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Financial Crisis Report

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Advancing in a Time of Crisis

Words of Financial Wisdom: "I have never understood why it is "greed" to want to keep the money you have earned, but not greed to want to take somebody else's money." – Thomas Sowell

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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.

The Ultimate Ponzi Scheme

What does Japan, Germany, France, Italy and the U.S. have in common?

The answer is they are all growing old. And for old countries, what does this mean?

Well, according to Bill Bonner, author of *Hormegeddon*, it means their assets and their institutions, at least the ones that depend on population, income, and credit growth – are "fastened to a dying animal" and are not likely to survive in their present form.

Today, these countries, are victims of demography. Older people get more money from the government. And they pay less in taxes. Old people also slow the rate of GDP, for obvious reasons: They are not adding to output; they are living on it.

As people age, the whole society – its institutions, its laws, its customs, its economy, and its markets – ages, too. They all become as familiar, comfortable, and shabby as a well-worn shoe.

An economy is not independent of the people in it. The economy ages with them. And when they reach retirement age, the economy gets arthritis.

A Nursing Home Economy

Even the U.S. Congressional Budget Office has noticed how government debt slows growth:

Increased borrowing by the federal government generally draws money away from (that is, crowds out) private investment in productive capital in the long term because the portion of people's savings used to buy government securities is not available to finance private investment.

The result is a smaller stock of capital and lower output in the long term than would otherwise be the case (all else held equal).

Why does the U.S. federal government need to borrow so much? Before the invention of the welfare state, almost all large borrowing was done for war. Since the end of World War II, however, most developed countries – with the exception of the U.S. – have borrowed heavily only to pay for social programs.

But neither debt nor spending contribute to a dynamic, innovative, and growth-oriented economy. Instead, they produce an economy that looks like the people in it – old, creaky, and in need of around-the-clock care.

As people age, they begin fewer new businesses. "The Other Aging of

The Ultimate Ponzi Scheme

America: The Increasing Dominance of Older Firms" is the title of a major study from the Brookings Institution. Done by Robert Litan and Ian Hathaway, it showed that American business was becoming "old and fat."

Taken together, the data presented here clearly show a private sector where economic activity is sharply concentrating in older firms – a trend that is occurring in a nearly universal fashion across sectors, firm sizes, and geographies…

An economy that is saturated with older firms is one that is likely to be less flexible, and potentially less productive and less innovative than an economy with a higher percentage of new and young firms.

Young people try to create new wealth. Old people try to hold on to the wealth they believe they have in the bag. They are less entrepreneurial. They are also, perhaps, more eager to protect their businesses and professions from competition.

Part of the reason for fewer business startups is that it has gotten a lot harder to launch a new company in America. As a corporate lawyer, my clients and I can personally attest to this.

This was the conclusion of a study by John W. Dawson and John J. Seater ("Federal Regulation and Aggregate Economic Growth"). What they found was that there has been a huge increase in economic regulation and restrictions in the U.S. since World War II. They point out that these regulations have an economic cost. Like debt and demography, regulations reduce output.

In fact, they estimate that had the level of regulation remained unchanged since 1948 – today's GDP would provide every man, woman, and child in America with about $125,000 more in income per year.

A Glorified Ponzi Scheme

It was Alexis de Tocqueville who observed that democracy was doomed. He said it would soon degrade into tyranny. As soon as politicians realized that they could win elections by promising the voters more of other people's money, it was just a matter of time until they overdid it.

Had he imagined how old people would get, he wouldn't have been so optimistic.

As things developed, politicians noticed two important things: that young people (especially those who hadn't been born yet) didn't vote… and old people's votes could be bought fairly cheaply, at least, so it appeared at first.

When the U.S. Social Security program was first put in place, for example, the typical American male could expect nothing from it. He was expected to live to 61. He'd be dead before benefits kicked in. But as the 20th century led to the 21st, his life expectancy increased, and so did the burden of old people.

Early Social Security participants paid in trivial amounts and got a very good return on their money. I know some older people who only worked a few years at a low-paying job and they retired in the 80’s. They have been collecting Social Security ever since.

Is that fair? Well, they would probably say, “yes, that’s the way the system works”.

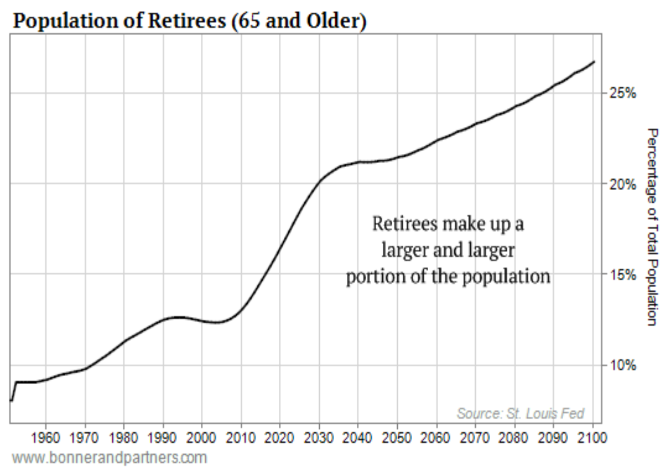
However, this way would be illegal for a private annuity plan. It would be labeled a "Ponzi scheme."

Its promoters would be fined or put in prison. The money that goes into the system is not locked away in wealth-producing investments, so that the cash will be available to finance the retiree's pension. Instead, the contributions of new participants are used to pay benefits to old ones.

This has the obvious and fatal flaw of all Ponzi schemes – eventually, there is not enough new money coming into the system to meet its obligations. This point was reached in the U.S. system in 2010. Since then, the system has been running an annual deficit.

You'll see why in the chart showing the retirement-age population.

Is Japan Committing Economic Hara-kiri?



Everybody knows Social Security, the Affordable Care Act, veterans' pensions, and other support programs are dangerously underfunded. What is not appreciated is the effect that this has on GDP growth and stock-market prices.

The crankshaft of age leads to the universal joint of social spending, which then goes to the axles of debt. Finally, where the rubber meets the road, the wheels turn more slowly.

This is not just a problem for government finance. Companies make money by putting out products and selling them. But when people grow old or population growth declines, so do both supply and demand.

Then, companies earn less money. Their shares are worth less. Personal incomes go down. Capital gains retreat. And tax revenues fall, too.

When this happens in an economy that is already deeply in debt, it triggers a "Financial Crisis", which is what this newsletter is all about.

D. Miyoshi

Is Japan Committing Economic Hara-kiri?

As a Japanese-American I am grateful for my ethnic heritage. But a recent report by famed economic analyst Bill Bonner gives me considerable angst. His article details a current social enigma and a looming economic problem now facing Japan. Basically, Mr. Bonner purports that Japan is committing economic hara-kiri.

In his report he goes on to state that it's one thing to naturally have fewer kids as a country urbanizes and gets more wealthy. It costs more to raise and educate kids in such a society and so couples naturally choose to have fewer kids and educate them better. Every developed country has seen such trends, as have the urban populations of emerging countries.

But there's something different in Japan, something downright *scary*. Japan not only has one of the lowest birth rates per 100,000 women of 1.4 vs. a 2.1 replacement rate, but single and married people increasingly have no interest in sex or romantic relationships.

This is made clear by a detailed 2011 report by Japan's population center that shows this dangerous trend.

The one thing that Japan, East Asia and southern Europe share is that women get virtually no help from the government, corporations or their husbands when they have kids.

But in Japan it goes farther…

Here are some key findings:

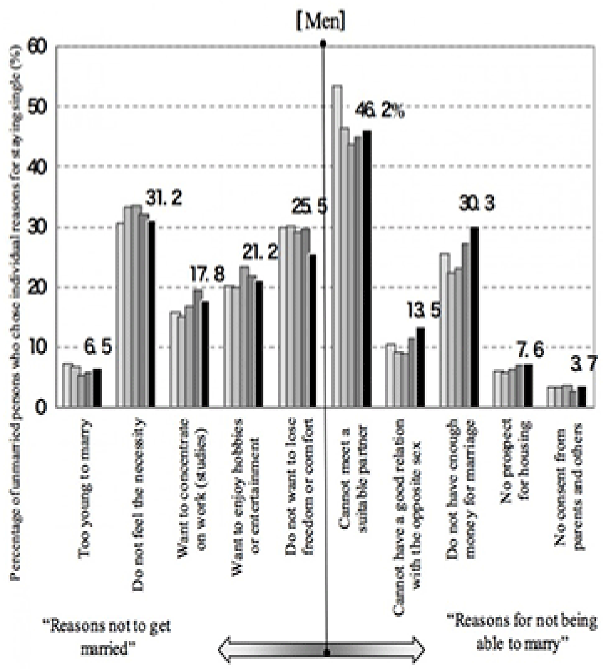
1. 45% of women and 25% of men 16 to 24 are "not interested in or despised sexual contact."
2. More than 49% of Japanese citizens are single.
3. 40% of unmarried men and 61% of unmarried women age 18 to 34 are not in any kind of romantic relationship.
4. 23% of women and 27% of men say "they are not interested in any kind of romantic relationship."
5. 39% of Japanese women and 36% of men of child-bearing age, 18 to 34, have never had sex.

Women in their early 20s have a 25% chance of never getting married and a 40% chance of never having kids.

Japanese laws and social customs make it extremely difficult for women to have a career *and* a family. Women who get pregnant, or even just marry, are generally expected to quit work and become a housewife.

The following chart shows men's reasons for staying single. I'll quote the survey results for women as well and they're mostly similar. The survey was taken periodically between 1987 and 2011. There are 5 surveys in order but I'll quote the most recent one in 2011.

The Sinking of the Yen



Source: National Institute of Population and Social Security Research of Japan

The key reasons were:

1. 46.2% of men and 51.3% of women: "cannot meet a suitable partner."

2. 31.2% of men and 30.4% of women: "don't feel the necessity."

3. 30.3% of men and 16.5% of women: "do not have enough money." (Here's where men differed the most for obvious reasons and a poor economy.)

25.5% of men and 31.1% of women: "do not want to lose freedom or comfort." (This is where women rated higher due to conflict with career ambitions for them.)

On top of this extraordinarily high lack of interest in sex and having families, the Japanese live longer than any other wealthy country in the world, with a life expectancy of 84 vs. 79 in the U.S. and 80 to 81 in most of Europe.

That means they retire longer and require more support from a dwindling workforce.

In 2012, Japan's population fell 212,000 with 1,256,254 deaths vs. 1,037,101 births making up almost all of that difference and further hampered by very minor immigration. Japan's population is projected to fall from a peak of 128 million recently to about 97 million by 2050… that's a decline of 24%.

Much worse and even more critical is the enormous fall in workforce growth of the population aged 15 to 64. It peaked in the mid-1990s at 87 million and is projected to fall to 48 million by 2050. A whopping 45%!

By 2050, that 48 million workforce will be supporting 37 million elderly aged 65 and over.

I am sure Prime Minister Abe is aware of this trend. But beyond initiating his Abenomics program, I wonder just what he can do about it?

D. Miyoshi

The Sinking of the Yen

In 1973 Sakyo Komatsu published a bestselling book entitled *Nihon Shimbotsu*. The book is about the cataclysmic sinking and ultimate destruction of Japan due to a series of disastrous earthquakes. We hope the scenario of this book never comes true. But another leisurelier plot of the undoing of Japan is apparently now coming true. The sinking of its currency.

To illustrate this demise Jeff D. Opdyke, Editor of *Profit Seeker* writes of the true tale of scarecrows that are being erected on the southern island of Shikoku.

Not the skinny broomstick scarecrows populating backyard gardens across America. They are hand-stitched figures that look almost lifelike in their pants and rain boots, pink anoraks and sun hats. Tsukimi Ayano stitches these scarecrows, about 150 that she has fashioned and scattered around her hometown of Nagoro. The village now numbers just 35 living residents, and the scarecrows are a reminder of all who have passed or left as the city slowly slips into Japanese history.

The town and its scarecrows have become Japan's version of a looking glass, and the Japanese know this. They can see the future and they realize that, because of social and economic dogma, they're on the path to extinction as a race, just as Nagoro is on the path to extinction as a village. And as callous at it sounds, there's money to be made as Japan fades away.

Japan's problem is two pronged:

1. It has terrible demographics.

Japan is the most rapidly aging country in the world because of atrociously low birth rates and a xenophobic mindset toward mass immigration that would allow migrants to repopulate the country — albeit without Japanese bloodlines. By 2060, the country's current population of nearly 130 million will be below

How to Trade for Income Profits

90 million — and 40% of those people will have topped 65 years.

By 2110, less than 43 million Japanese will likely populate the nation, and an even greater percentage will be retirees.

That's a significant dilemma because...

2. Japan has an unwavering and flawed belief in Keynesian economics.

Keynesianism is the oxymoronic belief — more moronic than oxy — that a country can, through the government, tax, spend, devalue the currency and inflate its way to prosperity. It's precisely why the West (aka America and Western Europe) is so sick today. Government has gorged on too much public debt over the last many decades in an effort to keep Western citizens happy and middle class.

The fiscal situations that now exist in America and Western Europe prove that Keynesianism is largely a discredited economic model. But in the context of a population declining as fast as Japan's, the economic philosophy is the equivalent of putting an obese person on a high-calorie diet (much like what is physically occurring in America today).

Because of its longstanding faith in the fallacy of Keynesian theology, Japan is already headed in the wrong direction economically. It's home to a debt load that is the highest in the world at more than 225% of GDP, more than double the troubled debt load here in America.

Consider what happens to a population that is A) shrinking, while B) the government continues to pile on additional debts to stimulate the economy, which is exactly what Japan is doing with its last-gasp Abenomics economic policies. The fewer and fewer Japanese will be less and less able to support the economic growth — and the taxes — needed to repay the larger and larger governmental debts. And that's especially true when you consider how many of those people are retirees, no longer generating a paycheck or spending to the degree that younger workers do.

That's why Japan is an all but lost cause at this point.

The Fading Yen

There's talk in Japan that leaders, realizing the quandary their country faces, are now considering allowing mass immigration — though whether that actually happens is debatable, given the militantly insular nature of Japan's belief in cultural purity, which it is.

But even that won't save the country from the gaping fiscal problems it now has because of decades of Keynesian ideology. Japan needs to start over. It won't, of course. Instead, through a massive currency-printing campaign, it will sacrifice the yen in a desperate effort to generate any kind of growth it can.

No sustained growth is possible, though, for a litany of reasons, such as: Older people are not spending heavily on the consumer items and services that grow the economy; too much tax revenue now must be funneled into debt repayment; and Japan's once-vaunted savings rate has plunged to near-U.S.-like levels.

Ultimately, Japan is going to face an existential crisis wrapped up in a fiscal, financial and economic crisis. And as part of that, unfortunately the Japanese yen the world knows today will fade into history.

On the way to that point, the yen, now in the range of 119 to the dollar, will plunge through 200 or 300 to the dollar, meaning anyone who shorts the yen against the dollar in the medium to long-term is going to make a lot of money on the demise of Japan's currency.

There are several exchange traded funds (ETF) that profit when the yen declines and investors should consider them as a convenient way to profit from the yen's dismal future prospects. The endgame is clear in Japan … and the end draws nearer with every new Keynesian plan the country introduces. The road does not end well for Japan.

But, as a Japanese-American (Japanese in blood and American in citizenship and culture), I hate to admit it but there's money to be made on the coming demise of the yen.

D. Miyoshi

How To Trade for Income Profits

A Trading Strategy That Gives You Three Ways to Win

At Miyoshi Capital LLC, we focus on generating income, be it from hard assets such as real estate or from financial assets such as securities and options. We all know how real estate generates rental income. But let's cover how to generate income by trading options.

Contrary to popular belief, trading options is one of the safest, most consistently successful trading strategies you'll ever find.

At the risk of tooting our own horn, the following explains

How to Trade for Income Profits

how we trade options for income. We've used the strategy to register profits on 141 out of 152 closed trades since launching our options trading program in 2013,…. a 93% win rate.

The strategy – "trading for income" – isn't complicated. But it has a unique feature that most trading strategies do not. It gives you three ways to win… rather than an ordinary stock purchase, which gives you only one way to win.

Lets cover those three ways and show you how the strategy has worked with some past trades.

Our clients know "trading for income" is our term for selling options (puts and covered calls) on the world's best companies… and only when these companies trade at good prices.

When we sell puts, other market participants pay us for agreeing to buy shares of a stock at a lower price.

When we sell covered calls, we buy shares and we get paid for agreeing to sell those shares at a higher price.

We can profit on these trades in three different ways…

1. The stock goes up. The investor keeps the cash. And the trade is closed.

2. The stock does nothing. If the investor sold puts, he keeps the cash. And the trade is closed. If he sold covered calls, he keeps the cash. The call portion of the trade is closed. And he can generate more income by selling another round of calls.

3. The stock goes down a little. The investor keeps the cash, and he ends up holding shares. He can generate more income by selling covered calls and collecting dividends.

In fact, the only way the investor takes a loss "trading for income" is <u>if shares fall a lot</u>… And when he trades great companies at good prices, this rarely happens.

The following charts are taken from *Daily Wealth Trader*, a publication we follow. They illustrate some trades we made.

As an example, it is the third Friday of the month. It's option-expiration day. And we had four option trades expiring on just two companies… software giant Microsoft (MSFT) and fast food icon McDonald's (MCD).

We recommended selling the January $45 puts on Microsoft on December 17 – the day after what turned out to be a three-month low.

After that Microsoft traded about 1% above our $45 strike price… So we kept the cash… And the trade closed automatically.

Here are the details of that trade…

Position	Open Date	Return	Weeks in Trade	Annualized Return
Microsoft $45 puts	<u>12/17/2014</u>	2.9%	4	34.3%

The trade was a big winner. A 34% annualized return is very good.

Now if Microsoft closed below $45 on the expiration date it would be a scenario three trade… That means we would have been assigned shares of the stock.

This is where our third way to profit would come into

Middle East Mess

play…

Our trading-for-income positions are winners right off the bat more than 70% of the time. The stocks' share prices trade above the options' strike prices at expiration… And the trades are closed for a profit.

But not every trade ends like that…

In our portfolio, we've been left holding shares after the original expiration 26 times since June 2013. We were near breakeven or down on ALL of those trades… And we turned 21 of them into winners. The 26 trades returned an average of 4.1% in about five months… or 8.2% annualized.

That's a good 81% win rate on trades that didn't start off as winners.

The key to profiting on these trades is patience…

We only trade for income on great companies at good prices… And these stocks rarely stay down for long. Eventually, the market recognizes a great value and pushes the shares higher.

When that happens, we can generate more income by selling covered calls. We can also collect dividend payments. And if shares stay strong, we close the trades for profits.

That's what we did with the three options we had that expired last March… which are scenario three trades.

Position	Open Date	Share Price	Return
Microsoft $49 calls	12/2/2014	$45.65	-4.3%
McDonald's $95 puts	12/3/2014	$91.74	-2.0%
McDonald's $95 calls	12/22/2014	$91.74	-0.7%
Average			**-2.3%**

We were down an average of 2.3% on those trades… And if one placed any of these trades, they would be left holding 100 shares of the underlying stock for each option contract they sold.

But Microsoft and McDonald's are two of the best companies in the world. They dominate their industries… They're both in the top 10 of Forbes' list of the "Most Valuable Brands"… They both have histories of rewarding shareholders… And they're both trading at good valuations.

So we're happy to hold them in our portfolio until we have the ideal opportunity to generate more option income.

As we said, the strategy isn't complicated… Most of the time, these trades work out quickly. When they don't, they're usually just "winners in waiting." And there will come a time when we will be able to earn more income on our scenario three trades…

That's a good feeling. So, like an insurance company, we simply play the odds of the house, selling a contract that obligates one to an event that usually has a less than 70% chance of occurring but if it does we get assets at a slight discount that we can hold to sell later when the time is right.

D. Miyoshi

Middle East Mess

What is now occurring in the Middle East dramatically resembles the situation at the beginning of WWI when a plethora of countries in Europe were vying for control and influence. The current situation is exacerbated by the significant lack of a clear foreign policy by the ruling world power (Britain then, the U.S. now).

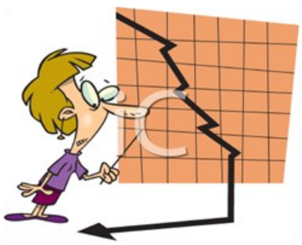
The following is taken from an article that was published on the internet by Max Fisher which attempts to explain the political and military chaos that, in the wake of the U.S. pulling its military forces out of Iraq, now has overtaken the Middle East. In the chart you will note the only two "Has no clue" green arrows belong solely to the USA. How much this mess will contribute to the coming financial crisis in the world is still up for grabs, but I think it will have its place. For sure, investing is easier to understand than geo-politics.

D. Miyoshi

What could be simpler than the Middle East? A well-known Egyptian blogger who writes under the pseudonym The Big Pharaoh put together this chart laying out the region's rivalries and alliances. He's kindly granted me permission to post it, so that Americans might better understand the region. The joke is that it's not a joke; this is actually pretty accurate.

Middle East Mess

Advancing in a Time of Crisis



Financial Crisis Report

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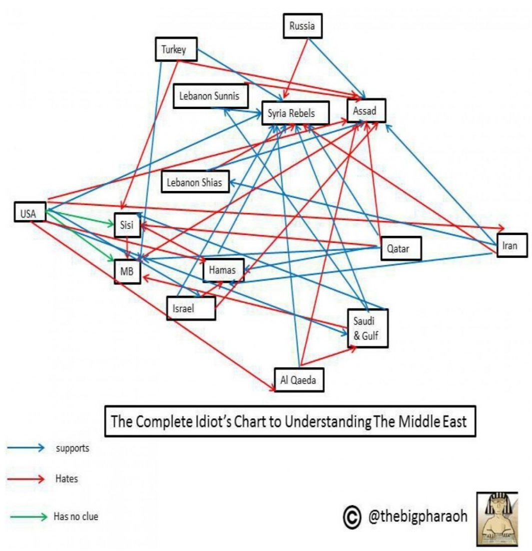
He is CEO of Miyoshi Capital LLC, an international investment advisory company. In Vietnam, he led a Combined Action Platoon as an officer in the U.S. Marine Corps.

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



Spend a few minutes staring at this and you will either have a seizure or actually comprehend the Middle East. Egypt is represented by the "MB" (Muslim Brotherhood) and "Sisi" for military leader Gen. Abdel Fatah al-Sissi. (Courtesy The Big Pharaoh)

There are rivals who share mutual enemies, allies who back opposite sides of the same conflict, conflicting interests and very strange bedfellows. There are two categories of countries: the ones that meddle (the United States, Iran, Saudi Arabia, Qatar, Turkey and Israel) and the ones that are meddled with (Egypt, Syria, Lebanon and the Palestinian territories). Each of the former is pushing for a different outcome in each of the latter, falling in and out of cooperation and competition. And that long-running interference is an important part of why conflict persists.

It's all kind of a scramble. The Big Pharaoh writes: "I keep on updating this chart because every time I look at it I discover that I've missed an arrow. That's how complicated it is."

The chart is a spin-off of the most amazing letter to the editor ever written, which appeared in the Financial Times. It also explained the entire Middle East, in a few short sentences. Here they are:

Sir, Iran is backing Assad. Gulf states are against Assad!

Assad is against Muslim Brotherhood. Muslim Brotherhood and Obama are against General Sisi.

But Gulf states are pro-Sisi! Which means they are against Muslim Brotherhood!

Iran is pro-Hamas, but Hamas is backing Muslim Brotherhood!

Obama is backing Muslim Brotherhood, yet Hamas is against the U.S.!

Gulf states are pro-U.S. But Turkey is with Gulf states against Assad; yet Turkey is pro-Muslim Brotherhood against General Sisi. And General Sisi is being backed by the Gulf states!

Now that Saudi Arabia has attacked the Iran backed Houthi rebel forces in Yemen and the U.S. MAY enter into a possible nuclear deal with Iran* (which displeases Israel to no end and could herald the beginning of a nuclear arms race in the Middle East), we should now really prepare for the proverbial manure hitting the fan.

Well, all that can be said now is, welcome to the Middle East and have a nice day.

D. Miyoshi

*On March 29, the U.K.'s *Telegraph* reported that Amir Hossein Motaghi, an Iranian journalist and top media aide to Iran's President Hassan Rouhani, defected while covering the nuclear talks in Switzerland and told an Iranian opposition television station, that the American team (this includes Secretary of State Kerry) is working to convince the other members of the U.N. Security Council nations and Germany – the P5+1 powers to agree to the deal that Iran is proposing. If this is true, and the U.S. is actually working "on behalf" of Iran, it does not bode well for the U.S.

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