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Financial Crisis Report

Written and Edited by David M. Miyoshi

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.

HAPPY NEW YEAR!

Advancing in a Time of Crisis

Words of Wisdom: "Most people overestimate what they can do in one year and underestimate what they can do in ten years" Bill Gates

The Legacies of Pearl Harbor

As a Japanese-American, every December I am reminded that the "historic" day is again coming up. At our family gatherings, invariably the younger members ask the older members who were alive at the time, what they remember of that fateful day.

In this article, I write first of a personal legacy that Pearl Harbor Day imparted to me followed by several national legacies that the historic day left to our country.

My personal legacy of Pearl Harbor. It was December 7, 1966, the 25th anniversary of the attack and I was two weeks from graduating (or not graduating) from the United States Marine Corps Officer's Candidate School (OCS) at Quantico Virginia. It was 8:30 AM immediately after our platoon had finished breakfast and the platoon sergeant suddenly barked at me "Candidate Miyoshi, get your sorry ass up on the stage. Put this coolie cap and black pajamas on and hold this friggen rifle. Now growl for me" Then the platoon sergeant shouted to the remainder of the platoon gathered at the foot of the stage "when you get to Vietnam, and all of you will, this is what the enemy looks like and when you see it, you kill it, you got that. Burn that in your memory" Well, it would be an understatement to say I felt humiliated, hurt and angry. But I was still in "boot camp" and thought discretion should be the better part of valor and so I maintained a "poker face." Up to that point, OCS was the most difficult physical ordeal of my life. Being the minimum height for admission into OCS, I was continually being thrust against men larger than me which left its physical and mental distresses upon me. At the beginning of OCS, we were told that 1/3 of us would not make it as commissioned officers. Part of my mental distress was my concern that I would be a member of that hapless 1/3 contingent. All during OCS I had not received a clue of encouraging news that I would be in the triumphant 2/3 group. Well, after I stepped down from that stage and took off the coolie hat and

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black pajamas, the platoon sergeant took me aside and put his arm around me and then in a quite, civilized tone said "Candidate Miyoshi, I just want you to know that you will make a fine lieutenant in the Marines". At that moment, I remember the heavens opening up in front of my eyes and from that moment through graduation I remember OCS becoming rather manageable. Perhaps my exhibition on that stage was a test of my mental durability or perhaps not. I don't know, but I do know that each and every one of the candidates who were commissioned an officer In the United States Marine Corps had to pass a certain physical and mental standard in the minds of the platoon staff that would enable them to not only engage with but to prevail in combat over the Vietnamese enemy. So, twenty years after the U.S. Marines last engaged in combat with the Japanese, they nevertheless readily accepted me in their ranks as long as I satisfied their stringent requirements. Accordingly, my recognition that the U.S. Marines discriminate only based on mind and body and not on race is my personal legacy of Pearl Harbor that I would like to hand down to my descendants.

But I am sure for Americans in general, Pearl Harbor Day imparts an even more profound significance.

Three weeks ago (December 7, 2016), and 50 years after my experience on that stage was the 75th anniversary of Pearl Harbor Day. Because of its prominence as an anniversary date, there were many commemoratory observances held throughout the country on that day. On December 27, President Obama and Japan Prime Minister Shinzo Abe joined together in a memorial service at the Arizona Memorial to affirm the alliance of their two countries.

The National Legacies of Pearl Harbor. For most older Americans, I think it is fair to say Pearl Harbor Day remains the defining moment of their time. As George Friedman of *Stratfor* writes, Pearl Harbor Day continues to inform the way Americans look at the world, and it triggered a redefinition of the U.S. federal government that still haunts Americans in some ways.

Specifically, that day—the way it happened and the manner in which Americans responded—redefined the United States… a redefinition that Americans still struggle with today.

The World Before the Attack

The origin of the attack was Japan's extraordinary rise. When Commodore Matthew Perry forced Japan into trade relations with the United States in 1853, Japan was a society driven by animal and human muscles. There were no steam engines or railroads or any powered industry.

By 1905, the Japanese navy defeated the Russians, and Japan was rapidly emerging as a major industrial power. Japan's great weakness was that it was devoid of mineral resources. It had to import almost all the resources an industrial society needed.

In order to sustain its industry, Japan had to deal with China, the Dutch East Indies, and Indochina. All three were under some degree of control by European powers. The Dutch East Indies (Indonesia) belonged to the Netherlands, Indochina belonged to France, and all major European powers plus the United States controlled much of coastal China. These were Japan's economic competitors.

Over time, Japan became less and less economically

The Legacies of Pearl

secure, and in the 1930s, it invaded China. The US opposed the invasion as it did not want to face a Japanese challenge in the Pacific. It supported Chinese resistance against Japan.

The decisive moment came when Germany occupied France and the Netherlands in 1940. Japan had agreements with both countries about deliveries of minerals from their colonies. Now, the question became whether the colonial authorities would honor the agreements. The United States did everything it could to undermine the agreements. For example, President Franklin D. Roosevelt ordered his agents to buy up oil in what is today Indonesia to keep it out of Japanese hands.

Japan invaded Indochina to secure resources there. The US was a major exporter of oil and scrap iron to Japan, and it imposed an embargo. The Japanese had an oil reserve of a few months and no way to obtain more oil. The US demanded Japan withdraw from Indochina and China. Japan feared that if it agreed, the US would control Japan's future.

Japan had to secure its control of Indochina and the Dutch East Indies. If it did that, US submarines operating out of the Philippines would still block the supply lines back to Japan. There was no way to occupy the areas it wanted without taking the Philippines, and that meant war with the United States.

The Americans anticipated a Japanese attack on the Philippines and planned to respond by sailing the US fleet out of Pearl Harbor. The US would force the Japanese navy into a decisive battle and destroy it, recapturing the Philippines.

Planning and Miscalculations

The Japanese knew of the American plan and knew that if the US chose the time and place of the engagement, they might lose. Therefore, Japan did what the US thought was impossible. It attacked Pearl Harbor from the north with aircraft carriers. The US fleet was crippled. It would be years before it could mount an attack against Japan. Meanwhile, Japan created a Pacific empire to block the inevitable US counterattack.

The Japanese assumed the US would negotiate a peace treaty. The US didn't. The United States could not accept a challenger who might seek control of the Pacific. And in the long run, if the US accepted the cost of war, US industrial power would crush the Japanese. It did.

Note, the United States was using a strategy that has now become commonplace—the use of economic sanctions to try to compel another nation to change its behavior. It also revealed the problem with this strategy. First, the embargo might not be effective. Second, if there were an embargo, the target nation might choose war over capitulation. Thus, a strategy designed to avoid war through economic measures could result in war (a lesson President Trump should seriously consider when dealing with China, Russia and the Mideast).

The United States expected a Japanese attack, but it didn't anticipate that it would be at Pearl Harbor. An attack elsewhere could be reversed if the fleet at Pearl Harbor was intact. The miscalculation was threefold. First, the US did not think the Japanese would risk bringing their fleet within 300 miles of Hawaii in winter, from the freezing north through Pacific storms. Second, the US didn't believe that carrier aircraft could sink battleships (in spite of a similar British attack on the Italian navy). Third, it believed that Pearl Harbor was too shallow for torpedo attacks. The US underestimated Japan's daring, its naval air power, and its technological capabilities.

The Legacies of Pearl

The US also suffered from complacency at all levels. Army Air Corps Lt. Kermit Tyler was on duty as watch officer the morning of Dec. 7. A radar operator informed him that aircraft were approaching from the north. In what has become a legend in the world of intelligence, he replied, “Don’t worry about it,” and didn’t sound the alarm.

Complacency and the underestimation of the enemy permeated all levels of US thinking. The US had pushed Japan into an untenable position and knew that it would strike, but never assumed that it would strike at the one place where the US didn’t want it to.

The National Legacies of Pearl Harbor

After the war, complacency was replaced by obsessive alertness. There is a place in Colorado Springs called NORAD (North American Aerospace Defense Command), where obsessive alertness became a religion. NORAD waited and watched 24/7 throughout the Cold War and continues to do so today… constantly aware of Kermit Tyler.

No scenario is too preposterous, no moment is totally secure, and any attack can come at any moment from any direction. This is not an irrational view. It is also one that changed the US permanently.

Pearl Harbor taught the United States that it could be destroyed by complacency. The US can be surprised (as it was on 9/11), but it constantly remains on the edge of its seat, never again as secure as it was on Dec. 6. This is one of the legacies of Pearl Harbor.

There was another, more transformative legacy. After Pearl Harbor, the United States had to build a vast military apparatus to face Germany and Japan simultaneously. To do this, the federal government had to virtually nationalize the economy. The flow of material, the allocation of personnel in factories, and the control of production of civilian goods were all decided by government planners. Civil liberties—from the rights of Japanese-American citizens to freedom of speech—were curtailed.

A religion of secrecy was imposed where vast areas of knowledge, mostly unimportant, were deemed vital to national security and controlled under a layered apparatus. The United States saw itself as fighting for its life, and few objected to the extension of the federal government’s power. But it changed American society to this day.

Reshaping the State’s Relationship to Its People

In many ways, the New Deal set the stage, but it really failed to achieve its end—the end of the Depression and the increase in federal power. It was World War II that did that, in ways that had been unthinkable before. The federal government changed its relation to society. It went from being a significant but distant part of life, to controlling even small details of ordinary life.

War was not a cover for this. There was a war, and the creation of a strong state to fight this war was inevitable and gave a sense of security. The state receded after the war but never went back to what it had been before. It remained an ever-present arbiter of daily life, and the nation never saw complacency as an option again.

War, to that point, had been part of American life, but now it became central. The US Army had been a few hundred thousand before the war… totally ineffective. That was never to happen again. US aircraft were not up

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to Japanese standards. That was never to happen again. Technology did not flow into the defense system from the private sector, but flowed outward. The Manhattan Project demonstrated what the state could create, and the microchip, the Internet, and computerized databases flowed out, to be turned into civilian products.

The national security apparatus remained at the center of American society, and the federal government, controlling that apparatus, gained overwhelming power. Perhaps most important, the pre-war illusion that war was marginal to our lives changed. The United States adopted a strategy of preemption or rapid response to any challenge—Korea, Vietnam, Iraq, Afghanistan, and Iraq again. And secrecy remained the veil over decisions that were made.

Some would object to this. They miss the point. Pearl Harbor happened. It is a dangerous world, and danger comes from unanticipated directions in ways that cannot be predicted. The United States did not create the world. The world created the United States, and it is what it is.

The simple act of dismantling the apparatus would not eliminate what we are afraid of. Denial of reality is not a strategy. And when 9/11 happened, everyone demanded to know how the president let it happen. Even with intense effort, the system will fail. But with no effort, the opportunities for disaster are endless.

Nevertheless, we must all be aware, 75 years later, of how the United States was permanently changed by a failure of imagination, a certainty of security, and an unwillingness to acknowledge how capable the enemy is. It resulted in a culture of anxiety, whether about Soviet nukes or Muslim terrorists. The tendency, back then, to minimize the Japanese has led us to maximize our fears now. It isn't an irrational stance, but it is an exhausting one. The United States is in a reality that it cannot escape, but if it recognizes what happened, it can reshape or perhaps mitigate it.

Pearl Harbor isn't ancient history. It is something that lives in the American psyche and is embedded in our national institutions. It is the lesson we never think of… but can never forget. And as we place embargos on our next adversary, it is important never to forget Pearl Harbor. If we remember, at least a young lieutenant* might learn to be constantly anxious, even if it is a Sunday morning.

* Following an investigation by a Naval Board of Inquiry in August 1942, it was determined that Lt. Kermit Tyler had been assigned to the Information Center with little or no training, no supervision, and no staff with which to work. Tyler was subsequently cleared on any wrongdoing by the Board and no disciplinary actions were taken against him.

D. Miyoshi

ARE YOU MAKING THE RIGHT INVESTMENT CHOICES?

I am a member of the Oxford Club, an investment consultant society and once a year they publish their findings of the hottest (and coolest) investment sectors in our economy.

The following is partly taken from an article entitled "*The Hottest Sector Today*" and is written by Andrew Snyder, Editorial Director of the Oxford Club.

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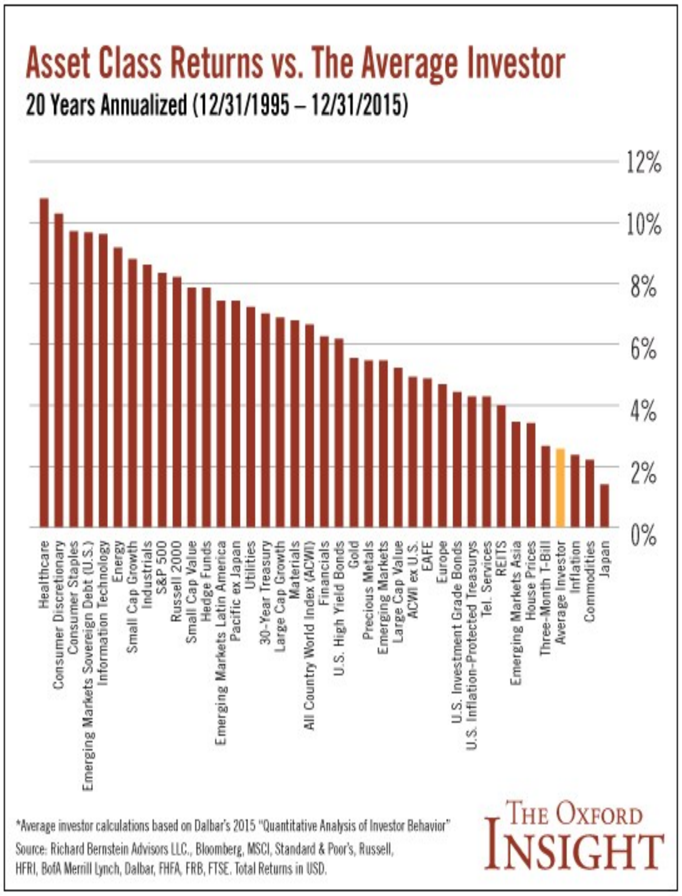
Based on the first chart, if you invested in Healthcare, you probably did pretty well, but not so if you invested in Japan. Being a corporate attorney with many of my major business clients in Japan, this does not necessarily bode well for me. That’s why I am into international investments to compensate for the risks I face in my own professional life.



Essentially, this chart sends a powerful message. It shows the returns of more than three dozen asset classes. The high performers are on the left. The duds are on the right.

You'll see a short yellow bar near the right hand side of the chart. That's you. Hopefully not you, individually. But it's the collective you. It represents the average annual return the typical U.S. investor has seen over the last 20 years.

The figure is just 2.47%... down from the 3.5% The Oxford Club reported last year.

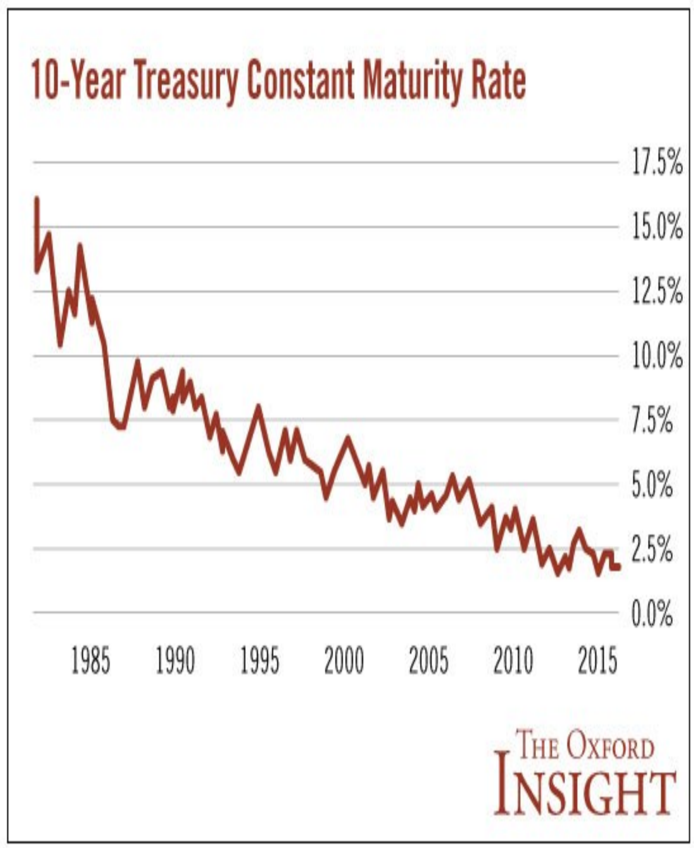
In other words, the trap is getting tighter.

Even in a year when the markets were relatively flat, the average investor lost enough money to drag a 20-year average lower by a significant amount.

Why? What's happening?

According to the Oxford Club, the reason is most folks are getting bad advice. Let’s think about that. The supposed rules of investing have not changed in decades... yet the rules of economics certainly have. Even if you're not convinced of the latter, you have to admit the investing environment has changed.

Another chart will help you here.



Lies that Make Money

The average investor's return has diminished to next to nothing; interest rates have plunged. It's no coincidence.

Worse, rates are now sitting in financial purgatory, awaiting their ultimate fate.

Investors dependent on anything that hinges on rates have been crushed. Traditional ways to slash the volatility in portfolios have become an all-out cancer to investors. Cash, ultra-safe bonds and even traditional income stocks have tempered any chance at outsized gains.

Investors who didn't keep up with the times were cursed with downright unacceptable returns. Sadly, it happened despite certain asset classes climbing by double-digit percentages year after year.

Again, it all hinges on bad advice.

If those investors had cut their risk using a different strategy, they'd be much wealthier (and likely happier) today.

Following the Less-Worn Path

One of the basic tenets of the Oxford Club is to invest by going against tradition. They believe an investor can boost his returns while still keeping volatility at a minimum.

It adds a key variable to the traditional idea of wealth building. It goes beyond which asset classes you own and instead looks at what you do with them. In other words, it's about strategy allocation, not just asset allocation.

It's the idea behind Oxford Club's popular and highly successful Oxford Wealth Pyramid.

To get an explanation of the pyramid go here.

http://oxfordclub.com/the-oxford-clubs-four-pillars-of-wealth/

As the trend dubbed "the death of interest rates" takes hold across the planet, the ideas that make the Pyramid a winning strategy are more important than ever.

Instead of dictating a broad asset allocation and walking away, the Pyramid builds on a properly diversified base portfolio, then expands into more diverse, often faster-moving strategies.

Perhaps the most powerful piece of the Pyramid - as exemplified in the first chart above - is what we call Targeted Sector Assets.

These are the strategies (not necessarily stock-only strategies) that take advantage of the market's most powerful trends. For decades, energy was the leading targeted sector. That is why I myself became involved in a large energy project in Asia. Lately, while energy is still quite powerful (which is why the Club offers several energy-focused services and publications), healthcare has taken the lead.

With the great demographic shift we're seeing, it makes perfect sense.

I have no doubt that healthcare is going to be a leading wealth builder over the next decade. It will remain on the left of the chart... which is exactly why you must have a strategy to take advantage of the situation.

I urge you, if you haven't done so already, to read Oxford Club's in-depth report about the Oxford Wealth Pyramid. When you're done, take another look at the first chart above. Study the successful sectors and use an array of diverse strategies to specifically target them.

When you do, I know you'll free yourself from the curse of mediocrity.

It's not hard... You just need to do something different.

Good investing,

D. Miyoshi

Lies that Make Money

The above quote from George Soros isn't the easiest idea to get one's brain around. Brian Ryle of *Wealth Daily* had mulled it for a long time. He believes Soros isn't talking about outright lies and deceptions. You're not going to make big money by figuring out that inflation data is rigged or that the unemployment rate covers up a lot of people who are unemployed, underemployed, or underpaid.

No, Mr. Ryle has come to the understanding that what Soros is really talking about is how investors interpret and invest in economic trends.

Lies that Make Money

Mr. Ryle's suggests the Internet bubble from 1999 to 2000 as an example. The Internet was growing up fast. Local phone companies were laying fiber-optic cable as fast as they could. Internet retailers were popping up like mushrooms. Computer sales were going ballistic.

And the U.S. economy was enjoying incredible growth. Productivity numbers were incredible and corporate profit margins were ballooning because people could get so much more work done. Documents that once would take a day or two to ship could be scanned and emailed in a matter of minutes...

I don't know how well you remember that period of time. But there were some really amazing predictions being made based on the future of the Internet. Our Fed Chief Alan Greenspan pondered at the time that maybe the U.S. economy would enter a golden age of prosperity where productivity gains would continue far into the future. Fixed costs for businesses would fall as more business was done over the Web. And we'd all benefit as billions of people got online.

Turns out it was all a lie...

Not the Internet part, of course. The Internet itself has grown pretty darn close to how people expected it would 16 years ago. It's everything else that was a lie.

Productivity has not continued to grow. Corporate profit margins haven't, either. More and more business gets done on the Internet, but we definitely do not have a golden age going on...

The Sweet Lies of the Internet

It was we who were lying. Investors, analysts, economists, politicians — we were the ones who created the lie, and we retold the lie to ourselves until we believed it.

This is what George Soros is talking about.

His observation is based on an understanding of how HOPE and EXPECTATION drives stock prices and the market in general. Going back to the Internet bubble example, investors used some really basic back-of-the-envelope calculations to come up with some wild valuations for Internet companies.

It was easy to project huge revenue and earnings growth when Internet use was in its infancy. All you had to do was assume Internet use would triple (true) and that people would spend more and more time online (also true). And so a particular company's revenue would also triple or more in a year or two. I had participated in countless business meetings where the promoters would literally use a cocktail napkin to write out the huge profits that their new company would make in a few years and how investing in their company was a "no brainer"

And obviously, this is the point — where individual companies see massive revenue growth that continues long into the future — that the lie is revealed. Companies just don't grow like that. Neither do economies. Or trends. But when you find companies/economies/trends that are being driven by excessive hope and unrealistic expectations, well, you can make a whole lot of money.

Most recently we've seen the Big Lie about shale oil companies revealed. The lie was that the ever-growing demand and the lack of significant new discoveries would support oil company valuations forever. Wrong. All it took was for the Saudis to boost production, and it all fell apart.

We've seen it with gold stocks. Remember when the Fed's QE was going to unleash Zimbabwe-like inflation, the dollar was going to crash, and gold was going to $5,000 an ounce? Yeah, it didn't work out like that...

There are many, many other examples. Solar stocks in late 2010. Chinese stocks in 2011.

For instance, let's look at a $300 billion company that I think is exhibiting the exact same qualities as these other "lie" stocks...

Yes, we are looking at Facebook

Right now, Facebook is worth $322 billion. You could buy two Disneys with that. Or you could buy Wal-Mart and have $100 left over...

Yes, investors think Facebook is very valuable. And it's pretty easy to make the case that Facebook is worth $300 billion. I mean, it has 1.3 billion people logging into the website every month. If each of those people is worth just $5 a month in ad spending, we're talking about $78 billion in annual revenue.

And Facebook's revenue has indeed been growing at a pretty good clip. In 2013, the company did $7.8 billion. In 2014, it

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hit $12.4 billion. In 2015 it jumped to $17.9 billion. In 2016 analysts say $26 billion, and maybe in 2017 it will do $35 billion. So it's on pace to hit $78 billion in revenue in maybe 2020...

And the thing about Facebook is that its overhead is not that big. Yes, the company invests in its business... a lot. But it doesn't have to spend for each new user it gets. And so margins are terrific and earnings per share grow exponentially, nearly 200% quarter over quarter. That's amazing.

Right now, Facebook is sitting in the sweet spot of the new advertising model. As we watch newspapers die and network TV struggle with advertising dollars, it's like all that money is going right to Facebook and a few other prime Internet sites.

As an ad platform, Facebook seems perfect. People talk about their favorite restaurants, where they vacation, what kind of car they have, clothes they wear, beer they drink, and so on — it doesn't take a lot of imagination to think you can learn just about all there is to know about consumers from the data that comes in on Facebook.

No wonder advertisers are lining up to put their ads on Facebook. It's the Holy Grail of consumerism. At least, so long as those 1.3 billion keep logging into their accounts...

My good friend is an avid Facebook user. He stays connected with friends, family, and his community activities through Facebook. But he deleted the Facebook app from his smartphone because the app was doing some creepy things...

We were taking about something the other night, and then an ad for the very item showed up on his Facebook account. Was Facebook listening? It seems it might have been.

There's a lot of speculation that the Facebook app can access your phone's microphone and listen to your conversations, pick up on keywords, and send you ads.

Hmm, was Hillary aware of this?

You can't call this an invasion of privacy, exactly, because users sign the user agreement and agree to let Facebook do whatever it wants.

Still, I think there's going to be backlash. I don't believe people feel comfortable thinking that companies are spying on them. And that's exactly what Facebook is doing. I think more and more people are going to get bored with Facebook itself and get irritated at its invasive practices.

And I think it's happening right now. This time next year, I believe Facebook will be worth a lot less than $300 billion.

D. Miyoshi

Trumps's Greatest Challenge

After pulling off one of the biggest political upsets in U.S. history, Donald Trump is really riding high….at least for a while.

“A lot of people have laughed at me over the years,” Donald Trump said at a campaign rally in New Hampshire almost one year ago, “but they're not laughing at me anymore.”

Indeed.

Now that Trump has gotten past the Electors and will be officially installed as the 45th President of the United States, many people ask me what is Trump's greatest challenge? Would it be to build the “Wall” and make Mexico pay for it? Is it to destroy ISIS or to revamp Obamacare or just to make America great again?

As Luke McGrath of the *Laissez Faire Letter* stated, “For anyone who started off ambivalent or lukewarm about Trump, this kind of resilience and success is alluring. Like watching someone on a roll at a roulette table, there's only so much winning you can observe from the sidelines before you abandon your misgivings and hurry on over to join them”.

That's what now appears to be going on.

Trump began his campaign a deeply unpopular and divisive candidate, but since winning the election, his approval ratings have gone up week after week (even among independents and Democrats).

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Optimism about the economy is surging, too, with a recent CNBC survey finding that 42% of Americans now believe "the economy will get better in the next year," which represents an "unprecedented" jump of 17 points compared with a survey conducted before the election.

Meanwhile, the stock market, which had been languishing for months and was predicted to plummet if he won, has also taken off.

As far as the economy goes, is Trump all set to prove his doubters wrong yet again?

The Reagan Apprentice

Perhaps the best precedent we have for Donald Trump's unexpected victory is the 1980 election of Ronald Reagan.

There are many similarities between the two: Both were outside the Republican mainstream, both campaigned on reversing a bloated government and both brought their party to heel.

Reagan's plan for economic revival consisted of three parts: tax cuts, decreased regulation and a large increase in government spending. Trump is following in his footsteps. In fact, Trump's economic team includes many of the same people who were instrumental in Reagan's "supply side" revolution: David Malpass, Larry Kudlow, Stephen Moore and others.

But when you look at the economic conditions that prevailed when Reagan came to power, you quickly realize that Trump has inherited a very different economy.

Trump's Unenviable Inheritance

In a recent issue of *Strategic Intelligence*, Jim Rickards went over many of these stark differences between the early 1980s and today.

"Interest rates were 20% and inflation was 11.83% in January 1981 when Reagan was sworn in," Rickards notes. "In effect, interest rates and inflation had nowhere to go but down." Contrast that to today: Interest rates are at record lows, between 0.25–0.5%, and inflation is also very low, around 1.5%.

Debt-to-GDP — that is, how much government debt there is relative to economic output — was 31% in 1981. Despite his image of being in favor of small government, Reagan ran up the tab, and by the time he left office, this figure had increased to 49%. Today, however, debt-to-GDP stands at a whopping 105%. But even that statistic is misleading because it doesn't include all the unfunded liabilities of Medicare, Medicaid and so on. Add those obligations in and you quickly realize that "the U.S. government is effectively bankrupt," says Rickards.

"Trump's economic team includes many of the same people who were instrumental in Reagan's 'supply side' revolution."

What this all means for Trump is that, unlike Reagan, it's highly improbable he'll be able to enact key parts of his vision.

Making America Great Again… Does Not Come Cheap

Trump wants to spend big on things like infrastructure, border protection and the military. But the question is: How's he going to pay for it? Taxes aren't going up. We're getting tax cuts, remember.

Well, how'd Reagan do it?

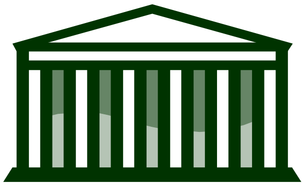
Reagan "financed his debt expansion the old-fashioned way," said investor Peter Schiff in a recent article. "He sold long-term government debt to private investors." But times have changed.

It's hard to believe today, but back in 1982, you could lock in a 14% annual return by buying a 30-year government bond. Yes, inflation was higher back then, but inflation fell over time, and so too did interest rates. The result was that bond investors ended up making a killing.

Today, purchasing a 30-year government bond will earn you less than a 3% return. Add in annual inflation of 2% and your effective yield drops to about 1%. Inflation, then, has to tick upward only a smidgen for you to earn a negative yield. Rising interest rates would also see you lose money on these bonds.

So as a voter, you may love Trump's spending proposals — but how keen are you as an investor on the idea of lending your life savings, with no real expectation of a return, to help pay for them? You don't need to read *The Art of the Deal* to know you'd be getting screwed. And if you are not going to cough up the cash, who will?

Trumps's Greatest Challenge



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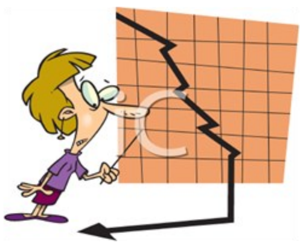

Financial Crisis Report

David M. Miyoshi is a California attorney with a Martindale-Hubbell AV Preeminent Rating for Attorneys. He earned his 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 Managing Attorney of Miyoshi Law, an International Law Firm where he approaches legal issues through a commercial lens and is a trusted legal and business advisor to his corporate and estate clients. In military service in Vietnam, he led a Combined Action Platoon as an officer in the U.S. Marine Corps and received the Naval Commendation Medal with "Combat V".

He appears in 14 Who's Who publications throughout the world and is listed as a specialist in international business, real estate and estate planning.

"In the recent past," notes Schiff, "the big buyers [of government bonds] have been central banks in China, Japan and Saudi Arabia."

But for a number of reasons, including the fact that the U.S. dollar is at record highs (meaning that if the dollar were to fall, foreigners would lose money on their U.S. dollar-denominated bonds), we shouldn't count on these central banks stepping in to save the day. Hedge funds and pension funds need to make decent returns, so they'd also seem unlikely buyers.

So unless Trump wants to finance the country on his own dime (which would buy us a solid 48 hours to brainstorm alternative benefactors), that really only leaves the Fed.

The Fed, however, already has over $4.5 trillion in Treasuries on its balance sheet. Of course, it can add to this and purchase more government debt — but it can only pay for it with ever-greater quantities of money hot off its printing press.

If Trump embarks full speed ahead on his deficit-financed spending plans, then he will only hasten a financial reckoning day: inflation, a currency devaluation and, even though it's "the last thing on anybody's mind," a sovereign debt crisis, according to Rickards.

Laissez Faire contributor David Stockman knows a thing or two about all these concerns. He was Ronald Reagan's very own budget director and recently wrote a book about Trump and America's economic woes. He welcomed Trump's victory, but he also realizes the magnitude of what Trump must contend with.

"Here's the problem in a nutshell," Stockman said recently. "Donald Trump does not have the freedom to pursue huge deficit-financed tax cuts like Reagan did. After 35 years of pretending deficits don't matter in the Imperial City, there is no fiscal headroom left. None… Trump is walking right into a fiscal trap."

"I don't know who's explaining this to [Trump]," Rickards told his subscribers in a recent live briefing, "but sooner than later, someone's going to sit down, probably David Malpass, and say, 'We're a lot more constrained here than you think.'"

Crashing the Party

So what about the booming stock market?

On December 14, the Fed raised interest rates by 0.25%, which is only the second time in a decade. The Fed predicted it would raise the rates 3 more times in 2017. This will be a damper on the markets and, similar to what occurred in January 2016 when the Fed appeared to be on a rate hike path, Rickards thinks we may see stocks fall 10% very soon (on the final trading day of 2016, Dec 30, the DOW had still not surpassed 20,000 after many attempts).

But looking to the extended future, Stockman is far more bleak: "What's actually coming is a fiscal bloodbath." His advice for investors is to "head for the hills with all deliberate speed," because he believes that in 2017, "the greatest financial bubble of this century will blow sky-high."

If this were to occur, it's anyone's guess how the new president would respond. But no matter what he does, we can be sure Trump will have gotten one thing right: At this point, nobody will be laughing.

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