



# Financial Crisis Report

Written and Edited by David M. Miyoshi

## Advancing in a Time of Crisis

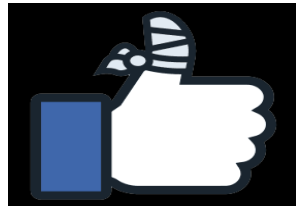
**Words of Wisdom: "Don't take life too seriously. You'll never get out of it alive." Elbert Hubbard**

Inside this issue:

1. What Happens when we lose Face....Book
2. What Makes Bad Investors Good Investors
3. Is Tesla Out of Power?
4. How to Profit in a Down Market

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.

### What Happens when we lose Face....Book



In Japan (and some other Asian cultures), the concept of "face" (mentsu) is a core part of one's identity. For example, if you were to disagree with someone in public, you could cause them extreme embarrassment and thus make them "lose face" (mentsu wo ushinau). On the other hand, something that builds up a person in front of others can be said to "give face" (kao o tateru). The VIP treatment that Japanese are so good at giving to guests and high-ranking people can be seen as an example of "giving face."

The desire to avoid causing the loss of face for oneself, one's organization, or for others can be said to be the motivation behind many things that Japanese organizations do that are puzzling to Americans. For example, the Japanese companies' reluctance to admit mistakes or discuss problems publicly (i.e. the Toyota engine failures to shut off and the Takata air bag problems). And the times Japanese executives avoid expressing disagreement with their boss, even when they sincerely believe the boss is wrong. Or when the executives stationed overseas avoid criticizing the Japanese parent company even when, in the eyes of American employees,

the criticism is clearly deserved. The persistent fear of causing or incurring loss of face is behind these otherwise inexplicable behaviors.

This instinct to preserve face is something so ingrained in Japanese culture that many Japanese are not conscious that it influences their behavior. It's not something that Japanese often talk about – it's just that when they sense it, the warning bells automatically start to flash.

"Face" was not a concept that was expressed in English before westerners encountered the Japanese and Chinese cultures in the 19th century. American and other western cultures tend to emphasize straightforwardness -- "telling it like it is" and "calling a spade a spade." Worrying about someone's feelings – which is basically what "face" is -- is not something of first priority in western business culture. Rather, the facts and truth are given the highest degree of emphasis, with feelings having a more subordinate concern. However, what many Americans fail to realize when working with Japanese, is that failure to pay attention to matters of face can cause such offense that it may completely sour the business relationship. In other words, in Asian cultures feelings truly are important.

In American culture, there is an underlying assumption of equality, that even people of different ranks are basically the same and should be treated in a similar way. Thus, even someone who is higher in the hierarchy is someone who is ok to disagree with.

Essentially, in Western cultures "face" has more of an express physical meaning. For in-

## What Happens when we lose Face.....Book

stance, colleges and universities in the United States have often published official or unofficial books listing their students, faculty, or staff, together with their photos and limited biographical data. These are called “face books”.

In early 2004, Mark Zuckerberg, a sophomore at Harvard University, created an unofficial online face book at the website "thefacebook.com," (the forerunner of the Facebook service), out of frustration that the university's official online face book project was taking too long. The development of a campus-wide face book had previously been stalled by privacy concerns, many of which became prominent in November 2003 when Zuckerberg was accused of breaching security and violating copyrights and individual privacy. Zuckerberg had created a website, www.facemash.com, that used photos taken without authorization from Harvard House-based face books, using the photos in a system to rate the attractiveness of students.

From “checking out the cute chicks” to a multibillion dollar company that stores data on more than 2 billion monthly active users, Facebook has come a long way in a short time. Its popularity has led to prominent media coverage for the company, including significant scrutiny over privacy and the psychological effects it has on users. In fact, in recent years, the company has faced intense pressure over the amount of fake news, hate speech and depictions of violence prevalent on its services, all of which it is currently attempting to counteract.

And now it’s facing a possible anti-trust action by the Federal government.

But until mid-March, it was hard to make the case that any tech companies should be broken up on antitrust grounds.

Google? Gmail is free and Google’s search engine is the most popular in the world because it helps people find what they’re looking for.

Apple? Show me a Mac user who won’t shut up about how great they are.

And Amazon? What’s so bad about low prices and 24-hour delivery?

Facebook, though, has changed the antitrust case against tech. Instead of talking about the services these companies provide us

(many of which appear to be free, not including your time and data), the conversation is now about the vast troves of data these companies are accumulating from us.

In mid-March the *New York Times* broke the story how the data of 50 million Facebook users was captured and used without their consent by Cambridge Analytica as part of an effort to ensure Donald Trump won the 2016 election. That was a “Watergate” like moment for Facebook. (as a matter of fact, the actual number of Facebook users whose data was used without their knowledge was subsequently confirmed at 87 million).



In mid-April Zuckerberg faced 44 U.S. Senators at a grueling congressional hearing in which for the most part he emerged mostly unscathed, despite some verbal fumbles. It was a mea culpa when he stated “We didn’t take a broad enough view of our responsibility, and that was a big mistake. It was my mistake, and I am sorry.” On the second day of testimony, Zuckerberg admitted that Silicon Valley is an “extremely left-leaning place” and when asked about Facebook censoring the page of the pro-Trump duo Diamond and Silk, Zuckerberg said “our team made an enforcement error and we have already gotten in touch with them to reverse it.” When contacted about Zuckerberg’s statement, Diamond and Silk said they were not contacted. If Zuckerberg lied, it would be a serious blow to the credibility of Facebook.

When asked whether Facebook was a platform or a publisher, Zuckerberg made another critical admission when he replied Facebook was a publisher responsible for content. This subjects Facebook to immeasurable liability for showing content that may cause damage or is unauthorized for publication. The attorneys at Facebook should be having fits over this recognition.

In the final analysis, people are beginning to realize that Facebook is a giant data mining operation. You provide the content. You give the company permission to access your phone calls,





## What Happens when we lose Face....Book

your text messages, and reams of other data generated by the apps you've installed on your phone. Facebook sells it.

Is that unethical? Is that illegal? Can voters or consumers be manipulated into making decisions that *The New York Times* does not approve of (voting for Donald Trump, for example) all because of Facebook's data policies? The public seems to think so.

A poll commissioned by media company Axios shows that Facebook's favorability fell by 28% from October 2017 to March of this year. It was the largest decline of any of the techs. Barely a third of the American public has a "favorable" view of Facebook. Apple, Amazon, Twitter, Google, and Microsoft also fell, but retained largely favorable ratings.

Facebook has attempted to soothe the public's ruffled feathers by reminding people that sharing your call history and text messages is something you agree to when you use Facebook's services.

If you don't want to share that data – or have it sold – you can opt out... all of which sounds reasonable enough. Consumers *do* have a choice in what technologies to use and what permissions to grant the services they patronize.

What has changed is our perception of Big Tech. We used to see it as a liberating instrument of communication, information, and individual expression.

Now, we see institutions that have lobbied successfully for a light regulatory and tax treatment to build vast databases of information, as companies who want to manipulate us.

Is this behavior harmful to consumers?

In late March, the Federal Trade Commission (FTC) announced an investigation into Facebook's privacy practices.

According to *The Wall Street Journal*, attorneys general from 37 different states have demanded that Facebook explain its privacy practices. This could be the precursor to fines, regulations, or class-action lawsuits... all of which could be very damaging to Facebook's reputation and share price.

But even if Facebook violated its own policies on sharing data, it's not clear whether it has broken a federal law or engaged in anti-competitive practices. However, this could be a sign of

things to come.

### Tech's Threat to the Bull

This is where the real damage may happen. Breaking up the Big Tech companies or regulating them as if they were public utilities would be disastrous for their bottom lines.

And Big Tech stocks have been some of the best performers of this bull market. *The Wall Street Journal* reported that, as of March 12, Facebook, Amazon, Apple, Microsoft, and Alphabet (Google) had accounted for 45% of year-to-date gains for the S&P 500.

A momentum market is happy to reward tech companies with rich multiples on earning and sales, especially when their audience is growing and the press is good. But as thousands, and then millions, abandon the popular tech platforms, the story will change. Buyers will become sellers.

You'd expect to see a change in the leadership of the stock market at the very least. But it's more likely that the tech stocks will lead the sell-off in the market. The February lows will be retested. We'll go from correction to crash.

Why?

Passive investing through index-tracking and exchange-traded funds have led to a lot of lazy buying of momentum stocks. Big Tech stocks have gotten bigger on a market-cap basis and have taken the indices with them. As Silicon Valley faces its day of reckoning, the market will pay the price, too.

### Swamp Gets Swampier

It doesn't help that the #techlash is happening at the same time that the U.S. government is auctioning off \$294 billion in debt.

That's the highest amount of bonds and notes for sale since the financial crisis in 2008. And it comes as the Fed is talking about raising interest rates and ending its bond purchase program (quantitative tightening).

What's more, the feds tacked on a trillion dollars in new debt in the last six months alone.

The U.S. government debt-to-GDP ratio is now 105% (the all-time high was 119%, after five years of World War on two fronts). After years of record-low interest rates and a nine-year stock market boom, the nation's debts are spiraling out of con-



## What Happens when we lose Face....Book

trol.

Spending is, too. In the 2,300-page omnibus funding bill that a Republican Congress passed and a Republican president signed, there was an increase in defense spending (now over \$700 billion per year) and an extra \$200 million for the IRS to simplify the tax code!

Can you smell the swampy methane? The swamp just got swamplier.

### Wealth Strategy

The point is Facebook's public relations data debacle may be the perfect catalyst for the stock market crash we've seen coming. Tech will lead. Everything else will follow. And the stock market crash will usher in the recession, along with the help of rising rates from the Fed.

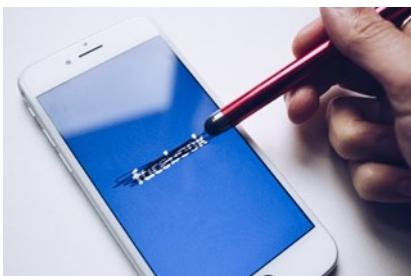
So what should you do now?

Investors need more than just a stock selection strategy or investment philosophy. You need a total wealth strategy that diversifies our portfolio and manages your risk by investing your money in five distinct asset classes: stocks, bonds, real assets, cash, and cryptocurrencies.

If you're not an investor, you can – and should – still do something such as deleting your Facebook account and definancializing your life by converting your investments into more safe and liquid sources.

More importantly, it gives you freedom – a quality that's getting harder to find in American life.

### The loss of Facebook



Encyclopaedia Britannica was replaced by Wikipedia.

Most of the world's libraries are being usurped by Google.

Mobile apps like WhatsApp, WeChat and LINE are shoving out landline and cell communications all over the world.

Also in jeopardy: Facebook, Twitter and other social media platforms.

### Facebook's Disclosed Breach

Facebook's most recently disclosed breach, impacting over 87 million users, already has most of the world up in arms.

According to Dr. Martin Weiss users are deleting their Facebook accounts. Investors are dumping Facebook shares. And widely read editorials, like Thomas Friedman's in Tuesday's *New York Times*, are saying that the only solution is "moral leadership."

The great hope is that decision-makers at centrally controlled organizations like Facebook will somehow rise to the occasion and do the right thing for their customers.

Indeed, that's what Facebook CEO Mark Zuckerberg seems to have promised when he apologized for this scandal.

He will remain ever more vigilant. He will crack down on other apps that may cause similar leaks. He will take action against any use of private information that Facebook deems "illegitimate."

"Yes!" responded the diminishing crowd of loyal users. "We should all be so lucky! Facebook will protect us."

But, what, in essence, does this so-called protection entail? The answer...

### Censorship!

We're talking about broad, oft-arbitrary, computer-driven censorship — all in the hands of central decision-makers.

They, and only they, are the self-anointed "lords" of social media.

They alone have bestowed upon themselves the right to silence, marginalize and exclude anyone from the forum of public debate.

Trouble is, in today's digitalized world, the overwhelming bulk of all conversations and debates happen on one social media platform or another. So, to be shut out from online discussions is the ultimate in censorship. You lose your voice. Period.

Moreover, all of the big social media platforms are run by private, for-profit, centrally controlled corporations, empowered to make all the important decisions.

### What About the Billions of Social Media Users?

For the most part, they are not really the customers. They're *the product*.

And it's big. Social media giants like Facebook — along with search engine giants like Google — hold the keys to terabytes of



## What Happens when we lose Face.....Book

private user information.

They are all too willing to use that wealth of information to shape public opinion and perception. They are empowered to decide what we see. They decide what we *don't see*.

And this ultimately gives them the means to lead people to believe what they *want* people to believe.

## What Else Do They Do With All This Private Information?

They sell it. That's their business. That's what they do.

Unsuspecting users reveal detailed, personal information. This data is then compiled with hidden, "proprietary" algorithms. And it's sold to virtually any company willing to buy it.

Most of it is for commercial use, and most users grudgingly accept that. Companies use the data to more precisely target their ads to the most likely prospects for their products.

"OK, OK," say most users, thinking they have no other choice.

But private info can also be used for politics. And among some political data firms, the mission is often an unabashed nose-thumb at a country's best interests.

The "research firm" buying the data could have ties to a rogue government. That government would acquire the data with the sole purpose of shaping public opinion and interfering with democratic processes. Or worse.

That is, indeed, a big problem.

The solution, however, is not more censorship. Nor is it the naive expectation that decision-makers will somehow find the correct "moral path."

What, then, is the solution? Before we answer that question, here are some basic no-nos with their logical consequences...

- Let social media platforms slide down the slippery slope of censorship, and, in many parts of the world, it won't be long before they morph into propaganda machines for the state.
- Build handy tools that enable central governments to intrude into the private life of their citizens, and some of them will do just that.
- Store a wealth of private information about millions of users in one central location, and sooner or later, someone or some government will get their grubby hands on it, use it for nefarious ends and wreak havoc.
- Build all the protective barriers you want. Firewalls. Moats with alligators or swamps with dragons. It doesn't matter. As long as the data *itself* is centralized and unencrypted, there *will* be leaks. The data is a pot of gold. Some "genius" will always find way to get to it.

## That's Where Crypto Comes In



The fundamental issue — the core reason we've witnessed so many data breaches impacting so many millions of users — isn't necessarily that companies are amoral or negligent.

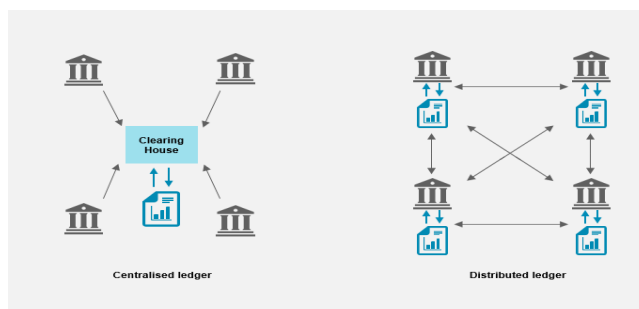
It's primarily because their business model is built on centralized databases, and it will be almost impossible for companies like Facebook to change that model.

Their databases are controlled by a single, central authority. Maybe a corporate board. Maybe a chief executive officer (CEO) or chief technology officer (CTO). Perhaps a cabinet secretary or central banker.

That centralization is the true root of the problem.

So, it follows that the only truly viable, long-term solution is decentralization. Decentralized databases!

The technical term is "Distributed Ledger Technology" (DLT) — a secure, encrypted database shared across multiple users, companies or countries.



And *that* is what cryptocurrencies and their platforms are all about.

## The Crypto Revolution

In a world where DLT is mainstream, data breaches are virtually impossible. Each user holds the key to all of his or her private information. No government or corporation gets access.

This information isn't limited to "likes" on Facebook, shopping patterns on Amazon or images on Snapchat.

It also includes each individual's medical records, ID, voting records or even DNA. If you store your personal information

## What Makes Bad Investors Good Investors?

with DLT, no CEOs, CTOs or government officials can lay their hands on it.

Only *you* can access your data.

With DLT, social media platforms no longer need to rely on advertising models that encourage them to spy on their users.

Private information is not stored in a central location, so it cannot be stolen. It cannot be used by adversarial governments to mount cyberattacks or interfere in election processes.

To pursue any of those missions, they would need to hack into each and every computer of every individual user, a virtually impossible feat.

We know because we have solid, real-world evidence that it's impossible to hack into the bitcoin network, which uses the same technology. It will be equally impossible to hack into the private records of tens of millions of users.

A pipe dream? No. These technologies are being built *today!*

That's the crypto revolution. And it has barely begun.

Here is to your successful investing in this pioneering technology.

D. Miyoshi

## What Makes Bad Investors Good Investors?



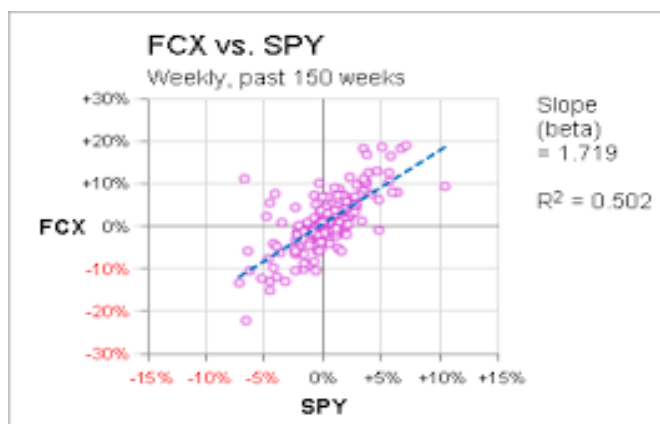
One takeaway from the MBA course at Harvard is “to be profitable, one must manage risk.” This is why the best business ever conceived is insurance because it's very product is the management of risk.

Now, if I were to apply that maxim to investing to derive the single most important technique in buying and selling stocks, it would be what Porter Stansberry, of *Stansberry Research*, one of my favorite financial consultants is always advising his clients to do. That is, to use risk adjusted position sizing when investing in stocks.

For many years, Stansberry saw that almost all of his company's best-performing investments are low-risk. That means these were investments in big, dominant, slower-growing businesses with good balance sheets and brands.

These stocks have a few standout *quantitative* traits aside from these qualitative basics that can help you identify them in advance. First, they pay good dividends and have a long history of growing those payouts over time. And second (and this is far less understood by most investors), *their share prices aren't volatile*. Their stock prices tend to move around *a lot less* than the market as a whole. That's because they have a stable cohort of investors who own the company – investors who are unlikely to sell.

Academics measure this advantage by comparing the daily volatility of a company's share price with the volatility of the S&P 500 Index, which is made up of the 500 largest publicly traded companies in America. (This is called "beta.") Stocks with a volatility equal to the S&P 500's average are awarded a volatility score of "1."



That is, the volatility of these stocks is perfectly correlated with the



## What Makes Bad Investors Good Investors?

market as a whole. Stocks that move around more have higher betas. So a company that is 50% more volatile than the S&P 500 would have a beta of 1.5. A company that is two times more volatile than the S&P 500 would have a beta of 2, and so on.

But don't let the math or the Greek letter (beta) intimidate you.

There's nothing hard to understand about the idea that high-quality, dividend-paying businesses, which are more likely to do well over the long term, are more likely to have dedicated investors who aren't constantly trading in and out of stocks. As a result, the share prices of these businesses will tend to move around a bit less – or even a lot less – than the average large company in America.

Sure, you can sometimes find a few – a precious few – big winners, like Stansberry's associate Steve Sjuggerud's original recommendation of Seabridge Gold. But over roughly the last 20 years, the overwhelming majority of Stansberry's best recommendations have always been low-risk (and low-volatility) stocks. If you look at the list of his current "Top 10" – the top 10 best performing recommendations that are currently in one of his model portfolios – you'll find that only one has a volatility rating that's materially above the average volatility of the S&P 500.

Most of these stocks have betas that are much lower than the market as a whole. McDonald's, for example, has a beta that is roughly *half* the market's average (0.63). Likewise, Automatic Data Processing (0.85), Altria (0.86), and Hershey (0.81) are extremely low-volatility stocks. This is numerical proof of the steady nature of their businesses and the "wise hands" that own the shares. These are the folks you want to invest alongside.

While Stansberry has known about this concept for a long time, he didn't have firm *proof* that applying these ideas to actual investor accounts would make a substantial difference in performance. But

now he does.

At Stansberry's recent conference in Las Vegas, *TradeStops* founder and associate of Stansberry, Dr. Richard Smith revealed a fascinating study he had just completed using actual investor accounts. The study was done on 40 real-life investor accounts, some of which contained total assets in the millions of dollars. Dr. Smith put together a group of 40 real-life portfolios – real buy and sell data from real investors. He asked his team to back-test all of their different stop-loss and position-sizing strategies against these real portfolios to see which of their tools made the biggest difference in performance... And he was amazed to see that there was one tool that improved investment performance more than anything else: volatility-based position sizing. Therefore, if you only ever pay attention to one thing that Stansberry has to say, this is it – use volatility-based position sizing.

What exactly is volatility-based position sizing?

It's using the volatility of a stock to determine how much of it you should own relative to your portfolio. The goal is to have the same amount of risk in every stock you own. To accomplish that, Dr. Smith built an algorithm that determines the total volatility of your portfolio and then tells you how many shares to buy of a given stock so that your portfolio is "risk-weighted," with each position carrying the exact same amount of risk.

It sounds complicated, but it's simple: The formula just makes sure you don't buy too much of a risky stock, and helps you buy more of the high-quality, safe stocks that Stansberry recommends. It allows you to buy the kind of "story" stocks that investors are always attracted to, while making sure you don't risk too much in those kinds of ideas.

To back-test the strategy, Dr. Smith took the 40 investor portfolios



## Is Tesla Out of Power?

and figured out how much of each stock these investors would have bought if they had built risk-weighted portfolios instead of using their actual allocations. Just making this one change – *just changing the amounts of shares they bought* – almost doubled the average returns of the portfolios he studied.

Dr. Smith didn't change the stocks they bought. He didn't change when they bought or when they sold. He only changed the relative amounts of each investment. And just making that one change saw the average return go from 6.7% to 12%. No other form of portfolio management – not even smart trailing stops – made as big of an impact.

Why did causing investors to focus on volatility work so well?

Because volatility (as measured by beta) is a great indicator of risk. Colleges still teach that in the financial markets, risk equals reward. That might even be true in a lab setting. But it's not true at all with real live human beings. Most investors who set out to practice "buy-and-hold" investing end up doing "buy-and-fold." That is, they end up selling at precisely the wrong time... when fear in the market is peaking.

Therefore, the single most important step you can do in investing in stocks is to calculate your position sizes by knowing the beta of your entire portfolio and adding new positions only by equalizing the risk of each new stock. Just by doing that, you will likely double your average annual return.

Here is to your profitable investing.

D. Miyoshi

## Is Tesla Out of Power?



**W**e have all heard of Tesla and its iconic founder Elon Musk. They comprise one of the greatest success stories in American history. But we have also heard the saying "all good things must come to an end"

Is Tesla coming to an end?

Tesla makes more electric vehicles (EVs) than any other U.S. company. That puts it at the forefront of the EV revolution, one of today's biggest megatrends.

Because of this, Tesla's been one of the hottest U.S. stocks. Its share price surged more than eightfold between the start of 2013 and this past January. By comparison, the S&P 500 gained 95% during that same period.

This epic run turned the company into a household name. It made Tesla one of America's most sought-after stocks. Everyone started buying it.

But Tesla has never turned an annual profit, has never paid a dividend, and has racked up cumulative losses of nearly \$6 billion since 2010.

Which, of course, begs the question... why is the company trading at nearly \$300 a share?

Because CEO Elon Musk is a genius, a visionary, and a pied piper.

He is capable of rallying investors around his vision of the future.

Recently, for example, Tesla "leaked" a memo outlining plans to



## Is Tesla Out of Power?

boost Model 3 production, to add a third shift at the company's Fremont assembly plant, and to hire roughly 400 folks a week for several weeks running. And, not surprisingly, the stock jumped in early trading.

Here's the thing.

Many investors believe he is the single most innovative and visionary executive on the planet. Even the smallest rumor that he's interested in an idea is enough to send competitors packing.

It doesn't matter whether you're talking about solar power, rocket ships, or tunneling machines. If Musk is interested, you can take that to the bank. Earlier this year he stopped taking orders for a \$500 flamethrower after selling 20,000 units... a flamethrower!

To call Musk a provocateur would be an understatement.

Still, the first rule of investing is never, ever, fall in love with an asset.

Frankly, Tesla's stock is a train-wreck...

... Conventional metrics do not apply.

... Moody's rates Tesla bonds junk.

... Tesla is the single most shorted stock on Wall Street, according to Institutional Investor's alpha.

... Tesla is funding debt and losses via dilution.

... Competitors are catching up.

... The government's tax credits are burning off for Tesla buyers.

News stories aren't helping, either.

... "Model 3 Production Line Skids to a Halt for Tesla" - *Bloomberg*

... "Tesla's Cash Crunch Will Intensify As Model 3 Production Shuts Down Again" - *Forbes*

... "Safety Investigators Boot Tesla from Probe into Fatal Crash of SUV on AutoPilot" - *USA Today*

... "Tesla Employees Say Gigafactory Problems Worse Than Known" - *CNBC*

Paul Price, writing for *TheStreet*, even went so far as to liken Tesla

shares to \$300 lottery tickets!

So many Tesla shareholders now have buyer's remorse. And that's because Tesla's stock is in free fall. Just look at this chart.

### Tesla (TSLA)



CASEY RESEARCH

Source: Bloomberg

Tesla's down 23% since September 2017.

• **After a plunge like that, many people are probably tempted to buy Tesla...**

And I can understand why. After all, "buying the dip" has been a brilliant investing strategy for the last few years. But, according to Justin Spittler of *Casey Daily Dispatch*, it won't work this time.

Tesla's stock will keep falling from here. It could even be the canary in the coal mine for the rest of the U.S. stock market.

Let's look at why Tesla's stock is plunging...

• **In late March, Moody's downgraded Tesla's credit rating...**





## Is Tesla Out of Power?

The credit rating agency now rates Tesla’s debt as B3, down from B2.

That’s seven notches below investment-grade.

That’s a big deal. It means that it will soon become a lot more expensive for the electric car maker to borrow money. And that’s the last thing Tesla can afford.

You see, Tesla’s already paying nearly \$600 million per year just to service its debt. That amounts to about \$4,884 for every car the company has sold.

The company’s also burning through about \$6,500 in cash every minute. At this rate, the company will be out of cash by November.

But that’s not the only problem Tesla’s facing right now. In late March, one of its Model X vehicles caught fire after a fatal crash into a highway median in Mountain View, California. Even worse, Tesla recently admitted that its autopilot system was active during the accident.

In late April Musk closes the Model 3 factory a second time for re-tooling and to reduce the number of robots.

### • In short, a tsunami of bad news has hit Tesla...

But this storm didn’t come out of nowhere. In fact, regular readers have known about Tesla’s troubles for months.

Last October, Spittler said Tesla’s shareholders would be in for a “rude awakening.” In November, he explained why Tesla could soon burn through all its cash. Then in January, Spittler explained why Tesla’s share price could hit zero. And he urged readers to avoid Tesla at all costs.

Spittler says this because a lot of folks still think that Tesla is a great

investment.

That’s because Elon Musk is telling them that everything will be fine. In fact, the company recently said that “Tesla does not require an equity or debt raise this year.”

Tesla’s stock rallied 20% on this news. But these investors will soon find out that they’ve been suckered...

You see, Tesla has a nasty habit of breaking its promises to its shareholders. For instance, Musk said in February 2012 that “Tesla does not need to ever raise another funding round.”

Since then, the company has held seven capital financings to the tune of nearly \$9 billion.

### • In other words, Tesla doesn’t just have a credit problem...

It has a *credibility* problem.

At this point, Spittler says you’d be a fool to believe anything the company says. So, continue to steer clear of this stock.

Spittler also encourages you to take a hard look at the rest of your portfolio. Tesla may be the poster child for everything that’s wrong with today’s market. But it’s not the only U.S. stock that’s out of touch with reality.

These days, many stocks trade at sky-high valuations despite losing huge sums of money and being leveraged to the gills.

It’s totally absurd. But this is what happens in the final innings of bull markets.

Investors throw caution to the wind. They believe that nothing can go wrong. But as we just saw, a lot can go wrong very quickly.



## How to Profit in a Down Market

So be sure to take precautions today. Here's how you can do that without jumping out of the market completely...

- **Get rid of any "story" stocks that you own...**

These are companies that have been bid up to ridiculous valuations because they're pioneering a new technology... NOT because they have solid fundamentals. In other words, they're overhyped.

At this stage, you'd be much better off investing in proven companies. Spittler is talking about businesses that have rewarded shareholders through any environment, also known as Dividend Aristocrats.

These are companies that have increased their dividend payouts for 25 consecutive years or longer. You can find an updated list of these companies under *S&P 500 Dividend Aristocrats* in Wikipedia.

I follow Spittler like a hawk. I can say he knows what he preaches. And so I listen to his sermons.

Here is to your good investing.

D. Miyoshi

## How to Profit in a Down Market



**T**his is a follow up article to my article on *What Makes Bad Investors Good Investors*. In that article I wrote that the best business ever conceived is insurance because it's very product is the management of risk.

Well, how can a private investor benefit from the level of risk that is currently being perceived in this choppy stock market?

March Lichtenfeld, Chief Income Strategist of the *Oxford Club*, of which I am a member, gives us some good insight on why an option contract can be a very profitable investment in times like this.

"Life is expensive." Some of us can feel that pain.

In the case of Lichtenfeld, despite being with his insurance company for six years with no claims, his rate more than tripled!

The culprit? A new 16-year-old male driver in his family.

Like many of you, he has auto insurance, life insurance, homeowner's insurance and a few others. Insurance companies make a lot of money off of him, you and me.

As I wrote before insurance is a great business model. People pay insurance companies to protect themselves from scary things, which don't happen for the most part. And if those bad things do happen, enough people avoid misfortune that the insurers still make money, even after paying out to the few who did have a problem.

There are a lot of skyscrapers in big cities with the names of insurance companies on them. The New York Life building in Manhattan. The Transamerica Pyramid in San Francisco. The Willis Tower (formerly Sears Tower) in Chicago.

In other words, insurance companies make a lot of money.

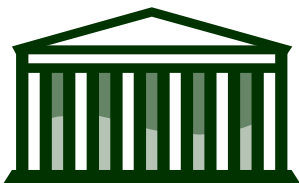
When it comes to your money, you can replicate the insurance companies' business model.

Here's how...

Some investors, worried about a decline in the market or their individual stocks, buy insurance on those stocks. This insurance is a put option.

Puts are small bets that the stock will go down. If it does, the

## How to Profit in a Down Market



Advancing in a Time of Crisis



### 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.**

owner of the put makes money, partially or completely offsetting the loss in the stock.

For example, an investor buys 100 shares of Facebook (Nasdaq: FB) at \$159. They are concerned that the stock could fall, so they want to hedge their bet.

They buy insurance in the form of a July \$150 put. That means if the stock drops to \$150 or below by the third Friday in July (options usually expire the third Friday of the month), the owner of the option has the right to "put" or sell their stock to the seller of the option at \$150.

Even if the stock craters to \$100, they can sell their stock at \$150, minimizing the loss. Or, if they want to hang on to their stock, they can sell their put at a profit and keep the money, offsetting the paper loss on their stock.

But what happens if Facebook doesn't drop to \$150?

The seller of the put keeps the money. Just as the insurance company keeps your insurance premium every year your house doesn't burn down.

So, to replicate the role of the insurance company, conservative income-oriented investors can be the sellers of puts.

As the put seller, you collect the income that the put buyer pays to protect their investment. If the stock does not fall to the agreed-upon price (called the strike price), the seller keeps the money.

If the stock falls to or below the strike price, the

seller can either buy back the put (possibly at a loss) or buy the stock at the strike price (if the put buyer demands it; it's up to them).

For that reason, you should sell puts only on stocks that you want to own at the strike price (which there are plenty).

In the Facebook example, you would sell the July \$150 puts only if you were comfortable buying Facebook at \$150. If you do not want to own Facebook at \$150, you would not sell the put.

It's just like how an insurance company won't insure a house in Florida near the ocean or one in California on a fault line.

Selling puts can generate hundreds or even thousands of dollars per month in income.

Best of all, it is a conservative strategy. Insurance companies don't like to take risks. The put seller doesn't either.

Why try to reinvent the wheel? Be the insurance company and make tons of money.

And if you can give Lichentfeld a break on a policy that covers his 16-year-old son, he'd appreciate it.

Here is to your profitable investing.

D. Miyoshi



1055 Wilshire Blvd.  
Suite 1890  
Los Angeles, California 90017  
U.S.A.

Phone: 310-378-0615  
Fax: 310-378-0000  
E-mail: david@miyoshilaw.com  
www.miyoshilaw.com  
<http://about.me/dmiyoshi>