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Financial Crisis Report

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Advancing in a Time of Crisis

Words of Financial Wisdom: "Formula for success: rise early, work hard, strike oil" - J. Paul Getty

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.

Due to the author going out of country, this month's newsletter is being published a week ahead of schedule. As I am finishing the final paragraphs in this months newsletter that contains two articles on China, the President of China, Xi Jinping is preparing to visit our President at the White House. I wonder what they are going to discuss?

How to Beat China

Donald Trump claims that China is economically beating the U.S. because they are smarter. I think his observation is much too simplistic. We need more than just simple intellect to beat the Chinese.

I just returned from a reunion in San Francisco of our 1967 graduating class of Marine Corps Officers and besides having a lot of fun, I was really encouraged after fraternizing and talking to a bunch of fellows that demonstrate the values that are needed if we, as a country, are to prevail over the Chinese (and every other country that attempts to wrest the world's hegemonic lead from the U.S.).

The values that my fellow Marine officers demonstrate by their behavior are the very values that define Marine Corps Officers, specifically those of honor, courage and commitment. Unfortunately, our current administration in Washington D.C. makes short shrift of these values. For you see, a shortage of intellect is not our problem. We have the largest share of scholars in the world studying every possible human endeavor one can conceive of. Moreover, our adversaries including China continue to send the majority of their students of economics, finance, and technology to our universities because they know our schools are the finest in the world.

Notwithstanding Mr. Trump's claims to the contrary, we have the smarts to economically (not to mention militarily) defeat every country in the world. But that's not enough to do the job. Beyond intelligence, we need to demonstrate the values of honor, courage and commitment if we are to economically and militarily defeat our adversaries, whether they be China, Iran, North Korea or Russia.

Here is how the U.S. Marine Corps defines these values:

Honor

The quality that guides Marines to exemplify the ultimate in ethical and moral behavior; never to lie, cheat, or steal; to abide by an uncompromising code of integrity; to respect human dignity; to have respect and concern for each other. The quality of maturity, dedication, trust, and dependability that commits Marines to act responsibly; to be accountable for actions; to fulfill obligations; and to hold others accountable for their actions.

Courage

Courage is the mental, moral, and physical strength ingrained in Marines to carry them through the challenges of combat and the mastery of fear; to do what is right; to adhere to a higher standard of personal conduct; to lead by example, and to make tough decisions under stress and pressure.

The Real Way to Make Money in Stocks

Commitment

The Spirit of determination and dedication within members of a unit that leads to professionalism and mastery of the arts of war. It is the ingredient that enables 24-hour a day dedication to Corps and Country; pride; concern for others; and an unrelenting determination to achieve a standard of excellence in every endeavor. Commitment is the value that establishes the Marine as the warrior and citizen others strive to emulate.

Besides building a wall and beating China, has Mr. Trump ever espoused the need for these qualities to “Make America Great Again”? In her spiel to advance the rights of woman, has Hillary Clinton ever demanded we embrace these qualities to bring America into the 21st Century? To advance in any endeavor, human beings need more than simple intelligence. Intellect often does provide that edge to enable one to prevail in most activities. Smart tactics and superior weapons can enable troops to win on the battlefield as will intelligent strategies and shrewd negotiations in business dealings.

But without the courage and commitment of the people to defeat the enemy, our leaders will not be compelled with the political assurance to oppose the adversary. And this courage and commitment of the public can only be inspired by those same leaders who themselves display the honor, courage and commitment to make this country great again. In politics as in society, what goes around comes around.

So, Mr. Trump, to beat China, we not only need your smarts supported by the intellect of others, but we also need your honor, courage and commitment, not to yourself, but to your country. And just to make sure, maybe you should ask a few good Marines to help.

Semper Fidelis,

D. Miyoshi

The Real Way to Make Money in Stocks

By Dr. David Eifrig, editor, *Retirement Millionaire*

Most people who call themselves "investors" really aren't.

The average "investor" is really a trader. He buys a stock with the hope that at some point in the future, he'll find someone who'll buy it for more than he paid. He's trying to time the market. "Buy low and sell high," right?

More often, however, people can't stand the uncertainty. Watching the market flip and flop all over the place leads to bad decisions. People buy high and sell low. Ultimately, it's a lot of stress and research for an uncertain payoff.

But there's an easier way…

Many investors overlook the fact that your true wealth is your income.

I'll bet you have some idea of the total balance of your brokerage account – even without looking it up. But you probably wouldn't be able to quote the annual dividends that your portfolio generates.

A dividend is money a company pays its shareholders. Every quarter, the company counts its earnings and pays out some portion to its owners (the shareholders). Essentially, it's your cut of the profits.

Ignoring dividends is a blind spot many investors have, and it's a mistake. You shouldn't measure your wealth by the balance of your bank account, but by the income it generates.

Income is what you live on. Income is what gives you the freedom to enjoy your days, take vacations, or provide for your family and others.

When you buy 100 shares of a stock that pays $1 a year in dividends, you've just set yourself up to earn $100 a year in income. With a little bit of investing acumen, that income stream should rise.

And a dividend is more than just an income stream… Dividends are vital to the overall returns of your portfolio. According to studies, dividends have accounted for about 43% of the performance of stocks in the S&P 500 since 1926.

That means if stocks return 7% a year, about 3% of that is dividends. That makes for a big chunk of returns.

That difference grows over time (an effect called "compounding"). An investor who collected and reinvested dividends from 1940 to today would have earned 10 times as much as an investor who collected the capital gains on stocks alone.

Simply put, paying dividends is exactly what the stock market is about.

The future growth potential matters. The company's assets and resources matter, too.

But… if a stock doesn't provide a stream of income, then what's the point?

Remember, each share of stock represents a tiny ownership stake in a business. So buying shares of a company makes you a part owner… a kind of partner. And your dividend check is your share of the profits.

So you'll likely become a lot more successful… and richer… as an investor by asking a simple question: "What does the stock pay to shareholders (the owners) each year?"

After all, a dividend can't be faked. Companies can employ a range of accounting tricks to beef up earnings. They can come up with new grand "strategic plans" to paint a bright picture for the company's future. At times, some even engage in outright fraud.

But a dividend comes as real cash, straight from a real bank account. It can't be faked, cajoled, or conjured. Only companies with sound financial footing and real profits can pay dividends. By focusing on dividends, you'll immediately ignore many of the junk stocks out there in the market.

Here's to our health, wealth, and a great retirement,

Dr. David Eifrig

Greece will be fried

It's not enough to say Greece is in hot water, it's in boiling oil and will be badly burned. Here are the reasons why.

No. 1: The Economic Situation Is Only Getting Worse

Rightly or wrongly, the reason Greece tried to wriggle out of its debt obligations is its economy simply can't grow the way things are. And sure enough, since Greece was forced to grovel and accept Germany's terms, Greece's economy will continue to shrink.

The country's GDP should contract 0.7% in 2015. That's down from a 0.8% expansion in 2014, according to most estimates.

It will be the seventh annual decline in eight years. Overall, Greece's economy has shrunk by 25% since 2008.

And the smaller the economy gets, the less of a debt burden it can bear (and the more it depends on European handouts). It's a vicious cycle that feeds on itself.

Also, remember how shocking Greece's unemployment rates were, with 25.9% of the general population and more than half of young people out of work? Well, that's getting worse, too. General unemployment will average 26.3% this year.

No. 2: The Banks Are Still in Trouble

Now that Europe is giving Greece more cash injections, its banks were supposed to unfreeze. People were supposed to be able to get access to their money. Nope.

In fact, Greek banks, which have basically been frozen for a month, are expected to keep cash controls in place for months to come.

This is worsening the economy (see point No. 1). That's because banks limit withdrawals to 420 euros a week. That chokes economic activity and borrowers' ability to repay loans.

The Hidden Truth About the US Dollar

Oh, and the Greek stock market, which was also closed for a month, keeps putting off opening up.

Greece owes Europe 300 billion euros. Even the International Monetary Fund says Greece can't pay that back. Yet Germany shows no signs of allowing debt forgiveness.

To recapitalize and unfreeze the banks would take a back-of-the-envelope injection of another 25 billion euros. So would that be added to the debt that Greece already can't pay?

Some problems have no solutions.

No. 3: Greece Still Isn't Bailed Out

The problems that drove Greece into crisis aren't fixed. The can has been kicked down the road for a bit. The country's debt is now 170% of GDP. And since the economy is shrinking, the debt-to-GDP ratio is only going to get worse.

Greece is supposed to sit down with its international creditors to talk about a new bailout package. The meetings with officials from the European Commission, European Central Bank and International Monetary Fund were supposed to start last week.

Then the meetings were supposed to start today. Then they were delayed again.

Do you get the feeling that maybe no one wants to have these meetings? Maybe because both sides know that without debt forgiveness, there is no solution to Greece's economic crisis.

This ongoing Greek tragedy could have many more acts to play out. To be sure, Greece doesn't have any real impact on the U.S. It's even a minor peripheral figure in Europe as a whole. But at the heart of the crisis is whether the euro is a viable currency - does it do more harm than good to weak nations that adopt it?

I think the answer to that question is one that could rock the euro and send ripples through the global financial system.

Regardless, there are several opportunities for investors to profit from Greece's problems. Right now we should just sit tight and see how their economic situation develops before making our move. It will be imperative that we do our due diligence before making our moves.

Here's to good investing,

D. Miyoshi

The Hidden Truth About the US Dollar

Paul Rosenberg, Editor of *A Free Man's Take* tells us of an amazing if not disquieting truth about our U.S. Dollar.

Rosenberg says that for years he had heard people talking about "the fraud of the Federal Reserve." But he was busy trying to survive and the dollars he was paid with bought food at the grocery store, so he didn't give those reports a great deal of attention.

But the more he began to study economics, however, the more he understood that this was an essential issue: that if he didn't understand the foundation, he'd never really understand what was built upon it. So, little by little, he began to pay attention to the question, "Where do dollars come from?"

One of his first discoveries was that almost no one knew anything about this. Shocking though it may seem, they don't teach this in general economics programs. He would have econ grads from well-respected programs come to him and say, "I'm kind of embarrassed to ask, but they never taught it to us in school: Where do dollars come from?"

"No, That Can't Be True"

That's what Rosenberg said when he first understood where dollars came from. He said, "No way. That couldn't be what it is."

Unfortunately, he was wrong; it really is this way.

The secret to understanding the creation of dollars and of the operation of the Fed lies in two quotes from economist John Kenneth Galbraith:

The study of money, above all other fields in economics, is one in which complexity is used to disguise truth or to evade truth, not to reveal it.

The process by which banks create money is so simple that the mind is repelled.

We must give the Fed credit for one thing: it has admitted to

The Hidden Truth About the US Dollar

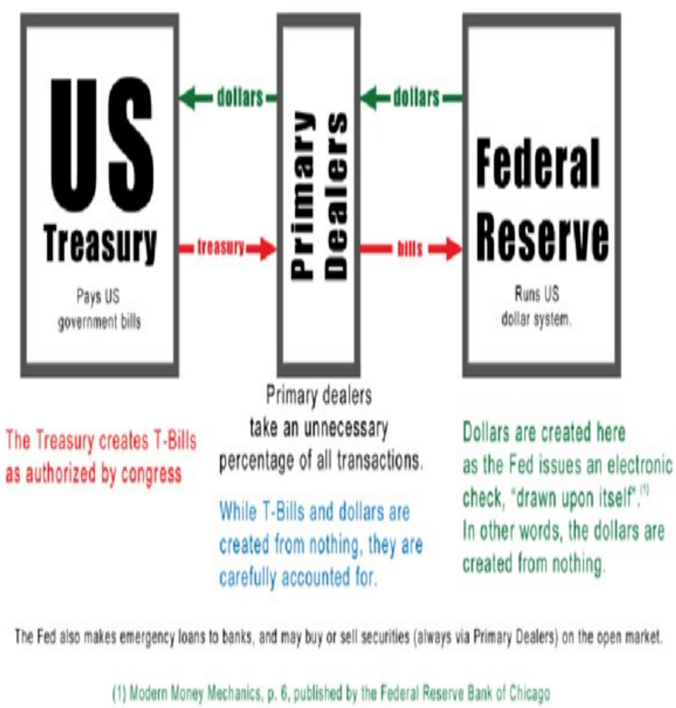
what it does. A publication called *Modern Money Mechanics* identifies how the Fed creates dollars. It cloaks that admission in unnecessarily difficult accounting and a convoluted discussion (confirming the first Galbraith quote), but still, it does admit it.

Brief Points

There's a lot to discuss here and we have limited space, so here are a few central points made by Rosenberg. It will be your job to verify them.

#1: Dollars originate with an accounting trick.

Dollars begin with a process that looks like this:



While intricately accounted for, dollars begin as a check that the Fed writes "drawn on itself." Those are the precise words from *Modern Money Mechanics*, by the way.

Can you and I write checks "drawn on ourselves"? Of course not. We have to back them up with value. The Fed does not.

So, the mighty US dollar is not backed by gold or silver or anything at all; it's simply an accounting trick.

#2: Every dollar is skimmed from, as it is created.

As shown in the chart above, dollars come from a transaction between the Fed and the Treasury. Can you think of any reason why these two institutions would be unable to handle this transaction by themselves? (And in fact, we know they can, because they gave the Chinese an exemption from the middle step a few years back.)

So, what's the purpose of the primary dealers (simply called "dealers" in Modern Money Mechanics) that sit between the Fed and the Treasury?

In fact, there is no purpose, aside from the obvious. The primary dealers take a slice from every dollar as it is made.

Again, get Modern Money Mechanics. Go through it slowly. Check this for yourself. It sounds crazy, but most of it is right there in black and white.

And who are these primary dealers? The big banks, of course.

#3: Your mortgage loan was created out of thin air.

It's A Wonderful Life is a fine film, but Jimmy Stewart's character was entirely wrong when he claimed that he borrowed the savings of one virtuous person to make a home loan to another.

When you take a loan from a bank, they do not take Mr. Smith's money or Mrs. Jones's money and lend it to you. They make it up on the spot with a bookkeeping entry. Until you take the loan, that money doesn't exist.

You don't have to take my word on this. Here are the words of Robert B. Anderson, who was secretary of the Treasury under Eisenhower:

When a bank makes a loan, it simply adds to the borrower's deposit account by the amount of the loan. It does not take this money from anyone else's deposit; it was not previously paid in to the bank by anyone. It's new money, created by the bank for the use of the borrower.

You may have to work overtime to pay those dollars back, but no one worked overtime to get them in the first place. They were simply made up, on the spot.

#4: Money for interest is never created.

Every dollar is created with interest attached:

- T-bills yield interest—buy one for $1000, and you will, over time, receive more than $1000.
- A $1000 loan, as we all know, must eventually be repaid with $1000 plus extra dollars as interest.

So, every dollar is birthed with a debt obligation attached.

This creates an interesting problem: Extra dollars will be required to pay back all of that interest. Where will they come from? We can work hard and pay back our $1000. loan with interest, but every dollar we use to pay interest is created with

How China Can Beat Us

an interest obligation of its own. Where does it end?

In fact, it cannot end—it cannot resolve—unless there are debt-free dollars that can cover the gaps. And there are none.

This means that the dollar system can run effectively in one direction only. It can operate smoothly while creating evermore currency, but if the system starts to contract, there will be a currency shortage. And that leads to all sorts of troubles.

This Sounds Crazy…

If all of this is new to you, you have my sympathies; I know it's a lot to take in. Go slowly and double check it all. Make up your own mind.

The first time Rosenberg saw this, he couldn't believe that it could possibly be true. Reading the Fed's own words, even though he had to plod through them slowly, convinced him.

And if you want to read the wild story of how this astonishing system was created, you can find it in *The Creature from Jekyll Island*, by G. Edward Griffin.

D. Miyoshi

How China Can Beat Us

We have all heard stories of how the Chinese will soon beat us with their economic power. Many believe the Chinese will inundate us with their tawdry goods from which they will make more money than we will make from them. But the implements with which the Chinese will likely beat us will not be their products but instead it will be with their currency.

In 2015, the U.S. Government owes the Chinese government nearly $1.5 trillion. This is about the same amount as the total amount the U.S. collects annually in income taxes from individuals and businesses. Basically, it is a debt we will never be able to fully pay back to China. This reminds me of the old adage, "if you owe the bank $100,000 they have you by the "cahones." But if you owe the bank $100 million you have them by the "cahones." Thus China realizes the predicament it's in.

And so, it has now put into place a covert plan to recover as much of its money as possible by extracting colossal sums from both the United States Government and ordinary citizens, like you and me. And how are they going to do this? They are going to accomplish this by creating a new dominant world currency, dislodging the U.S. dollar from its current reserve role and recover as much of the $1.5 trillion the U.S. Government owes them.

In essence, they will enter into a currency war with us.

Most Americans probably don't remember the last currency war we had gotten involved in back in the 1960s. At that time, French Pres. Charles de Gaulle denounced the U.S. Government's policy of printing overvalued US dollars to pay for its trade deficits... Which allowed U.S. companies to buy European assets with dollars that were artificially held up in value by a gold peg that was nothing more than an accounting fiction. So in 1960 de Gaulle took $150 Million of his country's dollar reserves and redeemed the paper currency for U.S. gold from Fort Knox. De Gaulle even offered to send the French Navy to escort the gold back to France. Today this gold is worth about $12 billion.

Now, this occurred during a time when foreign governments could legally redeem their paper dollars for gold, but U.S. citizens could not.

And France was not the only nation to do this... Spain soon redeemed 60 million of US dollar reserves for gold, and many other nations did the same. By March 1968, gold was flowing out of the United States at an alarming rate.

By the year 1950, U.S. depositories held more gold than they had ever been assembled in one place in world history (roughly 702 million ounces). But to manipulate the dollar, the U.S. Government was willing to give away more than half of the country's gold.

It's estimated that during the 1950s and early 1970s, we essentially gave away about two thirds of our nation's gold reserves. .. around 400 million ounces… all because the U.S. government was trying to defend the U.S. dollar at a fixed rate of $35 per ounce of gold.

Essentially, we gave away 400 million ounces of gold and received $14 billion in exchange. Today that same gold would be worth $620 billion. ..a 4,330% difference.

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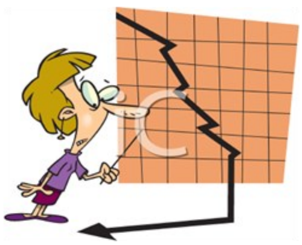

Financial Crisis Report

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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.

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

That's where most of our gold has gone.

When the history books are finally written, this episode will go down as one of our nation's most incompetent political blunders. Of course, as is typical with politicians they manage to make a bad situation even worse. That's why non-politicians (i.e. Trump, Fiorina and Carson) are doing so well in the political polls these days.

The root cause of the weakness in the U.S. dollar is easy to understand. Americans were consuming far more than they were producing. You could see this by looking at our Government's annual deficits, which were larger than ever and growing. …thanks to the gigantic new welfare programs and the trade deficits which continued to get bigger and bigger, forecasting a dramatic drop in the value of the U.S. dollar. Of course economic realities are never foremost on the minds of politicians and so on August 15, 1971 Richard Nixon announced a new plan…

The U.S. gold window would close effective immediately – and no nation or individual anywhere in the world would be allowed to exchange U.S. dollars for gold. The president announced a 10% surtax on all imports.

Such tariffs never accomplish much in terms of actually altering the balance of trade, as our trading partners simply put matching charges on our exports. So what actually happens is just less trade overall, which slows the whole global economy, making the impact of inflation worse.

Of course, Nixon pitched these moves as patriotic, saying "I am determined that the American dollar must never again be a hostage in the hands of international speculators."

Within two years, America was in its worst recession since World War II…… with an oil crisis, skyrocketing unemployment, a 30% drop in the stock market, and soaring inflation. Instead of becoming richer, millions of Americans got a lot poorer, practically overnight.

And that brings us to today.

Roughly 40 years later the United States is in the middle of another currency war. But this time, our main adversary is not Europe. It's China. And this time the situation is far more serious. Our nation and our economy are already in an extremely fragile state. In the 1960s, the American economy was growing rapidly, with decades of expansion still to come. That's not the case today.

This new currency war with China will wreak absolute havoc on the lives of millions of ordinary Americans (not to mention most of the world), much sooner than most people think. Therefore it's critical over the next few years for us to understand exactly what the Chinese are doing, why they are doing it, and the near certain calamitous outcome that awaits us and most importantly how to prepare for this coming financial crisis. That is the reason this newsletter is called the *Financial Crisis Report.*

Here's to your successful investing.

D. Miyoshi

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