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Financial Crisis Report

Written and Edited by David M. Miyoshi

Advancing in a Time of Crisis

Words of Financial Wisdom: Success is never certain, failure is never final.

Inside this issue:

1. Why Do They Riot?
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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.

Why Do They Riot?

Watching the fires burn in Baltimore these past few days brought back for me vivid memories of the Watts riots in 1965 and the Rodney King Riots in 1992. In both these riots my father's auto parts store was burned down so these memories are especially painful. But the question comes readily to mind why do they have to riot? Why were Los Angeles, Detroit, New Jersey, Philadelphia, Chicago, Washington D.C., New York, Jackson, Miami, Harlem and Baltimore tinderboxes that had exploded?

This newsletter is about financial matters so at the risk of being considered money-oriented, I believe it's because of money. More specifically, it's about all of us wanting "financial liberty" (as opposed to that oft mentioned term in seminars of "financial freedom")

Freedom is a word with German origin that simply means the ability to make decisions or perform actions without external control.

But liberty, with its French roots, means freedom that has been granted by some sort of external element, typically our society or government.

Boiled down... freedom is something we are born with. Liberty is something we must fight for.

It was ugly and entirely misguided, but that's what we saw in all of the past riots. A small, but violent, sliver of the communities fighting for their version of liberty.

Behind the violence and destruction, it's a fascinating study of the effects of wealth... and the lack of it.

By the very nature of our being, we all have the freedom to travel where we want, when we want and to do what we want. Outside those who were arrested in those riots, every one of the rioters had the freedom to do what they pleased.

But as they shamefully showed on the news, they're convinced they don't have the liberty to do it.

Despite the folks on the receiving end of the tossed bottles and bricks, it's not the government holding any of us back.

It's wealth.

When we understand that idea, we understand why the Baltimore looters targeted a new mall, a new drugstore and why they burnt down a new housing complex. They weren't stealing bandages and pain pills from that CVS as it burned... they were stealing somebody else's wealth.

They were displaying rage for what they felt they can't reach.

Their rage will cost Baltimore millions in lost revenue.

Baltimore is an extremely tough city for the poor. Its distinct neighborhoods make for a diverse town, but they also make it easy to flaunt what others want. We can name many spots where a

mere two blocks separates pure affluence from abject poverty.

It's a constant tease... a harbor filled with million-dollar yachts within throwing distance of a neighborhood called Pigtown... a homeless park just blocks from the hottest real estate in town... a new mall where most of the community surrounding it can't afford to shop.

The poor know they have the freedom to reach for those riches, but, as they showed us on TV, they are far from convinced they have the liberty to do it.

The *Economist* magazine set forth the three requirements that lead to financial wealth.

A strong family structure

An abiding work ethic

An appreciation for education

Those rioting and looting were likely deprived of one or more of these requirements. To be sure rectifying this deprivation remains a major challenge for our society. While some say this deprivation is justification for the illegal behavior we saw in Baltimore and other riots before it, there really is absolutely no excuse for such violence and destruction. It's disgraceful, ugly and will only make things worse.

But it is a strong reminder to each of us of why we must be resolute in our own respective missions of building and protecting our own wealth in this great and special country of ours.

It's wealth that creates that liberty.

As we've seen, true liberty feels desperately impossible without it.

D. Miyoshi

Micro-Terrorism, the New Battle for Profits

Recently there was a surprise attack by CRE and 2 people died with many more left in a critical state. No, the CRE is not a new offshoot of Al Qaida, ISIS or the Taliban. CRE stands for Carbapenem-resistant Enterobacteriaceae, a new super bacteria that was the cause of death at Ronald Reagan UCLA Medical Center after patients had undergone endoscopy procedures using infected duodenoscopes. These super bacteria are the new Micro-Terorrists that the world must now fight.

For the last half-century, in modern medicine, antibiotics have been the backbone for the treatment of infections caused by bacteria.

Across the years, though, our over-reliance on these drugs has backfired. The sweeping use of antibacterial drugs has sparked an evolutionary arms race between us and bacteria... and we're rapidly falling behind.

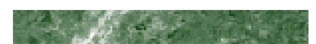
In 1945, Alexander Fleming won a Nobel Prize for the discovery of penicillin. In that very acceptance speech, he warned us of exactly what's occurring today: The selective pressure caused by antibiotics would result in so-called “superbugs” that we would no longer be able to contain.

To get an example of just how serious this issue has become, consider the following:

- In 2014, there were 450,000 new cases of multi-drug-resistant tuberculosis (MDR-TB).
- Full resistance to last-resort treatments for gonorrhea and TB have now been reported in over 10 countries, including many with advanced health care systems, such as Australia, Canada, France, Sweden, and Britain.
- Gonorrhea may soon become completely untreatable because no new drugs are in development.
- Nearly 2 million Americans become infected with anti-bacterial-resistant pathogens each year, and 23,000 die as a direct result.
- The cost of superbugs to the U.S. health care system is $34 billion each year and more than 8 million additional hospital days.
- The last class of antibiotics approved for human use was discovered over three decades ago.

The simple fact is that without a new class of antibiotics or a new way of treating infection, bacteria will continue to evolve and overtake our outdated defenses. If we keep our current course, these superbugs will only get stronger, and we'll eventually be forced into a post-antibiotic era.

In the 1970s, staph infections mutated to become resistant to penicillin, so doctors began using the antibiotics vancomycin and methicillin. By the 1980s, they began overtaking these antibiotics as well, resulting in the emergence of even more resistant strains including MRSA (Methicillin-resistant Staphylococcus aureus) and VRSA (Vancomycin-resistant Staphylococcus aureus).



Micro-Terrorism, the New Battle for Profits

To get a scope of just how fast these mutations can occur, consider the following data:

In 1974, MRSA accounted for just 2% of staph infections. By 1995, that figure jumped to 22%, and by 2004, it was 64%. Today, MRSA accounts for 70% of all staph infections.

If you've heard of MRSA before, you know just how nasty it is. This stuff will literally eat your skin away to the bone if left untreated. Certain strains can even kill you in as little as 24 hours.

We'll spare you the truly gruesome images, but this is what MRSA looks like early on:

What's even scarier is that you can contract MRSA almost anywhere. It can live in the seat-back pockets on airplanes for as long as 168 hours or on a toilet seat for several days.

Every demographic is equally susceptible, but it is primarily transmitted in hospital settings.

As for morbidity, the bug is responsible for about 94,000 infections and 18,650 deaths in the United States each year, making it more deadly than HIV/AIDS. Yahoo News was certainly justified in referring to MRSA as the “Godzilla of Superbugs.”

The Drug Behind the Iron Curtain

Many people don't know this, but during the Cold War, political tension between the East and West created a major split in how we treat infections.

During this period, patients in the East were cut off from some of the best antibiotics being produced in the West. At the same time, though, medicine being developed by the Soviet Union was kept privy to those on their own side of the Iron Curtain.

While Western doctors took the approach of developing antibiotics, Eastern scientists opted to develop what's called phage therapeutics — that is, viruses that attack foreign pathogens in your body.

Phage therapeutics that specifically attack bacteria have been granted the name bacteriophage, translating from Greek to "eater of bacteria" because, quite literally, that's what they do.

Now, as counterintuitive as it may seem to use a virus as a therapeutic, phages are actually quite effective (and safe).

In fact, because of the growing threat of superbugs, bacteriophages may soon become the go-to treatment for a number of infectious diseases currently treated by antibiotics. The reason for this is that unlike antibiotics, bacteriophages do not result in rapid drug resistance.

Because phages are viruses, they have a much higher mutation and replication rate than bacteria. This means phages can outcompete with the adaptation of the bacteria, beating them at their own game.

Further, unlike antibiotics, which essentially carpet-bomb your entire body (destroying its neutral bacteria and intestinal flora in the process), phages are designed to only target specific harmful bacteria.

A rough analogy that can be made is comparing phages to common house spiders. Sure, they might creep us out a little, but the reality is that they don't want to eat us — they only want to eat the things that can harm us (i.e. mosquitoes and other pests). Once there are no bugs left in your house, there will be no spiders, either.

In other words, because bacteriophages need to eat specific bacteria cells to survive, they die out once those bacteria are removed from your body. So not only are phages self-replicating, but they are self-limiting as well.

Despite the historical context, today, the most promising phage development is actually coming from small American biotech companies — not from Eastern Europe.

Specifically, two American companies are collaborating to develop bacteriophages specialized to eat superbugs the likes of MRSA and VRSA.

Researchers at the University of Leicester are already referring to the treatment as a “magic bullet in the war on superbugs,” but we must wait for the drug to exit pre-clinical trials before any information can be released to the public.

Fortunately, though, this is happening quite soon and we remain vigilant to further identify the biotech companies that develop these bacteriophages that will begin the ultimate eradication of infections from super bacteria. We expect early investment in these companies will prove to be highly profitable.

To your successful investing.

D. Miyoshi

The next article was written by Harry S. Dent, Jr. Senior Editor of *Economy & Markets*. He is a world-renowned economist and fellow Harvard Business School graduate and one whose ideas I follow assiduously. Perhaps you may not place much credence

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in political cycles but I believe Harry has a very credible theory about geopolitical cycles and I offer his article for your consideration. D. Miyoshi

Newton's Law: Why the World Is Going to Hell in a Handbasket!

The third law of physics is: For every action, there is an equal and opposite reaction.
That's why I study cycles. When a cycle goes up, it must fall again to restore order and balance… or stop altogether.

There are cycles in everything we see and do — from the weather and economy, to our careers and personal lives.

But with so many cycles, the key is to identify which ones are important to whatever you are measuring or trying to profit from.

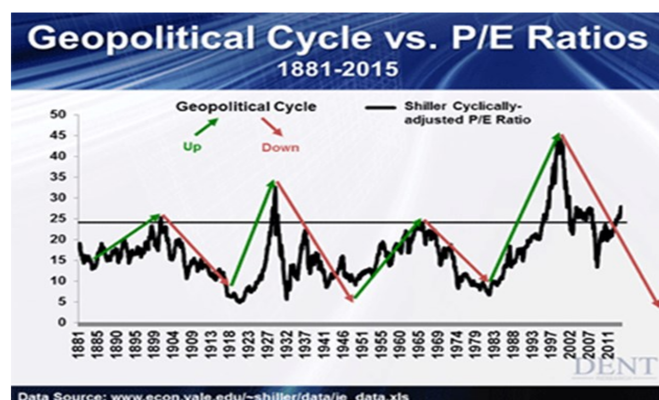
That's why, when the bubble from late 2002 to late 2007 was not nearly as strong as my earnings and demographic indicators suggested, I knew there had to be another important cycle showing itself.

That led to my discovery of the Geopolitical Cycle in early 2006. It's the second in my hierarchy of cycles, because it's not as fundamental to the economy as the Spending Wave. Predictable demographic cycles that impact housing and inflation are just more important.

But the Geopolitical Cycle still has a major impact on risk perceptions and investor psychology. When a war, oil embargo, or major terrorist event comes along and wrecks a positive economic cycle, investors sound the alert!

This can severely impact price-to-earnings ratios (P/E) on the same earnings trends for stocks. The P/E ratio can vary from five to 44 times — though more typically eight to 25. Still, that's a huge deal!

The Geopolitical Cycle shows that our global environment is favorable for 17 to 18 years, followed by an adverse period that lasts the same amount of time. This chart shows how that relates to P/E ratios on stocks:



That's a stunning correlation. When the geopolitical environment is favorable, P/E ratios rise. When it's not, they fall.

Think about the adverse cycle we are presently in: 2001 to 2019. How does that compare to the favorable cycle from 1983 to 2000?
It doesn't! From 1983 to 2000, almost *nothing* went wrong in the world. Sure, we had a little 100-hour-long war in Iraq… but we didn't meddle with their regime, beyond kicking Saddam Hussein out of our ally, Kuwait.

But ever since 9/11, it's been one geopolitical crisis after the next! We've had two major *failed* wars in Iraq and Afghanistan… one civil war and Arab Spring after the next… and now we have ISIS which has proven to be even more evil than Al Qaeda, and they're *still growing*.

And let's not forget Russia, which took over Crimea and threatened to invade Ukraine… the sanctions we've placed on Iran and strong concerns over their nuclear program… Boko Haram, which has terrorized Nigeria and allied with ISIS… and most recently Saudi Arabia, whose band of Arab nations has bombed Yemen, hoping to invade after a coup there — but not if their Shia enemies in Iran have anything to say about it!

During the favorable cycle, we had the combination of the strongest demographic phase in modern history and the mainstream emergence of the Internet create the highest P/E ratios *ever*, at 44 times.

But P/E ratios have not been anywhere near as high since. That's despite favorable demographic trends into late 2007, and unprecedented QE and stimulus into 2015.

Why? Geopolitical risks have only risen since 9/11 and investors are scared out of their wits!

We've seen the same thing happen during the past two full geopolitical cycles as well:

- 1914 to 1929: The last great bubble boom and the sudden emergence of automobiles
- 1930 to 1947: The Great Depression and World War II… enough said!
- 1948 to 1965: known as the "Happy Days," with no major geopolitical events except the Cuban Missile Crisis in 1962
- 1966 to 1982: OPEC oil embargos, the Vietnam War, and the Cold War rip apart the geopolitical environment

The bottom line is this: The Geopolitical Cycle bears the greatest impact on the P/E ratios of stocks, with the Spending Wave and Innovation Cycle as secondary measures. The fact that the P/E ratio can fall off a cliff when the cycle goes from positive to negative shows that!

Newton's third law abides… what goes up, must come down.

P/E ratios fell the most after the extreme peak in 1929. But they got even higher in early 2000…

What does that tell you?

Don't sit around waiting for the greatest crash since 1930 to rain fire and brimstone upon us! It's time to get out of any passive investments like stocks and other risk assets!

Harry S. Dent Jr.

How to Maximize Your Social Security Income

Here is a good strategy to use to maximize a married person's social security benefits. This article is written by Dr. David Eifrig, editor, *Retirement Millionaire*

"Take care of…"

It's among the scariest phrases in the English language… especially when Wall Street and Washington, D.C. get involved.

Starting today, I want you to realize that Washington isn't here to "take care of" you. Washington is in the business of false promises. Washington is in the business of selling fear so it can collect huge amounts of money from you and me.

Washington calls the money it takes "taxes." And most Americans just pay up. After all, they're being "taken care of."

I want you to end this sort of thinking.

Today, I want to show you a strategy that enables you to turn the tables on the big institutions and corporations that have been preying on retirees for years. I want to show you how to rearrange the details of your retirement so they most benefit you – not the government or any big corporation.

Today, I want you to take control of one of the thorniest retirement subjects – your Social Security benefits.

Most Americans aren't aware that they may be eligible to increase the amount of money they get from Social Security in retirement… in some cases, dramatically boosting their payments.

Most people think the only decision they have to make is when to start collecting – either when they are first eligible at age 62, or later (as late as age 70), when their payments will be bigger.

But the truth is, married couples actually have 81 different ways they can collect Social Security. Some of the approaches enable you to dramatically increase the amount you collect. The finance magazine Kiplinger's says you can bump up your payments by as much as $100,000 over the course of your retirement.

I want to make clear that I don't have any inside tips or secret information.

I don't work for the Social Security Administration (SSA), and I'm not affiliated with the federal agency in any way. What I'm going to explain is public information. You can get it directly from the Social Security Administration…

But you probably don't have hours to spend trying to sort through the sometimes difficult to understand language on the Social Security Administration website.

My team and I have spent a ton of time scouring the SSA's website and dozens of other publications to find the absolute best and proven ways to "boost" your payments.

We've done all of this so you don't have to. Today, I'll detail one of my favorite strategies for boosting your Social Security payments…

Claim Some Now… and More Later

With this strategy, you and your spouse can start receiving Social Security benefits as soon as you are eligible. Then, using something known as the "Spouse Benefits" provision, you can claim a lot more money a few years later.

Kiplinger's columnist Mary Beth Franklin estimates this strategy can boost your income from Social Security by more than 30%.

Before we show you exactly how it works, you need to understand two things:

1. The longer you wait to collect, the more you will receive every month.

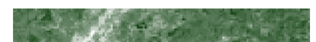
2. Your spouse can collect 50% benefits based on your work record.

Most people assume when they retire, they'll be collecting benefits based on their own work history. However, the government also offers "spouse benefits," which entitle you to collect a monthly check… worth up to 50% of whatever your spouse is collecting.

So here's what you can do…

- First, one member of the couple (let's say the wife) files for benefits as soon as she is eligible. Right now, that's at age 62.

- Simultaneously, the husband files for spousal benefits at 50% of hers. The husband does NOT file for his benefits when he is eligible… Instead, he waits to reach full retirement age (say 66). He



The Chinese Want to Buy Your House

delays filing for his own 100% benefits. The longer he waits to file, the more his benefits will be worth.

• Once the husband's benefits are maximized, he files for his own benefits. The wife is then able to "step up" her benefits to the higher payout. (She can collect her benefits plus file for the spouse benefits… up to the total amount that her husband collects.)

Here again: The wife files and the husband gets a spouse benefit. Then a few years down the road, the husband files and the wife gets a spouse benefit.

It sounds a little confusing, we know, but it's definitely worth crunching the numbers.

This is the secret Timothy Westcott and his wife Marilyn, from Minnesota, used. Marilyn wanted to collect Social Security as soon as she was eligible, but Timothy wanted to keep working until he was 70. So Marilyn filed for benefits. When Timothy realized how the system works, he filed to get "spouse benefits," worth 50% of what Marilyn collects.

As Timothy told Kiplinger's…

I never dreamed that I could draw spousal benefits. I submitted my application. And within 10 days, I had received a check for $2,760 retroactive to February 2008.

Timothy and Marilyn added an extra $700 a month to their income… that's $8,400 a year.

When Timothy reaches age 70, he'll file for his own benefits. Marilyn will get Timothy's spouse benefits. And they'll collect an even higher payout.

What's also good is if Timothy dies first, his wife will get a much bigger benefit than she would have received if they had both started collecting their Social Security as soon as they became eligible.

According to a report from the Boston College Center for Retirement Research, titled "Strange But True: Claim Social Security Now, Claim More Later," typically, the higher-wage earner should collect "spouse benefits" when eligible… and delay his or her own benefits to let the payout build up.

Assuming the wife was the lower-wage earner, the way to maximize your total benefits is to have the wife claim benefits at age 62, and the husband delay until he is 69 years old.

And as an added bonus, the spouse receiving spousal benefits can receive a check for up to six months of retroactive benefits… but the claim can only be filed after the recipient is 66 years old. Social Security won't pay retroactive benefits if you're younger than 66.

This means you can add another six months of payments (at 50% of the benefit) to your income. Just tell the Social Security representative you want to apply for retroactive benefits.

Does this strategy work for you?

You must be married. At least one of you must be healthy enough to delay claiming benefits until age 69. And both spouses must have an earnings history. The Boston College study found that the higher and more equal your earnings, the more you have to gain.

One thing to keep in mind: If you start collecting Social Security or spouse benefits before you turn 66, you're locking in a permanently lower percentage for your spouse benefits.

WHAT TO DO: If the numbers make sense, call the Social Security Administration's toll-free number: (800) 772-1213. Set up an appointment with a representative at your local Social Security office. Have them work through the possibilities with you, and take advantage of this extra money. To prepare for your visit, I recommend you read the SSA's site on how to apply for spouse's benefits.

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

The Chinese Want to Buy Your House

Why are the Chinese buying U.S. real estate?

Because they have money in their wallets, an appetite for the good life, and golden ants in their pants.

According to Paul Benson, a renowned real estate analyst, the Chinese are, without question, the largest international players in the U.S. housing market. In fact, according to Karen Yan of Jin-List, Chinese purchases of U.S. residential properties will reach $32 billion ending in March 2015. That's billion, with a "B."

Location, Location, Location

So where exactly are the Chinese buying up all of these residential properties?

According to the National Association of Realtors (NAR), the top states for residential Chinese buyers are California, Washington State, New York, Texas, Pennsylvania, and Florida.

Trading For Profits Part II

The slowing of the Chinese economy and government restrictions on second and third homes are pushing these buyers into the hands of U.S. sellers of both commercial and residential properties.

U.S. luxury real estate has become a safe haven for Chinese investors.

Beers, Steers, and Willie Nelson

Interestingly, Texas is one of the hottest spots for wealthy Chinese buyers. They seem to be most attracted to detached single-family homes and plan to use those homes for more than six months.

Texas in particular is attractive for its warm climate and low cost of housing — although one very wealthy Chinese investor claims he came for the great deals but really stayed for the Willie Nelson connection.

Follow the Money

The Chinese have greater means to buy in the U.S. Roughly 63 million have the necessary capital to purchase properties, and 2.8 million of those are considered high net-worth individuals.

So how can you profit from the Chinese buyer?

The key for U.S. real estate brokers is to get their listings marketed across China before they land in the U.S. Essentially, it's a lucrative way to entice Chinese buyers that are ready to purchase. These buyers want a “secure investment,” and they continue to find it in U.S. real estate.

The NY Times recently ran an article forecasting that 47% of all second-home sales in 2015 would be from international buyers. The Chinese are the most powerful international group — a group so large that it can immediately impact an entire market.

Additionally, these buyers tend to be very well educated, so there is a reason they are choosing the areas they do.

Buying an investment property in the next “targeted” neighborhood could quickly increase your equity in that investment

D. Miyoshi

Trading For Profits Part II

In our April 2015 issue we wrote about how to trade for profits by selling options. This article expounds on why selling options to generate income works.

As that April article explained, selling puts and covered calls on stock of the strongest and most dominant businesses in the world has advantages over other trading strategies. It allows you to generate large income streams on your savings. It allows you to make money from stocks that don't make any share price gains.

It's also reliable as we have racked up a win rate that is well in excess of 80% of our trades.

But there is another reason we like trading for income… It allows us to capitalize on the overreactions of investors.

You see, as Brian Hunt of Stansberry Research points out, no matter how great a business is, it's going to make mistakes and suffer setbacks from time to time.

It's going to spend money developing a service or a product that nobody wants to buy.

It's going to experience threats from competitors.

It's going to be taken to court for something.

All these things are natural… even for a company that rules its industry.

But natural setbacks are usually overblown by the media and investors. Most investors who hear bad news about a company, sell first and ask questions later. They make the mistake of focusing on the small, short-term developments of a business… rather than the quality of the business and the decades of success that have come before it.

For example, in 2012, it was revealed that executives of successful retailer Wal-Mart were bribing Mexican government officials to receive favorable treatment. It was a huge story in the financial press. The news caused an 8% selloff in the stock over three trading sessions, which shaved $17 billion off Wal-Mart's market value.

But Wal-Mart's 250 million weekly customers around the globe didn't stop shopping. And it didn't cause the company to interrupt its 39 consecutive years of dividend increases.

It was a major overreaction by investors. One month later,

Trading For Profits Part II

shares had fully recovered. Three months later, shares were 26% above their low.

How does a rebound like this happen… and how can you benefit?

The answer has everything to do with the "elephants" of the stock market.

In the greater scheme of things, individual investors who buy 200 shares of Disney or 100 shares of Facebook don't matter much when it comes to stock market movements.

Even a rich guy with $3 million to invest doesn't matter.

But the guy with $30 billion to invest does matter.

The guy with $30 billion to invest is going to be the manager of a giant investment fund. Giant investment funds can come in various forms. They can be employee pension funds, insurance funds, mutual funds, college endowments, and sovereign wealth (funds consisting of an entire country's savings).

These funds are colossal in size… larger than the economic output of many countries. And the managers of these funds aren't looking to put $100,000 to work at a time… or even $1,000,000 to work at a time. One million dollars is a rounding error for these elephants of the stock and bond markets.

Large money managers put tens of billions – even hundreds of billions – of dollars to work in the stock and bond markets. Take the California Public Employees' Retirement System (CalPERS), for example. It's a branch of California's government that oversees the pensions of more than a million people.

In 2014, CalPERS managed more than $300 billion in assets. That's 100,000 times bigger than the rich guy with $3 million.

Or, consider one popular mutual fund, the Fidelity Contrafund. In 2014, it managed around $100 billion.

Or how about Norway's sovereign wealth fund? It invests more than $800 billion.

Managers of giant funds are the stewards of retirement accounts. They're not looking to shoot the moon with bets on small biotech companies or mining ventures. They answer to hundreds of thousands of clients who trust them to preserve their hard-earned wealth. Their goal isn't to generate huge returns. Their goal is safety, income, and a little bit of upside. This group controls trillions of dollars. And while a lot of the money they manage goes into bonds and real estate, a lot of it goes into long-term stock investments.

These "elephants" help us make great money in the options market because of what stocks they prefer to buy. The stocks they like to buy have a key attribute: size. Here's why that's important…

For a good stock investment to make a meaningful impact on an investment fund's performance, at least 3% of the fund needs to be placed into the stock.

This means the manager of a $100-billion fund needs to place $3 billion into a stock in order to make it a meaningful use of his time and resources. Managers are OK with an individual stock making up 1% or 2% of a portfolio, but if a manager finds a truly great idea, he would prefer to put at least 3% of his portfolio into it… and 5% is better.

Let's say the manager of a $100-billion fund wants to place just 1% of his fund into a stock. This means he needs to buy $1 billion worth of stock.

There are government rules and money management company rules that make it disadvantageous for investment managers to buy more than 10% of a public company. These rules prevent investment managers from completely taking over public companies.

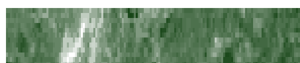
An investment manager looking to place $1 billion into a stock – and limited to owning less than 10% of a public company – is limited to public companies worth more than $10 billion. As of April 2015, only 390 out of around 6,000 publicly listed stocks on the major U.S. exchanges were this large.

Not all large money managers control $100 billion. Some managers considered large manage "just" $20 billion. Still, these guys are looking to place at least $200 million-$1 billion into a stock in order to make their research efforts worth the time.

Trading For Profits Part II

Advancing in a Time of Crisis

Financial Crisis Report



David M. Miyoshi is a California attorney and real property broker, having earned a Bachelor of Science degree from the University of Southern California, a Juris Doctor degree from the University of California, an MBA degree from Harvard University and an international graduate degree from Waseda University in Tokyo.

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.

Now… a huge money manager could buy shares in a $10-billion or a $20-billion company. But if he needs to exit a stock for some reason, he would much rather exit a $100-billion company than a $10-billion company. A large amount of selling pressure can hammer the price of a stock… and make it difficult to get out at a good price. The bigger company's shares won't be affected as much as the smaller company's shares by $1 billion worth of selling. You're talking just 1% of the value of the company instead of 10% of the value of the company.

For example, in early 2015, Coke's market cap was around $180 billion. Want to buy or sell $1 billion worth of Coke stock? No problem. It's less than 1% of the company's value. There's plenty to go around without moving the share price too much.

Want to buy or sell $1 billion worth of retailer J.C. Penney? Good luck. In early 2015, that was 38% of the $2.6 billion company's value.

Managers of giant investment funds often look to earn dividend or interest payments on their portfolios in order to meet annual payout obligations. Most of these money managers love a good bargain. And remember, they must buy large stocks with plenty of trading liquidity.

So…

When an elite dividend-paying blue chip suffers a sharp selloff, who do you think is ready to jump on it like a dog waiting for a piece of steak to fall off the dinner table?

Give yourself a gold star if you said "The guys who control more than a trillion dollars and are looking to invest it conservatively in large high-quality stocks."

Large money managers are an ever-present source of buying interest for beaten-up blue-chip stocks. Their buying creates a "buoyancy" for shares. When an elite dividend-payer declines because of a serious-but-solvable problem and trades for a discount price, large money managers step in and buy shares.

This means a 7%-15% selloff in a blue-chip stock is often followed by a 7%-15% rebound. And a stock's 7%-15% rebound – or even a quick 2%-3% rebound – can produce an option trade good for a 30%-plus annualized return.

That's why many of our "trading for income" selections come just after one of our favorite blue-chip stocks suffers a steep selloff. Our strategy is to get there before the big buyers arrive… and by doing so we cash in when their enormous buying power pushes share prices higher.

So the next time you cash in with an options trade structured around a beaten-up blue chip, say thank you to the world's largest safety-seeking investors. They are often the hidden force behind your gains.

Happy trading.

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