



Financial Crisis Report

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Advancing in a Time of Crisis

Words of Financial Wisdom: "People who know HOW, work for people who know WHY"

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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.

My Take on 2016

Happy New Year to you (albeit for many countries in the world 2016 likely won't be one)

My predictions for 2016 are based merely on linear projections off of common sense. But these days with all of the strife occurring amid the efforts to be politically correct, common sense seems to be a vastly dwindling commodity.

With the coming of one of the most controversial elections in U.S. history, its obvious 2016 will be fraught with much political risk.

Meanwhile, the Middle East has descended into an even bigger mess than usual, and nobody has any expectation that it'll improve soon (although the Obama Administration keeps stating things are on the mend)

Vladimir Putin is likely to take chances, seeing a weak U.S. administration in its last year.

And, there's a distinct possibility of a credit crisis, probably in the fall before the U.S. election, the traditional season for them.

As for who will become the next U.S. president, my crystal ball is still cloudy. My guess is if its Trump verses Hillary, I think Hillary wins big. If its Cruz verses Hillary, I think Hillary wins small. If its Rubio verses

Hillary, I think its Rubio by a hair.

On the international front, the main trouble spot will be (obviously) the Middle East, where nothing good ever seems to happen.

Without strong U.S. leadership, ISIS will continue to grow, and terrorist atrocities will likely recur.

Vladimir Putin will be unhelpful in Syria and will seek to expand his control as far as possible in the last year of the Obama presidency. Putin learned from his experience in 2008 that the U.S. is almost always weakened before a presidential transition.

Iran will also expand its influence, although quietly, since it wants to build up its oil export business and get hold of the \$100 billion worth of international reserves blocked in Western banks.

The one saving grace is that, for oil exporters like Russia and Iran, cash will be short while oil prices remain low.

Latin American economic performance will probably improve, as the commodity-exporting countries adjust to lower commodity prices, President Macri stabilizes the Argentine economy, President Rousseff pursues orthodox economic policies in Brazil (and is boosted by the Olympics), and the opposition Congress takes control of Venezuelan economic policy. Unfortunately, it may be a case of too little



Domo Arigato Mr. Roboto

too late.

Latin America has for years frittered away the proceeds of high commodity prices that ought to have brought rapid growth. Now, better policies may only produce a marginal improvement in performance.

Still, for foreign investors, every little bit helps, and the improved climate should lead to big increases in investment in Argentina, in particular.

Alas, Japan's economic performance won't improve. The country may well exceed a public debt ratio of 250% of GDP at the end of 2015, and it shows no sign of cutting deficits or getting the growth it needs to reverse the steady increase. The chance of a Japanese debt default in 2016 is probably small, no more than 10%, but on present trends that chance will increase steadily thereafter.

If we have a global downturn, default seems inevitable, which will affect the global economy only moderately. But by wiping out Japanese domestic savings, it will make Japan a relatively poor country. However, in its future, there is a bright hope (see next article).

Finally, Europe probably won't break up in 2016. However, this may happen in 2017.

As for U.S. economic matters a small junk bond fund in the U.S. has already been forced to liquidate, and there are doubtless more such events to come.

The rise in U.S. interest rates that seems inevitable won't have much direct effect, but if there's bad news, it may well cascade. If that happens, the U.S. Fed would then reverse its slow interest rate rises (which are unlikely to reach more than 1% or so in 2016, lower than inflation).

While much of the U.S. corporate sector is highly liquid, it's also heavily indebted because of the steady stream of buy-outs since 2010. Thus a full-scale "credit crunch" is likely, probably in the fall, making an expected Hillary Clinton victory over Trump much less certain.

We just hope it won't lead to a tsunami of job losses as in 2008-2009, which would make 2017 a thoroughly misera-

ble year.

Well, here's to your making good investments in 2016.

D. Miyoshi

Domo Arigato Mr. Roboto

In 1982 the rock band Styx released their hit song "Domo Arigato Mr. Roboto." The Japanese lyrics translated to English read "Thank you very much, Mr. Robot, Until the day (we) meet again, Thank you very much, Mr. Robot, I want to know your secret".

Released during the Bubble days of Japan, this song turned out to be very prophetic. Following the bursting of the Bubble and after two and a half decades of recession, the future of Japan basically now rests in their ability to lead the world in the design and manufacture of that songs subject.

In the early days of the Bubble, I found my first job as an attorney in Tokyo working at a well-known Japanese law firm handling international transactions. I remember walking the streets of Shibuya near the Hachiko statute and I couldn't hear myself think due to the cacophony of noise from the countless cars rumbling through the streets.

But I walk the same streets today and it is eerily mute. All I hear are the sounds of people talking and laughing. Why?

If we closely look at the cars, they are hybrids of one form or another. The air is much cleaner (that is except for the pollution coming from China). These new advanced cars give us a glimpse into what will be the next frontier in the economic advancement of Japan.

At a recent auto show in Tokyo, Nissan's CEO, Carlos Ghosn, quipped that tech companies like Apple, Google and Uber are ready to take "as much intellectual space as we are willing to abandon." Mr. Ghosn recognized that Japan has tremendous technological resources at hand. And if it is to survive, it must take advantage of them.





Profiting from the War on Climate Change

This is because Japan has the worst demographics on the planet when it comes to maintaining a workforce that's young and vibrant enough to support and stabilize a strong economy. Between a graying population, a lack of workers, and young people who don't seem to be interested in sex let alone children, the situation is only getting more dire.

But, Japan still has the most important thing it's ever had in its corner – an entrepreneurial scene that's blossoming anew. And that brings us back to the song *Domo Arigato Mr. Roboto*. For you see, after cars, the future of Japan lies in robots.

Many Japanese firms are embracing robots not as a replacement for human workers but as colleagues. This is hard to imagine for most westerners, especially when we've been raised in a culture crafted by apocalyptic visions of The Terminator or robots like C3PO of Star Wars fame.

But in Japan, people are learning to deal with robots in simple, matter-of-fact ways.

The fact that even conservative companies are investing heavily in this indicates that the change has taken hold in a way that most people haven't picked up on in the West. Unemployment in Japan is 3.3%, near 20-year lows. The government has earmarked 2.2 billion yen for small and mid-sized companies to invest in robotics.

We all expect that in the future human augmentation will become much more prevalent in the U.S. and Europe. But in Japan, the future's already here.

In May 2015, Prime Minister Abe hosted a conference that was called, ironically, the Robot Revolution Initiative Council. In front of representatives for more than 200 companies and universities backing the project, he called on Japan's private sector to "spread the use of robotics from large-scale factories to every corner of Japan's economy and society."

The next step is the development of the "brains" that will not only guide these robots, but will also learn by themselves. This is where the future of Japan (and the world) lies. For this the Japanese must say "Thank You Mr. Robot".

D. Miyoshi

Profiting from the War on Climate Change

The Paris Climate Conference that concluded in December holds a lot of promise, not so much for those wanting to improve the climate but instead for those who would like to profit from the efforts to improve it.

Keith Fitz-Gerald of *Premium Publications* describes the hoopla that surrounded the conference.

More than 30,000 diplomats converged on Paris, France for what is being called "one of the most important international conferences in history."

"Tackling climate change is a shared mission for mankind," said China's President Xi Jinping, the head of the world's largest carbon emitter. "All eyes are now on Paris."

"If we act here, if we act now," President Obama added, "if we place our short-term interests over air our young people will breathe... it won't be too late for them."

"Here in Paris," French President Hollande declared, "we will decide on the very future of the planet."

Fitzgerald remembers that this is very similar to what world leaders said in 1997 just before the Kyoto Accords.

And those have proven to be little more than lip service.

Even if 100% of the Kyoto requirements are followed by 100% of the 192 countries that signed them, they will deliver less than 0.020 C in cooling by 2050 despite costing hundreds of billions of dollars.

Is that worth it?

No one really knows. Only the political pundits can guess.

But what is certain is that there will be trillions of dollars that are going to get set in motion in the wake of the Paris conference.



Profiting from the War on Climate Change

And here is how one may profit from the movement of those dollars.

Global warming is a lightning rod topic that's as divisive as it is controversial. It's easy to take a variation of either argument and still not be wrong.

For example, we've been led to believe that "97% of all climate scientists" believe global warming is man-made. According to the *Telegraph*, that oft-cited stat comes from a Masters research candidate who surveyed 10,257 scientists, all but two of whom endorsed the man-made warming hypothesis.

Yet, a subsequent review revealed that only 77 of the 10,257 were bona-fide climate scientists, which means that they made up only 0.75% of the actual sample. Assuming 97% of those same 77 approved, you're talking about only 74 scientists or 0.72% of the entire sample queried.

Worse, subsequent studies have peer-reviewed the underlying papers and shown the "consensus" view to be so terribly flawed that several well-known climate scientists have actually come out against it.

Worse still, the 97% consensus is now only 43% according to a 2015 Study by Bart Strengers, Bart Verheggen and Kees Vringer of the PBL Netherlands Environmental Assessment Agency.

Or, consider the widely held belief that we're facing rising global temperatures that are unprecedented thanks to CO2 emissions that rose concurrently beginning in the 1980s and 1990s.

In fact, the 0.5 C rise in temperature from 1975 to 1998, which scientists refer to as the hottest year in history wasn't any greater than the maximums recorded from 1910 to 1940 – 70 years before global warming was even a con-

cept. There's considerable evidence that the world's been heating and cooling for centuries and climatologists, in fact, call the 450 years from 1350 to 1800 the "Little Ice Age."

People forget that in the 1970s, scientists were completely consumed by global cooling thanks to – you guessed it – man-made pollution and everything from conventional combustion engines to communist population controls. The hype was as pervasive then as it is now and found in every major newspaper, in books, in movies, and on television.



The main point is that you can take every argument being made for global warming and spin it the other direction. There are always two sides to the coin so to speak and neither is "wrong."

This, sadly, is about as far as most people are going to get on the issue. There have already been millions of hours wasted fighting about who caused what and why. Paris ensures there will be millions more.

Either way, *the war on climate change means big profits*



Profiting from the War on Climate Change

for savvy investors.

Most people are going to focus on the obvious choices – reducing carbon emissions, renewables, and conservation. They'll do okay, but the real money is going to be spent on technology that's still in its infancy.

Take the Internet, for instance.

More than 2.5 billion people log on every day. If the Internet were a country, it would have the 6th largest electrical consumption on the planet according to Ideas & Discoveries. Google's server farms alone require enough power for 200,000 homes a day. The amount of CO2 created by web surfing is equal to global air traffic emissions.

So the next time an environmentally sensitive soul urges you to cut down on your driving or buy local produce or to buy a carbon neutral plane ticket, ask him or her to ditch the social media for the same reason and see what happens.

Real breakthroughs on climate change are going to come from companies doing things differently – and that's where it gets very interesting because the financial implications are simply enormous.

For instance, last April, researchers from Japan's Tohoku University combined carbon with rubidium to create a new superconductive metal called Jahn-Teller. Unlike other superconductive metals, however, this one doesn't require expensive cooling. That means it can be used at room temperature.

This is a profound development for two reasons: 1) superconductive materials can carry 100 times the electricity that conventional power cables can and 2) they are zero loss, meaning there's no waste so every bit of power sent into an electrical grid stays there instead of dissipating.

Right now the world uses 20 trillion kilowatt-hours a year

worth of electricity and approximately 1.2 trillion of that simply vanishes into thin air because of inefficient wiring using old fashioned copper lines. Few people realize that roughly 6% of all electricity simply disappears every second of every day of every year.

Super-conductive cables made of Jahn-Teller metal could save so much power in America alone that three U.S. nuclear plants (out of 61 total nationwide) could be taken offline permanently according to the Karlsruhe Institute of Technology.

Only one world leader is thinking along these lines, – Israel's Prime Minister, Benjamin Netanyahu.

He was the 38th guest to speak in Paris and his comments were barely reported despite the fact that they may have been the most important remarks made at the conference.

Netanyahu pointed to new technologies as being the best weapon available to limiting carbon emissions, noting, "Israel is a small country with big ideas. I believe it is not enough that we have those ideas or apply them only to our country, we are eager to share them with you."

He may have been thinking about StoreDot, the Israeli company that's just announced a battery breakthrough allowing it to recharge electric vehicles in three minutes. Or he might have been alluding to his country's Brenmiller Energy Project, a \$77 million solar panel field that uses cutting-edge technology to harvest energy for an amazing 20 hours each day.

The unspoken message isn't that Netanyahu has some master government plan that could reform the world's energy system if only he exported it from Israel. Rather, it's that the technology and imitative of the private sector in Israel and elsewhere can slash carbon emissions faster than any global agreement...





Will Hollywood’s View of the Future Come True?

...if big government gets out of the way (is the Obama Administration listening to this?).

If Paris is to have any good done, the diplomats should agree to regulate climate change with the presumption that innovation is good. Not that it’s a problem.

There are dozens of companies like Nordic Water Supply working on really innovative solutions like floating five million gallons of water across the ocean to drought ravaged regions that need it. Or Bjarke Ingels Group, which is building a 10-mile long seawall system to protect Manhattan from flooding as the world’s oceans rise.

Alcoa (NYSE:AA), for instance, plans to build an aluminum smelter in Greenland where rich deposits of mineral resources are being uncovered by melting ice for the first time in hundreds of years. Shipping firms like Beluga Shipping GmbH are now able to route tankers through previously unnavigable, ice-locked channels saving time and hundreds of thousands of dollars per voyage. The company is privately held but there are other shipping companies that can be invested in by the public. Monsanto Co. (NYSE:MON) and other agricultural giants are adapting to hotter climates with new drought resistant seed stock. It may be controversial, but you can bet it’s profitable despite the fact that the company plans to eliminate its carbon footprint by 2021.

The bottom line is don’t get distracted. At the end of the day, climate change is an *issue* but how you deal with it is an *opportunity*.

Follow the money, not the hype, and you’ll know which is which.

D. Miyoshi

Will Hollywood’s View of the Future Come True?

A rampant Hollywood theme could signal a coming war on wealth ... America’s deindustrialization is becoming a real problem.

If you take a look at the science-fiction flicks inundating Hollywood right now, you’re not left with an uplifting picture of mankind’s future — think about the *Mad Max*, *Planet of the Apes* and *Terminator* resurrections, and newer films, like *The Purge: Anarchy*, *The Hunger Games* series and *Elysium*.

Each one depicts a world in which something is incredibly wrong — be it because the world has been plunged into complete chaos, or because government has become so totalitarian as to make it resemble a supervillain from a comic book.

This says something poignant about society’s outlook: We just don’t have a whole lot of optimism about our future.

But for the moment, let’s leave that alone. Perhaps humanity’s pessimism is nothing new; dystopian literature and films have been around for a while. What’s much more unsettling, though, is the narrative these newer dystopian films are telling with increasing frequency — which is if you have any amount of affluence, you’re inherently corrupt. This is a clear attack on wealth.

Hollywood has a unique way of capturing the zeitgeist of the moment and returning it to us as entertainment — and often with an underlying message, if you’re paying attention.

To wit, *The Hunger Games: Mockingjay, Part 2*, the final in what has become a uniquely Hollywood numbering system — the four-part trilogy. If you are unfamiliar with this series, no worries; it was written for a teen audience, with teenaged heroes and heroines taking on the old folks who run the place. So on at least one level, it’s a generational war movie. On a more obvious level, it’s the story of a post-apocalyptic, post-civil war country (let’s call it America), where the districts (the remaining, habitable states) are suppressed under the tyrannical rule of The Capitol (no comment) — a freedom vs. oppression theme that would make it seem so very American.

But there is another more ominous theme emerging — the unmistakable attack on wealth, a very un-American theme that Hollywood often excels at when trying to make a larger point about





Will Hollywood’s View of the Future Come True?

Hollywood’s view of society.

The districts are largely poor — filled with factory workers, stonecutters, coal miners and the like, who are universally disheveled and living under the thumb of abusive, faceless peacekeepers dressed in pure white, save for their black-masked battle helmets. The Capitol, meanwhile, is a glitzy utopia, a futuristic skyline set against pristine, snowcapped mountains, and populated by a fashionable, well-to-do citizenry. *Hunger Games* heroes are poor; *Hunger Games* villains are wealthy. It’s the 99% vs. 1% theme that has captured the attention of idealistic youth and an American middle class that is backsliding these days, and which blames Wall Street and bankers for their plight.

In today’s America, business and wealth are villains. They’re demonized the same way the postwar generation demonized the red plague of communism.

In that way, *The Hunger Games* reflects one of the more troubling statistics to come out of America in recent years: A YouGov survey reveals that 55% of Americans polled are down on capitalism and nearly half believe the government, not business, does a better job of lifting people out of poverty. Another YouGov poll reports that 36% of the millennial generation (those under 35) view socialism favorably — and that’s just three percentage points less than the millennials who view capitalism favorably.

To be clear, these are our leaders of tomorrow.

And in the context of “tomorrow,” there’s an even scarier statistic: 43% of millennial Democrats favor socialism over capitalism ... and, worse, when you examine the breakdown of America’s voter base, the groups that lean Democratic will control the country in coming years. This is not good news for Donald Trump, the military or those of us who are self-employed.

So maybe *The Hunger Games* is more than just social commentary on today’s us vs. them mentality. Maybe it’s hinting at the future of wealth and government-imposed equality...

In some cases, that future is already here.

The U.S. jobs market, despite supposed strength, is producing largely low-wage, low-skill McJobs that do not a middle class make. The economy sputters still. Consumer spending and consumer sentiment have retreated. And four-plus years of a strong U.S. dollar is a leading reason why corporate profits in America are in a recession now — they fell in the third quarter by the largest amount since the global financial crisis. What we are witness-

ing is the deindustrialization of America.

Companies such as John Deere, Caterpillar, industrial-fastener maker Fastenal and others are seeing profits drain away because their goods are too expensive overseas ... while products made by overseas competitors are more competitive here at home. The American companies have two primary recourses:

1. Cut prices in America to maintain market share. Of course, public companies must also maintain profit margins in order to keep their stock price aloft and shareholders happy ... and that means cutting jobs or even closing less efficient plants. If enough companies choose this path, it’ll undermine the Fed’s mandate of full employment, putting the arbiters of the economy back into a box as they struggle with what to do next to spur economic growth that would lead to a hiring binge in America.
2. Relocate production overseas. When meaningful customers such as Brazil and the European Union can no longer afford your product because it’s too expensive, the only option is to start making your product in the local market, with a local cost basis, so that your goods are once again competitive. Yet that puts the Fed in a position where its actions — specifically, raising rates (which it did in December), would make the dollar even stronger and less competitive globally — directly leading to the deindustrialization of America and, subsequently, our growing dependence on those dead-end McJobs.

The Fed is simply in a no-win situation. Raise rates as it did, and a host of predictable, though unintended, consequences will flow forth that’ll weaken and hollow out the core of industrial America even more. Don’t raise rates and you risk blowing an even larger asset bubble that, when and if it pops, rips America apart.

Maybe the Fed raised the rate so it would have at least one arrow in the quiver in the event of an economic contraction. But, then again, raising rates (and strengthening the dollar even more) would be a key reason a contraction happens. So, do you shoot yourself in the foot just so you can bandage the wound? Well, they did raise the rate and therefore pulled the trigger, so let’s see what happens.

D. Miyoshi



Why is the Price of Ferrari Stock so Important?

Why is the Price of Ferrari Stock so Important?

As for a daily driving experience, I personally prefer to drive a Porsche. But in terms of evaluating the status of our stock market, I think checking out what Ferrari stock is selling for is quite helpful.

To substantiate that claim we should look to a profound question asked by Alex Koyfman of *Wealth Daily*, “Why do people keep buying Ferraris?”

Given the percentage of professional football and basketball players who buy these cars the moment their signing bonus checks clear, the obvious reason people buy Ferraris — more now than ever before, despite ever-increasing prices — is that they can.

The Ferrari, like the 10,000-square-foot mansion, the 12-carat engagement ring, and the 80-foot cigarette boat, is just one of those things that a certain percentage of wealthy individuals buy as an afterthought the moment they can afford one.

It's status of the highest order.

Yes, a nice, new Mercedes or Porsche might get you a few looks while driving slowly down Main Street on a Saturday night, but the Ferrari, since its inception, has been the benchmark of automotive exclusivity.

There simply is no car brand around today that projects wealth and prestige in the same way... and I'm not just saying that because I have a fanboy-esque crush on the manufacturer and just about everything it's produced in its 70-year history.

I'm saying that because a Ferrari has consistently been the most expensive car in the world.

The current record for the most expensive car ever to sell at auction belongs to the legendary 1962 Ferrari 250 GTO, which sold at Monterey last year for \$38,115,000.



And of the last 10 record-holders in this most rarified of markets, the Ferrari brand occupies eight spots.

Antiques, these cars are rolling Van Goghs or Monets — usually existing only in singular numbers per car model.

For billionaires, no price is too much to pay to own one, at least for a while — until the next big buyer comes around and makes it worthwhile to part ways.

Mass-Producing Art... But Only Just

However, when it comes to Ferrari's stock, which recently IPO'd under the appropriate symbol RACE, the antique market isn't as important as current and future model sales.

And in the age of high-powered Teslas, what exactly is the future of Ferrari and similar super-exotic, super-exclusive, super-impractical cars with house-sized price tags?

The surprising answer is good. And it hardly takes a financial analyst to understand why.

Ferraris belong to a category of commodity known as Veblen goods.

The most distinguishing characteristic of a Veblen good is that its demand is proportionate to its high price, not inversely proportionate, as the usual law of supply and demand dictates.

Few brands known the world over can claim the same level of Veblen effect as the legendary prancing horse.

Even during the recession, the wait time for a brand-new Ferrari — from order to delivery — was more than two years.

The well-heeled and impatient would then have the option of paying more for a lightly used car built to somebody else's specifications — and taking delivery as one usually would, that day, from a dealer that had one in stock.

If you wanted a model that was new for that year, however, you'd be out of luck... But Ferrari's best customers, the ones who drive the brand and business model forward, are those who order new models before they are even announced, years ahead of time, to be the first on the block to get one — parking it next to the previous model.

Growing in Price; Growing in Popularity

Today, Ferrari is bigger than ever, offering a wider range of models than ever.

They're also more expensive than ever.

Back in 1981, Ferrari's base model 308 — the one made famous by Magnum, P.I. and Tom Selleck's mustache — retailed for \$51,000.

Today's base model, the California, starts at \$200,000.

Adjusted for inflation, the California is still 53% more expensive.

What's even more telling is that the California isn't even its best-selling model. That honor goes to lighter, faster, more ridiculous 458 Italia, which starts at \$239,000.

A couple carbon-fiber engine components, carbon-fiber sill covers,

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and those essential carbon-ceramic brakes will run you about \$40,000 more.



And still, the backlog runs in the years.

Tesla's backlog only runs a few months.

But car companies need to innovate to survive, right?

Tradition + Technology = Market Transcendence

Yes, even if you're making very limited numbers of very expensive cars for a very narrow segment of the market, you still need to keep up.

Ferrari, however, is more than the builder of overpriced automobiles. It's also the world's most successful Formula 1 racing team.

Ironically, the cars most people associate with the Ferrari name — the road cars — were only a side project for company patriarch Enzo Ferrari.

He built road cars reluctantly to finance his racing team. The synergy of race and road-oriented performance, however, has paid off.

Today, Ferraris are among the most advanced cars ever made, with great effort going into making the cars the best-performing but also among the more reliable and comfortable of all luxury brands. (Of course, on that metric, I still think a Ferrari takes second seat to Porsche).

Ferrari was the first carmaker to integrate the Formula 1-style shifting paddles into its street-legal machines.

Today, the vast majority of Ferraris rolling off the Maranello assembly have this feature, forsaking the traditional but functionally inferior stick shift.

Ferrari's most expensive production model ever, the LaFerrari, came with a KERS (kinetic energy return) system, which allowed the car to tap into the energy released during braking — also borrowed from F1 technology. The resulting hybrid system boasted 950 horsepower and zero-to-60 acceleration times of just over 2.5 seconds... on a car weighing less than a Honda Civic.

That model, by the way, which is now going for about \$2 million, was sold out long before it went into production — all 499 units.

The Rich Get Richer... And They'd Better, for All Our Sakes

The economy may sputter; it may even recede... so long as there are people out there capable of affording these machines, they will continue to sell.

So when, if ever, can this company and this stock fail its investors?

Well, that's a day none of us want to see — because if it comes, I can assure you that the rest of your portfolio will have suffered first, and worse.

As much as people like to complain about the excesses of the ultra-rich, the moment those excesses stop will mark economic Armageddon for the rest of us.

The company's stock priced its initial public offering at \$52 a share with sources saying the demand for shares was "well oversubscribed."

When the stock opened for the first time last October, trading began at \$60 — 15% above IPO.

Fortune favors the bold.

But as of mid-December the price was \$46.36 (down 24% from its IPO price). Is there a message in this?

D. Miyoshi

The Real Impact of I.S.I.S.

Many know the acronym I.S.I.S. stands for Islamic State of Iraq and Syria. But it's probably easier to remember it as standing for Insane, Shocking, Immoral and Suicidal, at least to westerners.

Besides being one of the most evil organizations ever conceived in the world, ISIS has some more disturbing truths that should be made known.

Some of these truths will have distinct consequences for investors throughout the world and especially for U.S. investors.

These truths are explained by Martin Weiss, editor of *Money and Markets*.

Consider Weiss's friend Hamid, a 32-year-old Sunni Muslim, who teaches engineering in Mosul, the largest city in the world that's controlled by the Islamic State.

Weiss first met Hamid online in the summer of 2009, exactly five years

The Real Impact of I.S.I.S.

before the Islamic State conquered his city in 2014.

Hamid and Weiss had just joined a Web platform for exchanging foreign languages and culture, and they talked via Skype regularly. In the following year, Weiss helped Hamid apply online for a Master’s program at a German university. But Hamid missed getting in by a hair and eventually decided instead to settle down in Mosul, get married and start a family.

But now, with ISIS in control, Hamid is trapped. No one is allowed to leave. He can’t even get his sick father out of town for urgently needed surgery. And the horrors of life in Mosul under the Islamic State are well known:

Male adulterers are thrown from high buildings; females, stoned to death.

A widowed and impoverished mother of four recently told the *Guardian* she had her hand chopped off for stealing.

Even small infractions like smoking cigarettes are punished by public floggings.

Christianity is punishable by death. Thousands belonging to religious minorities have been raped and massacred. Even children in Mosul have been subjected to the same fate.



But what’s not well known is the environment under Islamic State that Hamid has been describing to Weiss in recent months. In an ironic twist of fate, Hamid’s stories can be even more frightening than some of the horrors ...

The Islamic State as a Country

The Islamic State is not just a global revolutionary movement. It’s a country. It has a functional government, complete with Ministries of Education, Culture, Justice, Transportation, Energy and more.

Mosul, which has been controlled by the Islamic State since June 10, 2014, is a modern, bustling metropolis larger than Philadelphia.

And here’s what’s so worrisome: Despite some grumbling and resistance, life in Mosul has taken on all the trappings of a new normal — on the streets and outdoor cafes; in schools, offices and factories.

Yes, in the early days of the Islamic State’s conquest last year, grandiose displays of military prowess and violence dominated city life. But now those are mostly gone and street life has taken on an air of regularity, even calm.

Its university, where Hamid teaches, remains one of the largest educational centers in the Middle East.



Last year, the Islamic State authorities shut it down and Hamid was temporarily out of work. But a few months later, they reopened it with thoroughly revised Islamic curriculums for the College of Medicine, College of Sciences, College of Electronic Engineering, College of Arts, College of Law, College of Administration and Economy, and many more.



Despite the hardships, Hamid is glad to have his job back, relieved his courses continue to exist.

The new government did the same with the city’s public schools, the local government counsels and departments, offices of private companies, and factories

All schools in Mosul were closed for two quarters and then reopened with an extremist revolutionary curriculum.

— brutally and consistently imposing an extremist revolutionary ideology.

Nevertheless, men drive to work in the morning. They go home to their families in the evening. They go to mosque on Friday. And they take their children to weekend outings by the Tigris River.

People struggle with power outages, as they did before the Islamic State. But they grumble less; complaints and resistance are promptly and severely punished. The crime rate has plunged.

Moreover, *the majority Sunni population has largely accepted — and some have even welcomed — the new order.*

This isn’t just Hamid’s version of the on-the-ground reality. It’s also corroborated by other sources.

One Mosul resident reports that “ISIS, with all its brutality, is more honest and merciful than the Shia government in Baghdad and its militias.”

Another told *The Wall Street Journal* “I have not in 30 years seen Mosul this clean, its streets and markets this orderly.”

Nor is this just a superficial veneer.

It goes to the heart of everything that’s dead wrong about the West’s theories, tactics and plans.





The Real Impact of I.S.I.S.

Whether the goal is to contain or destroy the Islamic State ... whether the West launches one thousand bombing raids or ten thousand ... whether Russia is opposed or aligned ... and no matter who's in power in Damascus or Baghdad ... until this reality is recognized and addressed, the Islamic State will continue to grow and spread.

It will continue to dig its roots in a country that's already larger than England.

Its revolutionary zeal will continue to electrify the masses of unemployed, disaffected youth in the Muslim world — and beyond.

Its global attacks will continue to spread with increasing sophistication and destructive power.

That's the first shocking — and little known — truth about the Islamic State. But there's more ...

What Happens When Extremists Take Power

Stephen M. Walt, a professor of International Affairs at the Harvard Kennedy School, explains this phenomenon in *Foreign Affairs* magazine. He writes ...

“To many who have witnessed its brutal tactics and religious extremism, the Islamic State seems uniquely baffling and unusually dangerous. According to its leaders' own statements, the group wants to eliminate infidels, impose sharia worldwide, and hasten the return of the Prophet. The Islamic State's foot soldiers have pursued these goals with astonishing cruelty.

“Yet ... the Islamic State has also sought to build the rudiments of a genuine state in the territory it controls. It has established clear lines of authority, tax and educational systems, and a sophisticated propaganda operation. ... ISIS is a country now.”

The first time in history that terrorists have created a country? Not at all — the second shock to most observers.

“The group” Walt continues, “is strikingly similar in many ways to the regimes that emerged during the Russian, Chinese, Cuban, Cambodian, and Iranian revolutions. These movements were as hostile to prevailing international norms as the Islamic State is, and they also used ruthless violence to eliminate or intimidate rivals and demonstrate their power to a wider world.

“Revolutions replace an existing state with a new one based on different political principles. These upheavals are usually led by a vanguard party or rebel group, such as the Bolsheviks in Russia, the Communist Party in China, the Khmer Rouge in Cambodia, or Ayatollah Ruhollah Khomeini and his followers in Iran.

“Sometimes, a revolutionary movement overthrows the regime on its own; other times, it exploits a power vacuum after the old order has collapsed for other reasons. ...

“Revolutionary organizations portray their opponents as evil, hostile, and incapable of reform. Compromise is therefore impossible, which means the old order must be uprooted and replaced.

“Vladimir Lenin and the Bolsheviks insisted that only a thoroughgoing revolution could eliminate capitalism's inherent evils, and Mao Zedong told his followers, ‘The imperialists will never lay down their butcher knives.’ Khomeini thought likewise about the shah, instructing his followers to ‘squeeze his neck until he is strangled.’

“The Islamic State is no different. Its leaders and ideologues portray the West as innately hostile and existing Arab and Muslim governments as heretical entities contrary to Islam's true nature. Compromise with such infidels and apostates makes no sense; they must be eliminated and replaced by leaders following what the Islamic State regards as true Islamic principles.

“Revolutionary organizations preach that victory is inevitable, provided supporters remain obedient and steadfast. Lenin argued that capitalism was doomed by its own contradictions, and Mao described imperialists as ‘paper tigers,’ both thereby reassuring their followers that the revolution would eventually triumph.

“The Islamic State's current leader, Abu Bakr al-Baghdadi, offered a similarly upbeat assessment in November 2014, telling his audience, ‘Your state is well and in the best of conditions. Its advance will not cease.’

“Leaders of revolutionary movements usually see their model as universally applicable. Once victorious, they promise their followers, the revolution will liberate millions, create a more perfect world, or fulfill some divinely ordained plan. ... Khomeini and his followers saw the revolution in Iran as the first step toward the abolition of the ‘un-Islamic’ nation-state system and the establishment of a global Islamic community.

“In the same way, the Islamic State's leaders believe that their fundamentalist message applies to the entire Muslim world and beyond. In July 2014, for example, Baghdadi declared that the Islamic State would one day unite ‘the Caucasian, Indian, Chinese, Shami [Syrian], Iraqi, Yemeni, Egyptian, Maghribi [North African], American, French, German, and Australian”

This is a key reason why the Islamic State uses social media to spread its message. This is why it's so quick to claim credit for violent acts such as the recent downing of Russia's Metrojet Flight 9268 over the Sinai, the recent bombing of Beirut and the terrorist attacks in Paris. And this is also why it has released a series of new propaganda videos, threatening Washington, New York and beyond.

“The problem,” writes Walt, “is that revolutions create great uncertainty, which in turn fosters miscalculation. For one thing, outsiders often have little direct contact with the new regime, so they cannot gauge its true intentions and level of resolve or clearly communicate their own red-lines. Few outsiders have met with the Islamic State's top leaders, for example, so it remains mysterious what they really believe and how resolute they will prove to be. ...

“Europeans and Americans obsessed about the spread of Bolshevism after 1917 and otherwise sensible people succumbed to McCarthyism in the 1950s.

“To make matters even more confusing, revolutions also generate a flood of refugees fleeing the new regime. Eager to persuade foreign powers to help them return home, exiles typically offer lurid accounts of the new state's crimes (which may well be true) while suggesting the new regime can be easily defeated. ...

“Russian, Chinese, Cuban, Iranian, and Nicaraguan exiles made such claims to convince foreign powers to intervene in their home countries, but governments who took their advice usually came to regret it.

“Ironically, the uncertainties that accompany most revolutions can sometimes help the new state survive. ... In Iraq, Saddam Hussein mistakenly believed that the fall of the shah had left Iran open to attack, but when his forces invaded the country in 1980, the clerical regime mobilized new sources of military power, such as the Revolutionary Guard,



The Real Impact of I.S.I.S.



Advancing in a Time of Crisis



Financial Crisis Report



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and turned the tide of battle in Iran's favor.

"It is also impossible to know for certain whether a revolution will be contagious, but there is usually some reason to fear it might be. Revolutionary states' ambitions inevitably strike sympathetic chords abroad and convince some number of foreign sympathizers to flock to their banner. ... Westerners such as the Harvard-educated social activist John Reed journeyed to Russia following the Bolshevik Revolution. Such reverberations reinforce fears of contagion. ...

"At the same time, just as with past revolutionary movements, efforts to defeat the Islamic State have been undermined by opponents' conflicting priorities.

"Both the United States and Iran want to see the end of the Islamic State, but neither country wants to help the other gain influence in Iraq. Turkey also views the group as a threat, but it loathes the Assad regime in Syria and opposes any actions that might strengthen Kurdish nationalism. Saudi Arabia, for its part, sees the Islamic State's fundamentalist ideology as a challenge to its own legitimacy, but it fears Iranian and Shiite influence as much, if not more.

"As a result, none of these countries has made defeating the Islamic State its top priority. Its penchant for violence and use of sexual slavery notwithstanding, there is little that is novel about the Islamic State. Its basic character and impact are strikingly similar to those of earlier revolutionary states. We have seen this movie many times before."

Weiss's view: It all leads to a single conclusion: Contrary to what the Obama Administration hoped last year, the Islamic State will not die a sudden death, the victim of its own brutality. And contrary to what most in the West may hope today, it will not be easily contained by stepped up security or promptly destroyed by more bombings.

Rather, the reality on the ground in Mosul, the rapid spread of the Islamic State globally, and the sophistication of its recent terrorist attacks are all evidence of a scourge that's going to be around for a long time and get a lot worse.

The Islamic State is at war with the world; and the world is at war with the Islamic State. It is the Islamic State War.

What Will Happen Next?

Some, like Walt, argue that the more the West steps up its attacks against the Islamic State, the more it will legitimize their extremist ideology ... and the more it facilitates their global recruitment of jihadists. This is true. And this is what will happen.

But others argue, with equal strength, that the more we turn a blind eye to this new country's horrific brutality, the more powerful and dangerous it will become. This is also true. And this will also happen.

How this debate will be resolved is itself very debatable. But both opinions point unanimously to the same conclusion Weiss gives. No matter which path the West chooses — more attacks or more neglect — the same four shocking realities prevail:

1. The Islamic State is a country.
2. It's digging in and not going away — much like other revolutionary movements in the past that have lasted for many decades.
3. The Islamic State War is spreading and escalating.
4. We are facing a kind of World War III.

For investors, the consequences are both big and immediate:

1. The Islamic State War is now the world's most powerful driver of flight capital to safe havens.
2. The money is fleeing from regions that are most directly impacted by the turmoil, especially the Middle East and Europe. And it's rushing, in a series of tidal waves, to the markets least impacted by the turmoil — mostly the United States.
3. This helps explain why the U.S. stock market has enjoyed so much strength despite so much bad news on the economic front. And it also helps explain why it's the highest quality, largest and most stable U.S. stocks that have been going up the most.

It also tells us these trends are likely to continue, but always accompanied by extreme high risk and volatility (as can be seen in the current stock market).

Be prudent in your investments and vigilant in your safety. God be with us.

D. Miyoshi

Past issues of the *Financial Crisis Report* can be found on the law office website www.miyoshilaw.com



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