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Financial Crisis Report

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Advancing in a Time of Crisis

Words of Financial Wisdom: "There are only two things that are infinite…..the universe and stupidity….but I am not sure about the universe." Albert Einstein

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.

The End is Near, whether by Deflation or Hyperinflation

We are now starting to see the end result of six years of the U.S. Fed stimulus. After painting itself into a corner in an all-out effort to drive stock market growth, the Fed is now left with few good choices.

In the past 100 years there are two obvious examples of the economic damage that is wrought by government intervention.

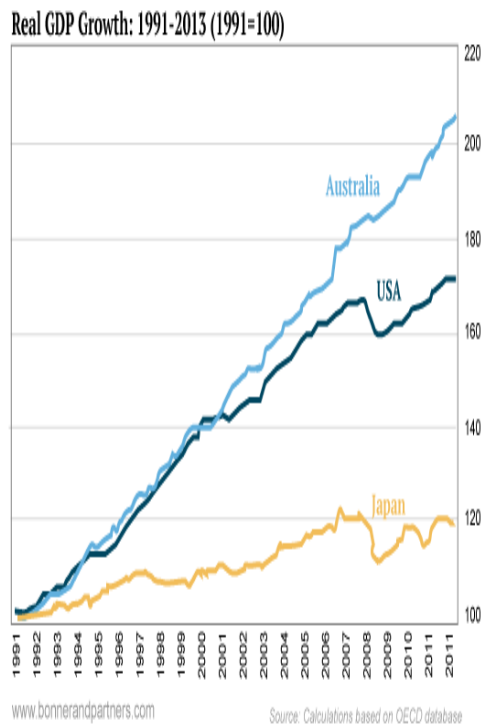
The first time was America's Great Depression. The history books tell the story. Stocks crashed. Businesses went broke. People lost their jobs. Banks failed. Events were following the typical depression script, which probably would have bottomed out and recovered within a couple of years – except that the U.S. government intervened by freezing prices, including the price of labor. It cut off trade. It blocked liquidations. It arrested the progress of the correction.

Murray Rothbard analyzed the policies of the Hoover and Roosevelt administrations in his 1963 classic, *America's Great Depression*. He showed how government, trying to stop the Depression, actually prevented it from doing its work.

The short, quick deflationary shock – which should have slashed bad debt, bad businesses and bad investments – turned into a long, agonizing slump. The Depression, which should have been over by 1933, continued until the 1940s and was only ended then by the biggest public works spending program in history – World War II.

This, by the way, did not actually make people better off economically, but it "put people to work" and largely disguised the drop in living standards which that war and the Depression had caused.

The second example is the long depression in Japan, following the crash of its stock market in 1990. It has now been a quarter of a century since that crash. Japanese GDP has scarcely advanced, as you can see in the following chart:



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And the Japanese stock market?

From a high of nearly 40,000 in 1990, the Nikkei index now trades at around 20,000. It's taken 25 years to claw itself back to a 50% loss!

Japan Is Running Out of Time and Money

The blame for the long-ness of the depression can be placed squarely on the government. To this day, it continues to meddle in the economy – essentially forestalling a genuine cleanup of bad debt.

Instead of allowing the bad debt to be written off and reduced, policymakers have added more and more debt over the entire 25-year period so that today, Japan's government is the most indebted in the world.

And now Japan is running out of time and money. Its aging population is no longer saving for retirement; now retirees expect to spend those savings. This means that the government can no longer count on financing from Japan's savers. Now it must return their money.

But how? It has no money to give them. Like the US, it has been running budget deficits for years.

Japan's economy is in a crisis. It's been two years since the Shinzo Abe government began its stimulus program. But wages are actually lower today than they were when it began. And this is happening against a backdrop of falling labor supply; the labor pool is expected to shrink by 20% over the next 25 years. The main goal of the stimulus program was to raise Japan's inflation rate. But you could multiply the last 12 months of price increases by nine and still not reach the government's 2% target.

In the US, too, inflation has been disappearing as fast as good manners. In the last 12-month period, consumer prices were approximately flat. And that is despite a 400% increase in the Fed's assets – the nation's money foundation – over the last six years.

If that kind of money printing doesn't cause an increase in the CPI, what would? We'll come back to that question in a minute.

Cheap Credit Keeps the Wheels Turning

If inflation can't be counted on to reduce the world's debts, what about deflation?

The feds fear it, loathe it and try to prevent it every way they can.

But deflation works. It knocks down sales, prices and employment, forcing borrowers into bankruptcy. Then, their debts are worthless.

Alas, in a zero-rate world, the banana peels disappear from the sidewalks. It is almost impossible to go broke, default or fall on your face.

Grant's Interest Rate Observer told the story of one company: Radio Shack. The company lost the plot back in 2007, says Grant's. The Onion satirized its chief executive, Julian Day, putting the following words in his mouth:

There must be some business model that enables this company to make money, but I'll be damned if I know what it is.

But Radio Shack stayed in business – borrowing ever more money as its credit rating declined from BB- to D (or "junk") over the following eight years. Finally, it bit the dust in February of this year.

There's nothing like unlimited cheap credit to keep the wheels turning – slowly. In 2009, a grim year for American business, 60,837 firms declared bankruptcy. In 2014, there were 26,983 bankruptcies.

What is surprising is not that there were so few, but that there were so many. When you can borrow for nothing… or close to nothing… why does anyone ever default?

Of course, not all firms have equal access to the free money. The little guys go broke. The big guys stay in business. The economy stays alive, but on life support.

The big limitation of this system is that as the slump worsens, prices fall and real interest rates actually go up. That is, the feds may lend at zero, but if prices are falling, the effective, real borrowing rate may rise.

The authorities would be "zero bound," unable to take nominal rates below zero and unable to keep the real price of money at nothing.

A War on Cash

Until recently, it had been presumed that rates could not sink below zero. People would not pay for the privilege of holding cash in a bank or a bond; they would just take the cash and hoard it.

The End is Near, whether by Deflation or Hyperinflation

But all over the world, central governments have begun a "war on cash" designed to force people to use credit, rather than cash. The feds can monitor, tax and control credit. They can even force you to pay for the privilege of having it.

The European Central Bank and the Swiss National Bank already require depositors to pay for storing money. And beginning last month, JPMorgan Chase began charging depositors a "utilization fee" to hold their money.

Meanwhile, economists are advocating taxing cash or even, like Harvard economics professor Ken Rogoff, making it illegal. France has already made it illegal to pay bills of more than 1,000 euros with cash. And the US requires financial industry workers – such as bank tellers – to rat out customers by filing "suspicious activity reports" on anyone who comes in with what they consider an inappropriately large amount of cash.

Why the "war on cash"?

Partly to control you. And partly to control the economy. If they can create a NIRP world – with negative nominal interest rates – they may be able to keep the credit flowing to cronies and zombies, maintaining the economy in a coma for many years.

Businesses that should go broke will have access to credit. Speculators will still make money. Governments will continue to print money and borrow it from themselves. The zombies will throw rocks and bottles every once in a while, but they will still get their cash and the system will survive.

Long, drawn-out depressions are caused by governments.

The politicians respond to today's capital interests, not tomorrow's. Today's retirees vote. Today's stockholders give campaign contributions. Today's cronies control the power and money of today's society.

And all of them fear one thing more than any other: the future.

They all know they will die, and that the process of capitalism is creative destruction – today's wealth owners must be stripped of their money and power so that tomorrow's generations can take over. And that's why government's essential role is to look into the future and prevent it from happening.

This is just another way of saying that governments will always try to stop depressions, because depressions are creative destruction in action.

Capitalism chops down today's trees so that tomorrow's saplings can get some air and light.

But trying to stop creative destruction does not stop the future. It just changes it. Instead of a dynamic, honest and growing economy, we get stagnation, economic gangrene and financial rigor mortis. Long depressions, in other words.

The Tipping Point Approaches

As we have seen, Japan has already had a 25-year slump. The US is now in Year 8 of its slump, with fragile growth at only half the rate of the last century. They could get better… or worse.

Negative rates could keep the cronies in business. The slump itself – combined with peak debt and 500 million Chinese laborers – could keep inflation in check.

But the point comes when investors see that the risk of loss (because something can always go wrong) is greater than the hope of gain. That moment must be approaching in the US stock market. Prices are near record highs, even as the economy flirts with recession.

One day, perhaps soon, we will see stocks falling – as much as 1,000 points in 24 hours.

Jacking up the stock market has been the Fed's singular success. Activism has been its creed. Interventionism is its modus operandi. It will not sit tight as the market falls apart and the economy goes into recession.

Instead, it will announce QE 4. It will try to enforce negative interest rates. And it will move – as will the Japanese – to "direct monetary funding" of government deficits. That is, it will dispense with the fiction of "borrowing" from its own central bank. It will simply print the money it needs.

The US Fed of 1930 was not nearly as ambitious and assertive as the Fed of 2015. In the '30s, it watched as the economy chilled into a Great Depression. As Ben Bernanke told Milton Friedman, "We won't do that again."

It couldn't if it wanted to. Back in the '30s, consumer debt had barely been invented. Most people still lived on or near farms,

Useful Financial Websites

where they could take care of themselves even if the economy was in a depression. Few people had credit. Instead, they had savings. There were no food stamps. No disability. No rent assistance. No zombie industries. No student debt. No auto debt. No cash-back mortgages. And cash was real money, backed by gold.

Bogus Rehab and Claptrap Therapy

Today, a long depression in the US would be unbearable. The public couldn't stand it. Six out of ten households live paycheck to paycheck. Can you imagine what would happen if those paychecks ceased?

Supposedly, the US economy is still growing… with the stock market near record highs. Yet, one out of every five households in America has not a single wage-earner. Among inner-city black men, ages 20-24, only 4 out of 10 have jobs. Half the households in the US count on government money to make ends meet. And 50 million get food stamps. What would happen to the cities – and the suburbs – in a real depression?

What would Janet Yellen do? Would she rehash the words of Andrew Mellon in 1929 to "liquidate labor, liquidate stocks, liquidate farmers, liquidate real estate... it will purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live a more moral life. Values will be adjusted, and enterprising people will pick up from less competent people?"

Mellon was just suggesting that creative destruction be allowed to do its job. He was the last Treasury secretary to make such a forthright and honest comment. Thenceforth, Treasury secretaries and central bank governors could no longer accept the tough love of a free enterprise economy. They had to offer bogus rehab and claptrap therapy. They had to stop creative destruction. They had to "tell it like it wasn't" because that's the way people wanted it. They had to pretend to make a better world by improving the market economy.

Today, a central banker or Treasury secretary who let deflation purge the rottenness from the system would be dismissed before sundown. Too much wealth, too many reputations, too much power and status depend on the continuation of the credit expansion. Instead of a Mellon, we will have a Greenspan, a Bernanke or a Yellen. And we will soon find out whether Mr. Bernanke spoke the truth in 2002 when he said:

We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation.

Threatened with deflation, the authorities will want to turn the tide in the worst possible way. What's the worst way to stop deflation? With hyperinflation.

Yes, we may suffer a year or two more of sluggish growth… or even deflation. Stocks will crash and people will be desperate for paper dollars. But sooner or later, the feds will find their feet and lose their heads.

Most likely, the credit-drenched world of 2015 will end… not in a whimper of deflation, but in a bang. Hyperinflation will bring the long depression to a dramatic close long before a quarter of a century has passed.

D. Miyoshi

Useful Financial Websites

I am always looking for current information on present and potential (and sometimes past) investments to maintain my portfolio and to write my articles. There are literally hundreds of financial web sites, but the following are among the best. They span a fairly wide spectrum of financial information and practical usefulness and you should pick one or two (either from this list or of your own choosing) that best meet your needs, get to know them well, and use them regularly. I hope you find these useful and informative.

Here's to your successful investing.

D. Miyoshi

www.amex.com

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www.investopedia.com

www.investor.reuters.com

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www.marketwatch.com

www.moneycentral.msn.com

www.money.cnn.com

www.morningstar.com

Why People are Pessimistic About the Economy

www.smartmoney.com

www.stockcharts.com

www.seekingalpha.com

www.standardandpoors.com

www.thestreet.com

www.trowprice.com

www.vanguard.com

www.yahoo.com/finance

Why People are Pessimistic About the Economy

The name of this newsletter is *Financial Crisis Report*. That has a rather pessimistic ring to it. But a recent poll by the Oxford Club found that only 38% of its readership optimistically viewed the future of the economy and the stock market. Chief Investment Strategist of the club Alexander Green writes about why people are so pessimistic.

He writes that at a recent talk he attended at the Cato Institute in Washington, D.C., Dr. Steven Pinker, the Johnstone Family Professor of Psychology at Harvard University and author of many books, including *The Better Angels of Our Nature* (an excellent summary of why this is the most peaceable era in our species' history), offered several explanations.

The first and perhaps primary factor is the nature of the media, where virtually everything newsworthy is bad news. People don't want to hear about the buildings that don't burn, the planes that don't crash or the surfers who aren't bitten by sharks.

The story of the modern world is one of long-term incremental improvement. Unfortunately, that doesn't make a terrible headline.

In addition, the world now has 1.75 billion smartphones. That means we have 1.75 billion news reporters, taking photos and videos of terrible things happening around the world in real time and immediately posting them on the Internet.

Every day there are billions of generous, humane, kind and loving acts that we never get the opportunity to see. But horrible behavior and tragic accidents we see almost instantly - and the media recycles them endlessly throughout the day.

Another reason for our fearful outlook is our own evolutionary past. We are descended from people on the plains of Africa who, when they heard a rustling in the grass, assumed it was a dangerous predator and hustled up a tree. The ones who shrugged and figured it was just the wind didn't leave nearly as many descendants.

We are hard-wired to be hypersensitive to danger and risk.

For example, Pinker suggested that attendees ask ourselves how many really good things could happen to us today after we left the conference. He told us to let our imaginations run wild.

Then he asked a different question. How many bad things could happen to you today? We all agreed the list was far longer and more dramatic.

As another thought experiment, he asked us to imagine how much better we could feel than we are feeling at that moment. Then he asked us to imagine how much worse we could feel.

You could practically feel the audience begin to recoil.

And that's the whole point. We feel pain much more acutely than pleasure. We also feel loss much more acutely than gain.

For example, imagine that you have just locked in a $10,000 return in the stock market. How good do you feel?

Now, imagine you have just realized a $10,000 loss. Just the thought is enough to make you feel somewhat sad, angry, foolish or ashamed. This fear of loss is what keeps so many from ever risking anything in the stock market, even though the risk of long-term loss is far less than the danger of short-term fluctuations.

Pinker also mentioned a factor behind our pessimism that I'd never considered: the psychology of moralization.

People compete for moral authority - for who gets to be considered more noble - and pessimists are generally seen as more morally engaged than optimists. Individuals who ruminate about negative developments - climate change, income inequality, the erosion of the family, the growth of the federal debt - appear more morally engaged than optimists who seem apathetic.

Both good and bad trends are always underway, of course. But the objective truth is that most things are getting better for most of us.

Be the Casino… Not the Gambler

Human beings have never lived longer. Standards of living have never been higher. Educational attainment has never been greater. A higher percentage of the world population is at peace than ever before (albeit the violence in the Mideast may be undermining that claim). Violent crime is in a long-term cycle of decline, perhaps with the distinct exception of Baltimore Maryland. U.S. household net worth is at an all-time high (at least those owning stocks). And financial markets - which look forward not back - are optimistic about the U.S. economy, the U.S. dollar and U.S. corporate profits.

So if you believe the world is going downhill, it's worth taking a moment to consider whether the problem is truly the state of the world... or simply the way you're looking at it.

I guess I am a part of the 62% that thinks the state of the world is in trouble. I heard chocolate can lift one's spirit. Where's that Hershey bar?

Happy Investing.

D. Miyoshi

Be the Casino… Not the Gambler

It's not difficult to produce hundreds, thousands, even tens of thousands of dollars in low-risk profits every year…

And you don't need a fortune or lots of trading experience to do it.

You only need to know how to "trade for income" by (1) selling options on (2) high-quality stocks that are (3) trading at good prices.

At many options trading companies including our Miyoshi Capital LLC, we sell options, we generate modest payouts month in and month out. At the end of the year, these small, regular payouts end up producing a big pile of cash.

You can think of it like a casino…

A casino doesn't look to "hit it big" and collect huge amounts of money on every game played by every gambler. It looks to take in regular payouts, every day… every week… and every month. Alternatively, you can think of it as operating an insurance company, taking in reasonable premiums day in and day out, and on very rare occasions having to make a relatively large payout.

For instance, if you started with as little as $3,200, you could make between 2.6% and 3.7% on your money by the middle of the next month.

If you make similar trades over the course of a year, your annual profits could reach 12%, 15%, or even 20%… using one of the safest strategies in the market.

For instance, let's use one of our favorite high-quality companies to trade for income… $160 billion tech giant Intel (INTC).

Intel is the world's largest producer of semiconductors, the little engines that power computers. In today's age, that's like saying Intel powers the world. Intel's products are used in PCs and laptops, data centers, tablets, smartphones, connected cars, medical devices, and automated factory systems.

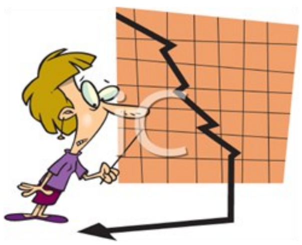
It's also positioned to participate in the big "Internet of Things" trend… powering a growing number of connected devices.

Last year was one of the best years in Intel's history. It had record sales of $56 billion… which gave it a near-30% market share (twice as large as its nearest competitor). It had large, 21% profit margins. And its profits were higher than all but one other year.

As you can see in the two-year chart below, investors took notice. Intel shares jumped 40% in 2014. But since the beginning of this year, the stock has pulled back 10%. It's "digesting" the rapid gains.

Be the Casino… Not the Gambler

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.

This type of price action is healthy… No stock can run higher forever without taking a break.

And these days Intel's stock is trading at a good price. It has an enterprise-value-to-EBITDA ratio of 6.1. (That's a 12% discount to its 10-year average… and a 46% discount to the average tech stock today.)

Just a few months ago, you could have bought shares of Intel for about $32.64 and sold the June 19, $33 covered calls for about $0.84. That would have been an instant 2.6% payment on your purchase price.

One call option represents 100 shares… So in order to make this trade, you'll need to buy at least 100 shares of Intel. That would have cost you about $3,264 (at $32.64 a share). When you subtract out the $84 ($0.84 a share) you'll earn for selling one call option, your minimum investment on this trade comes out to less than $3,200.

If Intel is trading at less than $33 per share on expiration day in June, you'll keep your shares and the call premium… And after that, you can earn more income by selling more calls on your shares and collecting Intel's 2.9% dividend.

If Intel is trading at more than $33 by expiration day in June, you'll sell your shares at $33 and earn a little in capital gains, too. (You'll earn the difference between your purchase price and the $33 strike price.) That comes to a 3.7% gain in about seven weeks, or 30.5% annualized.

Lots of folks look at a 2% or 3% gain and think a trade isn't worthwhile… That's a big mistake. These are some of the safest gains in the market… And because these trades only last a month or two (sometimes they may go to three or four months), the gains add up.

Today, you can earn as much as 3.7% in about seven weeks by selling covered calls on Intel. Keep making similar trades, and you could earn 30% in a year. If you're not trading for income yet, it may be good to consider doing so.

Here is to your successful trading.

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