling sweaters for $2,000. And women's handbags sell for as much as $10,000."

"Positional goods," economists call them. Like a Rolex or a Patek Philippe watch, they are like officers' insignias in the consumer army. The $2,000 sweater doesn't keep you any warmer, but it puts you among the generals rather than with the privates.

"I live in Aspen, Colorado," said a psychologist friend we work with at our family wealth investment advisory, Bonner & Partners Family Office.

"Nothing but rich people there. But guess what? They're miserable.

"The women all have the same strange look – like some kind of robotic females – because they all have the same plastic surgeon. The men are all so busy with their careers – earning money – that we see them only on weekends and holidays. Most of them are on their second or third marriages. And the children are a mess.

"These people have everything you could want. Palatial homes. Their own private jets. The latest gadgets. The latest fashions. But all that stuff just seems to get in the way.

"One kid I know only saw his mother after he got home from school. The parents had an au pair get him ready in the morning and take him to school. Then someone would pick him up from school and he would see his mother, but just for a few minutes, because she's a busy executive, too. Then they call me in because the kid is having trouble …

"I just say, 'Well, duh!'

"The suicide rate in Aspen is four times the national aver-

## Fed's Fears Lift Markets

age. Figure that out. Everyone wants to get rich. Then they move to Aspen and they're so miserable they want to blow their brains out."

Smart Money… Dumb Money

Smart money. Dumb money. Rich. Poor. Everyone buys stuff he doesn't need… often with money he doesn't have. And he thinks it will make him happy.

Then one delusion feeds off another one. The feds see the higher sales numbers… they see the retail clerks bagging packages… the credit cards sweeping through the card readers… and the automobiles backing up at mall entrances.

"Hey," they tell us, "it's a consumer economy. People are consuming. GDP is growing. That'll make people happy."

Economists act like a person at the Thanksgiving table:

"Go ahead! Have another piece of pumpkin pie. You can put away another slice. And put some whipped cream on it."

"Thanks a lot. Just what I needed."

Just because you can doesn't mean you should.

Not that we have anything against consumerism. It's just as good as any other kind of "ism," as far as we're concerned. But are people really happier when they spend money? Are they happier when the GDP goes up? Are they happier when they have more stuff?

Answer: not necessarily.

## Fed's Fears Lift Markets

This is a great article by Shah Gilani (of *Short Side Fortunes*) that explains why the U.S. stock market keeps going up amidst all the chaos in the world.

D. Miyoshi

Last week, I started addressing this question, one that many of you are asking:

"If there are so many global problems, and some obvious domestic ones, why haven't stock markets here and around the world sold off significantly?"

And it's not an easy-to-answer question. That's why I'm continuing along the same theme today.

There's a reason markets are higher today. It's the same reason they've been going higher in spite of whatever bad economic news we get - or whatever good news we get.

Bad economic news is good for the stock market because investors, traders and rampant speculators know the Federal Reserve will keep interest rates low until things get better for the economy.

Good economic news is good for the stock market because the Federal Reserve ignores it and focuses on whatever's bad in that good news and keeps interest rates low until that thing gets better.

Then, when that thing gets better, the Fed finds some other moving target to not hit to keep interest rates low.

If you need proof that the Fed's unabashed agenda is keeping rates low, all you have to do is look back at Janet Yellen's speech Friday at the Jackson Hole, Wyo., Fed meetings.

Not long ago, the Fed said it would start adjusting interest rates once the unemployment rate dipped to 6.5%. Then, the July unemployment rate came in at 6.2%, and Yellen on Friday talked about labor-market "slack" and how that was a worry.

If the unemployment rate falls below 6%, the Fed will simply point to inflation and say it's not at 2%, where the Fed wants it to be.

If inflation is at 2% and the unemployment rate is below

## Fed's Fears Lift Markets

6%, the Fed will point to GDP growth and say it's not rising fast enough to reach escape velocity.

It doesn't matter what the folks at the Fed target. It only matters that they keep rates low.

The reason is frightening.

They're afraid the stock market will crash if they don't keep rates low for years to come.

They know the market is susceptible to crashing because they pumped it up like a balloon with hot money. It's the only thing in the economy that they can move. So they're levitating stocks as high as they can to give the rest of the economy time to actually grow.

If the great disconnect gets great enough - that is, rising stocks turn around to see that economic growth is nowhere in sight and that global growth is a myth - Fed leaders know a market reckoning will devastate the country.

Here's what they're hoping for: Time passes, and the market goes up enough so when the stock market falls, it ends up dipping back to some level that's not considered a crash.

If the Standard & Poor's 500 falls 10%, 20% or 50% from 2,000, the record high it reached today, it would go down to 1,800, 1,600, or 1,000. If the market drops 50%, it would still be 323.47 points, or almost 50%, higher than where it was on March 9, 2008.

That, of course, was when the market hit its last crashing low of 676.53. Isn't that comforting?

With the market way up now, it can fall a lot and still be really high compared to the financial crisis lows. If Fed leaders can pump stocks even higher, they're less worried about any sell-offs. So, the Fed is going to keep this game going for as long as it can.

This is the most dangerous game Fed leaders have ever played. The truth is they have no idea how or when it's going to end. They only know they can't let it end. They're caught in a trap of their own making.

For governments to reduce their deficits with tax revenue from growth, GDP growth will have to be 4% and higher for three to five years. And global growth will have to be at a similar level for the same amount of time.

Otherwise, global debt is going to sink the Euro Zone, Japan, the United States and a lot of other countries.

Rates are low simply because governments around the world need them low so they can keep issuing more cheap debt to try and pay down the tens of trillions of dollars they owe each other and the public.

But none of the world's indebted countries are reducing their outstanding debt loads. They are all adding to them.

Without global growth on a massive scale, countries' huge financing costs will overwhelm lenders' limited capital, rates will start to rise and the world will face a horrific depression.

Hopefully, the Fed and other central banks will be able to beat the clock.

But I doubt that's possible.

Within a matter of months, maybe a few quarters, interest rates will start to rise on their own, and there's nothing the Fed or any other central bank will be able to do to stop it. Rates don't have to go up some astronomical amount. For example, the U.S. 10-year yield will go up from 2.4% now to maybe 4%, which is historically still very low. But that's a 67% increase.

Stocks will crash because the carrying cost of holding positions at these high levels, which has been essentially a near-zero carrying cost, will rise and end the leverage game that has pumped up stocks.

The higher the markets go without a meaningful correction, the steeper the crash will be.

With the S&P 500 now above 2000 the clock has officially begun ticking.

## Dear Oil

On February 23, 2011, an event took place in Riyadh Saudi Arabia that effectively assured everyone in the world that oil prices would remain dear for a very long time.

During a televised speech to a tense nation, King Abdullah bin Abdulaziz announced to his rapt audience that the kingdom of Saudi Arabia, by royal decree, would give to all civil servants and military personnel two months of salary. University students would receive a two-month stipend. Job seekers would receive the equivalent of $533 a month while hunting for work. Minimum wages were increased; 60,000 law enforcement jobs were created; and 500,000 new houses were to be built across the kingdom at a cost of nearly $70 billion. And that was just the beginning of a $130 billion spending program…

It was all part of well-orchestrated – and exceedingly expensive – effort by Saudi Arabia to quell months of protests that had roiled the already-anxious kingdom and which were tied to much-broader clashes across the Middle East and North Africa.

King Abdullah had, in effect, bought the peace – for the time being, at least.

For most people, the king's speech seems entirely irrelevant. But it impacts every single one us every day.

That's because the costs that King Abdullah imposed on Saudi Arabia that eventful day suddenly changed the dynamics of the oil market. A new cost structure was added to each barrel of oil pulled from beneath the desert sands – a social cost. And so long as tensions exist across the region between Arabic leaders and local populations that feel oppressed, that social cost is going nowhere but up.

It's why those who call for lower oil prices are overlooking a crucial piece of the oil market.

Keeping the People Happy

Many publications talk about the miniscule costs countries like Saudi Arabia have for lifting oil out of the ground. Some Saudi fields purportedly have lifting costs of just $2 a barrel. Russia's lifting costs in some instances are said to top no more than $15.

That being said, it is still impossible for these countries to make a profit by selling oil anywhere near those levels. They can't sell oil profitably at $50 a barrel. And it's because of their social costs. These are the types of costs Americans can identify with.

Buying the peace is how oppressive governments bribe their people and maintain social order – no easy task in parts of the world were religious minorities often rule over very angry majorities comprised of the religious opposition. In many of those countries, human misery is rife and poverty rates range as high as 60% … and hungry, impoverished people are the foot-soldiers of revolution, as Tunisian, Egyptian and Libyan leaders have learned.

Saudi Arabia and Russia are the world's #1 and #2 oil-producing countries. They're also political economies that generate lots of animosity and, on occasion, anti-government protests. To assuage the anger that bubbles up – or to keep it below a boil in the first place – both countries throw around huge sums of riyals and rubles.

And the obvious question is: Where does the money come from?

In Russia, oil generates more than 45% of government revenues. In Saudi Arabia, it's up near 75%.

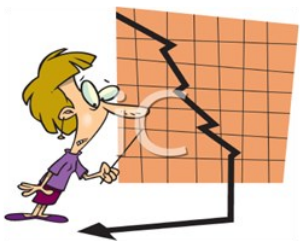
Leaders in both countries have no choice but to rely heavily on oil to fund the civic benefits … which means they have every incentive to manipulate oil prices through production.

Prior to its $130 billion social-spending spree, Saudi Arabia needed oil prices somewhere north of $70 to balance the kingdom's budget, according to the International Monetary Fund. Now the per-barrel cost is reportedly approaching $100. Russia needs something close to $120.

We focus on the Saudis and the Russians simply because of the size of their oil industries and the political issues with which those countries struggle. But the reality is that social costs also play a similarly large role in Bahrain, Kuwait,

# Dear Oil

Advancing in a Time of Crisis



Financial Crisis Report

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Venezuela, Iran and elsewhere, where oil revenue accounts for up to 90% of domestic income.

The United Arab Emirates, for instance, needs oil prices in the $85 range to balance a budget loaded with social programs. Tiny Bahrain needs about $119.

### $100 a Barrel is Middle-of-the-Road

This is where the argument goes astray that American energy independence will drop oil prices to $50 or below. Even given the tremendous obvious potential of the shale oil fields in America, unless the country can produce enough oil for the world – and that may be an improbable goal, it won't control world prices.

Oil prices sustained at $50 a barrel would seriously hamper the ability of oppressive governments to quiet the angry masses. That would lead to potential revolt or overthrow, which would have the effect of pushing oil prices back up, since the risk exists that a regime intolerant of the West would take power and drastically reduce oil supplies.

Thus, any time oil prices get so low that they begin to cause societal tensions wherever governments lean on oil to cover their social costs, those countries will naturally rely on the power of the spigot. All they need do is clamp off production until prices reach a more-adequate level.

### $100 is Oil's New Floor

Over the last three years, Middle Eastern oil has traded below $80 a barrel for just two weeks, and that was largely during the overreaction to European debt woes last year. More impressive is the fact that the sustained prices above $100 occurred even as the top three oil nations produced barrels at record levels.

Currently, the U.S. benchmark crude – West Texas Intermediate – is cheaper in the $85 to $90 range. But oil is priced regionally all over the world. And if oil in the Middle East were to push continually higher from here as nations pay for their social programs, then U.S. prices would march higher too.

### The Future of Oil

We hear the seemingly logical arguments that are proffered to justify why oil prices are headed lower on account of America's shale oil renaissance.

But even if some fields in America produce oil at a sub-$50 cost (which is probable), that oil is still subject to global pricing. And when you have oppressive countries (and their numbers are many and growing) spending money furiously just to maintain social order, there's simply no way oil prices will remain at $50 a barrel.

If you recognize that, and if, in turn, you selectively load your portfolio with energy-related stocks – oil-field servicers, drillers, rig owners, exploration companies and the energy majors – you can protect your standard-of-living as oil prices inexorably rise over time.

D. Miyoshi

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

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