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Financial Crisis Report

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Advancing in a Time of Crisis

Words of Wisdom: INVEST YOUR TIME, BEFORE YOU INVEST YOUR MONEY

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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.

NEO-NATZI?



Martin Hutchinson, analyst at *Global Markets* recently wrote an interesting article about the dangers of nationalism. In his article Hutchinson describes the many nationalist movements now afoot in France, Poland, Hungary and elsewhere in Europe and now ostensibly even in America.

Hutchinson implies the similarity of this nationalism to the Neo-Natzi movement led by Adolf Hitler in the early 1930's and now by Donald Trump in America.

As a Republican, on an intellectual level, I object to this characterization. Not for one moment do I believe that Trump is as evil or that he suffers from the same depravity of character as Hitler did. However, the objections currently being raised by Trump are very similar to those that were once

raised by Hitler in the early 1930's. And because of this I firmly believe that if and when Donald Trump becomes the presidential nominee for the Republican party, the mass media (both U.S. and world-wide) will begin to suggest that Donald Trump is the new Adolf Hitler for the American scene. So let's watch and see what happens.

But what are the similarities of Trumps objections to those of the European nationalists?

Well, for one the nationalists object to a set of policies that have been imposed by the center-left forces who have dominated world politics for the last 20 years. In the U.S. the president was Bill Clinton 20 years ago. Trump has railed against the policies of not only Clinton (the husband) but also of George W. Bush, Barak Obama and even the proposed policies of Clinton (the wife).

The nationalists also object to the decline in living standards brought about by globalization - a product of free trade that's been exacerbated by ultra-low interest rates and excess regulation. Trump demands "fair trade" policies (whatever that means).

Another issue is the recent increase in immigration, which also tends to depress living standards. Stopping the immigrants is the primary issue that propelled Trump to the forefront of U.S. politics.

Finally, nationalists object to the erosion of traditional cultural values that have come



NEO-NATZI?

with globalization and homogenization. Trump's motto of "make America great again" implies this erosion of values.

Admittedly, there is considerable justice in the nationalist criticism of current policies. Modern telecoms have made global supply chains easier, which has led rich countries to outsource production to poorer ones.

Yet nationalism also carries severe economic and political dangers.

Protectionist Problems

For one thing, it can shade into more unattractive political movements. The rise of neo-Nazis in the recent Slovakian election, for instance, owes much to nationalist forces, and is disquieting to say the least.

Additionally, one of the driving forces of nationalism is protectionism. Yet global prosperity depends crucially on the free flow of trade. When that was cut off in the 1930s by several countries raising tariffs at once, the result was the Great Depression.

All the way back in 1817, David Ricardo formulated the Doctrine of Comparative Advantage, which stated that global economic efficiency was maximized when goods were manufactured where it was cheapest to do so, taking into account labor, raw material, energy, and capital costs.

But protectionism pushes the world economy further from its Ricardian optimum, making us all poorer.

Once a major country starts imposing tariffs on its trading partners, the trend quickly becomes global. That's why we have global trading agreements and the World Trade Organization - to stop this from happening.

In general, I believe international bureaucracies do more harm than good. But in the area of trade, the appeal of protectionism to electorates that don't fully grasp economics is just too strong. Most of Trump's supporters are blue-collar lower middle class voters who for the most part have not studied economics in depth.

Now, the WTO isn't hugely useful in removing existing bar-

riers to world trade, but it at least fights a useful battle against the imposition of new ones.

A nationalist like president like Donald Trump and nationalist governments in Europe will hate the World Trade Organization, but in this area I believe the WTO is right and the nationalist politicians are wrong. If they manage to defeat the WTO, we'll all suffer badly.

Time to Take Care of Our Own

The rise of nationalism is likely to continue, as the economic conditions and poor policies fueling it aren't going away. On balance, that's a pity.

We've seen in country after country that nationalists tend to replace free-market parties who pursue the economic policies that work best, even if they're misguided on other issues.

To the extent that nationalists upend economic policy, they'll make the world poorer. That will consequently lead to more distressed voters and more extreme nationalists. At some point, we run the risk of the world descending into war, as it did in 1939.

The solution is for non-nationalist, non-socialist parties to take better care of their voters.

This means not caving to fashionable globalists on the subject of immigration. It also means keeping budgets close to balance, so that the electorate doesn't get accustomed to masses of "free stuff" at the expense of future generations (are you listening Hillary?).

It also means avoiding new and expensive regulations in the name of long-distance and uncertain chimeras like "climate change," And means keeping interest rates well above the inflation rate - so that local savers benefit and small businesses have ready access to capital from small-scale local capital pools (are you listening Japan?).

Finally, sensible governments will act quickly to quell stock market and real estate bubbles - they always end in crashes. And if they're allowed to go on too long - as the London housing bubble has - it becomes impossible for younger people to lead a normal life.



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As spectators, we can welcome the successes of nationalist parties against the stultifying orthodoxies of cheap money, massive budget deficits, free immigration, and political correctness. But let's not get too enthusiastic. If nationalist policies are put into effect, they'd make matters even worse.

D. Miyoshi

What do the Chinese think of Trump?

In his campaign debates and presentations, Trump is continually blaming China for causing an unfair trade balance with the U.S. Trump even said, he could see the possibility of waging war against the country to rectify this problem. Now, much of the reason China is able to sell their goods in the U.S. is because there is demand in the U.S. for these goods. But Trump's message seems to resonate in fomenting an anger in some that propels them to vote for him. Thus as a matter of political strategy, what he is saying is understandable.

But that begs the question, what do the Chinese think of Trump?

To answer that here is a researched based opinion by a Chinese computer programmer named Xiao Chen that appeared in the recent edition of the *Quora Digest*.

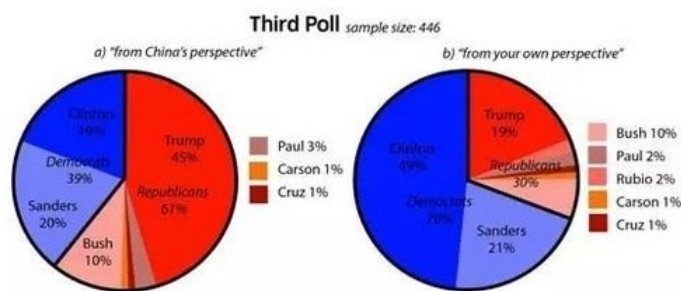
Trump is a comedian star in Chinese media. Many people, mainly in two groups, wish he can be the next president of the U.S.

The first group is rubbernecks. There is a saying in Chinese: 看热闹的不嫌事大。 Basically, it means rubbernecks like to see boisterousness and do not care how serious the consequence would be. A typical comment from this group is "we would have four long years of a comedy to watch if Trump wins."

The second group believe that the best gift you can have is a stupid opponent. A typical comment is "I can't wait to see how badly Trump messes up the U.S." Though Trump has many hostile sayings about China, his capacity of do-

ing any real harm is questionable.

There was a poll taken on the Chinese internet asking "who would you vote for if you could" The findings are graphically illustrated below.



src:<http://www.chinausfocus.com/cult...>

Basically, the findings were that the Chinese people believe Clinton's election would be the best choice for the fate of the U.S. while the election of Trump would be the best gift for China.

This does not augur well for the GOP. Many Republicans are now pining for the good ol' days of Uncle Ronny.

D. Miyoshi

From a Fortune to a Fall

There are those who think of Trump as a kind of folk hero because of his economic successes that have employed a lot of people which benefited the community and there are those who think of him as a villain because of those same economic successes that have allowed him to accumulate a lot of money that benefited himself. But which view has more truth to it?

We all generally think we can judge whether a person is a good guy or a bad guy. But is it that easy?

In early March most of us in the U.S. were preoccupied with the presidential election and did not notice that we lost a very powerful man who directly affected our lives.



From a Fortune to a Fall

In fact he affected our wallets... the economy... our portfolios... and the workforce.

Andrew Snyder of the Oxford Club writes that this person did far more than even the most powerful of politicians. And yet, the average investor - let alone the ordinary citizen - has no idea.

As investigators work to find out exactly what killed Aubrey McClendon, we can't help but ask a tough question. Was the man a hero or a villain?

From the start, it's clear we're going to be painting in shades of gray.

Those who knew the founder and former CEO of Chesapeake Energy (NYSE: CHK) which 5 years ago is one of the stocks we were recommending for investment, would agree he was a tremendous risk taker. He was one of the wildest of wildcatters.

What's incredible, though, is how exorbitantly our capitalist system rewarded him for his good decisions and how efficiently it punished him for his bad ones.

The underlying rule of the capitalist system - and therefore wealth building - is that you will be richly rewarded for giving folks a product or service they want and are willing to pay for.

McClendon did it in spades.

In 1989, he and a partner pooled their cash and started Chesapeake Energy. McClendon was just 29 years old.

But what he lacked in experience, he made up for with an immense competitive spirit.

The new company was an immediate and tremendous success. Just four years after founding it, McClendon took his company public. And over the following three years, his shareholders more than tripled their money. Shares soared over 270%.

And the moneymaking trend had legs...

In 2011, Forbes formally inducted McClendon into its prestigious 20-20 Club. He became just one of eight CEOs who delivered annualized returns of more than 20% for 20 straight years... an incredible feat.

McClendon not only started a successful company, but made his fellow shareholders rich.

Even more, he created jobs. At its peak, Chesapeake Energy was issuing paychecks to more than 13,000 employees.

As his company perfected the technology that allowed it to tap into tight shale formations, Chesapeake grew its gas production from 5 million to 2.5 billion cubic feet per day through 2013.

Only Exxon Mobil (NYSE: XOM) produced more gas.

But the story goes much further than Chesapeake. McClendon lit a fire under an entire industry. He's often thought of as the father of modern fracking.

At the same time McClendon and his crew were leasing land all across the country, his competitors were doing the same. They took advantage of Chesapeake's technology and drilled countless wells of their own.

Tens of thousands of jobs were spurred.

It's not hard to say McClendon was the pioneering force in America's energy boom. He's a chief reason we're no longer dependent on foreign energy.

He did what no politician could do... and he didn't need bombs to do it.

Thanks to the power of the capitalist system, McClendon changed the face of America, made us safer, freer and richer... all while building himself an incredible fortune.

If only the story stopped there.

On March 1, 2016 McClendon was charged with conspiring to rig land lease deals. Just hours before he was due



Whose more important, customers or employees?

in court, he died in a fiery, rather suspicious car accident. If found guilty of the charges, the man who piloted an industry could have done serious jail time.

Of course, this controversy wasn't the first time the energy pioneer found himself in trouble.

As we said, McClendon was a risk taker... no risk was too big. In fact, we're told it was hard to get the man to say no to most any idea - a great trait in a pioneer, a tough trait for stability.

His passion for risk cost him much of his fortune in 2008. Despite the fact that his compensation package that year topped out at a monstrous \$112 million, the risk taker wanted more. His competitive spirit wouldn't rest.

He was punished for it.

Over the several years prior to the 2008 meltdown, he had leveraged his stake in Chesapeake to immense proportions. When Chesapeake's shares fell significantly in the maelstrom of the times, it forced an impossible margin call for the highly leveraged McClendon. He lost most of his stake in the company.

Worse, Carl Icahn's forceful activist hand eventually pushed the "daredevil" McClendon out of his job.

In all, the crisis cost McClendon, the king of natural gas some \$559 million. His reputation was permanently spoiled.

But should we judge McClendon merely by his personal finances and his immense tolerance for risk? After all, he pioneered an industry, created tens of thousands of jobs and made his shareholders rich.

There's no doubt the man had a greedy competitive side that, purely guessing, may have cost him his life. But McClendon did incredible economic good... far more than Yellen, Obama or any politician could dream of.

He created an energy boom, revitalized Oklahoma City, created countless jobs and changed the landscape of the energy industry across the planet.

He had an incredible life. But was he a hero or villain?

Nobody is purely one or the other.

Our capitalist system is a funny beast. It doesn't sort good people from bad. It merely shows us who's a better allocator of capital... who can deliver the best product to the most people.

McClendon did it incredibly well. No doubt, he was a great capitalist. He changed the world.

Only the history books will tell us if he went too far.

D. Miyoshi

Whose more important, customers or employees?

In my second week at Harvard Business School, I had to answer this question for a class lesson. Now, if Harvard were in Japan, it would have been easy to answer. But Harvard is in the U.S., so that being the case here is my answer.

In this election season in the U.S., it's not unusual to hear candidates such as Clinton, Sanders and Trump chastising corporations and business owners for "putting profits ahead of people."


This is populist rhetoric, generally used to stoke a sense of grievance among workers.

Without rising profits, a private sector employee's dream of job security, career advancement, higher pay and early retirement are just that, a dream.

However, businesses thrive only when they put people ahead of the bottom line. But it's a particular group of people. They're called customers.

And they can be demanding. They want quality products, reliable service, competitive prices, timely delivery and rock-solid warranties. It's the customer experience - their satisfaction - that keeps profits coming in.

The best companies knock themselves out day and night





It's Happening Again!

to bring us goods and services that are better, cheaper, greener and/or longer-lasting.

Capitalism says you can have anything you want if you just give enough other people what they want.

What a beautiful system.

However, they have a different viewpoint across the pond in France.

In that country, it's not the customer who is king. It's the employee.

By law, workers are not permitted to labor more than 35 hours a week. Most stores are closed on Sundays. And in small towns, shopkeepers routinely close up for an hour or more at midday.

One American living in Cannes said he had shown up at his local hardware store that morning - 10 minutes before noon - to buy a drill bit. The shopkeeper waved him away and kept locking up. "My lunch is waiting," he said.

Firing an unreliable or ill-suited employee is a chore in France. It means entering into a protracted negotiation with his or her lawyer and forking over several months - and in some cases years - of severance pay.

U.S. companies with offices in Paris express the same exasperations. A company attorney once told me about a discussion he had just had with a French government official. The subject was how to legally dismiss an employee. Every option was convoluted and expensive.

Half in jest and half in frustration, he finally said, "What if we just packed up and left?"

The government official sniffed. "That would be regarded as a criminal act."
Sacre Bleu!

Some workers cheer this, of course. But I can assure you that customers and shareholders don't.

And in today's globalized economy - where companies can locate wherever they choose - many are increasingly giving France a miss.

French socialism - born in the twilight of the 19th century - may not survive the dawn of the 21st.

The country has flat growth, chronic deficits and stubborn double-digit unemployment. It has an army of coddled civil

servants. (Government workers make up nearly a quarter of the labor force.) Fifty-six percent of GDP is public spending. And any talk of economic liberalization sends strikers and protestors spilling into the streets.

Some readers will counter that the country also has a wonderful charm and joie de vivre.

No argument here. After nine glorious wine-and-cheese-soaked days touring Paris, Burgundy, Nice and Cannes, I nod in vigorous agreement.

However, things appear darker below the surface. The World Health Organization recently reported that the French are the world champions of misery, the biggest consumers of antidepressants on the planet.

Maybe union wages, short hours and early retirement don't create a worker's paradise after all.

To create a healthy corporate environment, shareholders, managers, employees, customers and suppliers all have to feel like beneficiaries.

But these groups are not equals. For a business and its employees to truly thrive, it must be the customer - always - who feels like Louis XIV.

They have it right in Japan where they say "okyakusama wa kamisama" (the customer is God). So in the end my answer would be the same whether Harvard is in Tokyo or Cambridge.

Here is to taking good care of your customer,

D. Miyoshi

It's Happening Again!

The last time it happened was 86 years ago. That's when the prices of crude oil, copper, gold, silver, corn, soybeans, live cattle, cotton, and most other commodities tanked.

Well, it's happening again in this year of 2016. I won't bore you with a bunch of graphs to show this (well, maybe just a few below). In any case, you can see for yourself what's happening on Google.

But what does this all mean anyway? Well, nothing except that these commodity price declines come directly on the heels of their having rapidly risen just before. And the reason they rose is because the bankers and mega corporations used borrowed money from the Federal Reserve to boost them to unsustaina-





It's Happening Again!

ble levels (to make profits of course).

But their manipulations were not limited to commodities. With hundreds of trillions in leveraged money they applied their evil to the stock market. Look at the chart of the DOW. From the post financial crash low of 7000 the stock market more than doubled to over 18,000:



This is just a sampling. All commodities and stocks were manipulated higher in recent years with incredible sums of borrowed money. This illegal manipulation was done by the banks and mega corporations in an organized conspiracy with the aid of the worlds central banks in a desperate attempt to forestall the coming global depression. The scheme has let them manipulate commodities and stocks to hopefully save themselves and save the global financial system from collapse.

Unfortunately for mankind all manipulations are destined to fail. With disastrous consequences. The bankers were hoping that global growth would kick in and sustain the manipulated prices and bail their bacon out of the fire.

But Global growth never came and stock and commodity prices collapsed

The global economic slow-down is the death knell for the global financial system. The truth is that China was supposed to lead the global economy forward. Demand, as the masses of Asia entered the middle class, was supposed to boost all commodities. The truth is just the opposite happened. China growth never materialized and their economy is leading the global depression. As a result all commodities are in vast surplus. With demand and price crashing!

It is a well-known fact that sky high oil prices did two things. First it made new technologies feasible like fracking, oil tar and oil sands recovery. It also brought about new efficiencies in the use of fossil fuels. The car of today consumes far less fuel. And as we have seen, high prices cut demand. In fact global demand for oil is dropping while global production is soaring. The net result is oil has plunged from \$110 a barrel to around \$30. Look at the chart of oil prices below. From \$40 when the manipulation started to a \$115 high and now \$30 as the manipulation failed:

CLY00 - Crude Oil WTI - Daily Line Chart



But don't be fooled, a lot of bankers and funds and mega corporations invested with the idea that oil would never come down. The so called smart analysts the bankers employed predicted oil would be at \$250 a barrel right now. No one predicted the wipe out. And oil will, after a sucker rally back up, drop to \$10 a barrel. The trillions invested and financed in oil stagger the consciousness. The losses are also staggering. It will wipe out the global banking system

As you have just seen the losses in the biggest oil and commodity bust ever are staggering. There is no issue here, we are in a depression with commodity prices plunging like never seen before.

This is what happens in a depression. There are two more events that are about to occur that can make you very, very wealthy or very, very poor.

The banks are about to wipe out and the stock market is about to crash

Yes it is obvious that these 2 key events have not happened just yet. Now ask yourself, how come now that ALL commodity prices have crashed at least 50% and oil 70% we have not seen any significant losses in banks or the stock market?

They sure as hell were booking the soaring commodity prices profits. How come no one is posting losses? We know they never took profits. We know the loans were never repaid. So how come to date there is no apparent fallout. No losses or company collapse. No banking losses and no stock market plunge. The biggest commodity price bust in history! With the greatest ever bank exposure to commodities and Nothing?

The answer lies in accounting rule FAS 157

Necessity is the mother of invention and in this case the mother of deception. Allow me to explain. In the 2007/08 financial wipe out the FED had to save the system. Remember the FED is a creature of the banking system. And its blood brothers



It's Happening Again!



Advancing in a Time of Crisis



Financial Crisis Report



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were stone cold broke with massive losses they had to book. The FED provided massive amounts of liquidity in the form of very low interest, massive loans to the dead broke banks. But it soon became apparent that was not enough. At that time banks, like other mere mortals, had to record their trades at mark to market. That meant that trades profit or losses (in this case massive losses) had to be recorded.

If that happened the banking system would be in ruin no matter how much money the Fed loaned the banks. So the banking lobby kicked in and what was supposed to be a temporary accounting change was made known as Rule FAS 78. For the first time ever dead broke banks did not have to record the actual losses they were taking on their derivative trades. They were allowed to mark to model.

Here is the rule change. Quoted is the definition of Mark To Model by the Financial Accounting Standards Board (FASB) Known as FAS 157 for financial assets and liabilities like derivatives. It allows:

"The pricing of a specific investment position or portfolio based on internal assumptions or financial models. This contrasts with traditional market-to-market valuations, in which market prices are used to calculate values as well as the losses or gains on positions. Assets that must be marked-to-model either don't have a regular market that provides accurate pricing, or valuations rely on a complex set of reference variables and time frames. This creates a situation in which guesswork and assumptions must be used to assign value to an asset. These assets are typically derivative contracts or securitized cash flow instruments, and most do not have liquid trading markets."

Current accounting standards have significant provisions for valuing structured financial products (that's the shit your bank is trading in the derivatives casino) based on analytically derived expectations of future cash flows.

First off, this rule was supposed to expire and banks were supposed to go back to marking to market. Quietly in the dead of night the mark to miracle fantasy has been extended.

Thus your bank is still allowed to price the value of their commodities and oil trades at any price they want. At what fantasy price they expect the price of oil and commodities to be... Over \$100 a barrel in oil is their model. Not the actual oil price of \$30 a barrel. So, it is likely our banks are already broke. They are still in business by accounting rules (legalized accounting fraud) that allow them to hide the massive losses they are taking.

This is the height of desperation. Banks and major corporations are dead broke. You can cook the books all you want. But as 2007/08 has proven, eventually you wipe out. This time they will go broke and stay broke.

We have to prepare ourselves for the biggest banking wipe out in world history. And while we are at it also prepare ourselves for the biggest stock market crash ever.

And this time there will be no bail outs. With interest rates near zero, the Fed is out of bullets and cute accounting tricks.

The silver lining on this is you can become hugely wealthy in the coming financial crisis. We must remember that most of the millionaires of the 20th century were made in the Great Depression 86 years ago.

The difference this time is, in the Great Financial Crisis of the 21st century, Billionaires (in fact most of them) will be made.

D. Miyoshi

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



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