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Financial Crisis Report

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Advancing in a Time of Crisis

Words of Wisdom: "Easter is the only time when it's perfectly safe to put all of your eggs in one basket." Evan Esar



HAVE A HAPPY EASTER!

War.....with China

Trump Started This Trade War Last Summer

Trump placed tariffs on steel and aluminum earlier this month. China, of course, is the world's largest producer of both.

As I write this article on March 22, the eve of the implementation of Trump's tariffs, the DOW is down more than 720 points. In the past week, the market has been quite volatile, indeed. This is a message to all of us.

The mainstream press called the tariffs "unexpected." But they didn't come out of nowhere.

Last month, Doug Casey of *Crisis Investing* told his investors that steel and aluminum tariffs were likely and that they would lead to a trade war.

Actually Trump fired the first shot in this trade war last summer, when his administration launched an investigation against China using Section 301 of the Trade Act of 1974.

This rarely used provision allows Trump to "take all appropriate action... to obtain removal of any [trade] practice that is unjustified, unreasonable, or discriminatory, and that burdens or restricts US commerce."

Traditionally, World Trade Organization (WTO) members, including China and the US, have settled trade disputes through it. But Trump, using Section 301, has taken a unilateral approach.

The Financial Times describes it like this:

Under the 301 statute, which has not been widely used since the 1995 creation of the WTO, the US would in effect act as judge, jury and executioner on any grievance that it identifies.

Inside this issue:

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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.

"The irony of tariffs is that it is something we do to ourselves in time of peace what other nations do to each other in time of war" Unknown



In high school I remember I first heard the phrase "history repeats itself...or at least it rhymes". And in high school history I learned that Herbert Hoover was the president who presided over the Great Depression. History remembers Hoover as one of the worst American presidents.

Like Trump, he was a rich international businessman. He was also a political outsider. Hoover hadn't held public office before his 1929 inauguration. And, like Trump, Hoover faced intense pressure from struggling American workers.

In 1930, Hoover signed the Smoot-Hawley Tariff Act into law, raising tariffs on thousands of imported goods to record levels. This kicked off a tariff war, reducing American exports by half. It was a crushing blow to the American economy.

Nearly a century later, Trump seems determined to make the same moves (i.e. mistakes)



War.....with China

No doubt, the investigation will ultimately show that China is pursuing unfair trade practices. This will give Trump all the justification he needs to further escalate his war.

A Record Trade Deficit with China

The investigation was the start of a major pushback against China.

Trump even said, "This is just the beginning, I want to tell you that. This is just the beginning."

He wasn't bluffing.

In January, Trump fired another shot. He slapped tariffs on imported solar panels and washing machines. China is by far the largest producer of solar panels.

After that, in his first State of the Union address, Trump said that previous trade deals have "sacrificed our prosperity and shipped away our companies, our jobs and our wealth," and that the "era of economic surrender is totally over."

Then embarrassment hit...

In February, the Commerce Department announced that the US had realized its largest ever trade deficit with China during Trump's first year in office. (He'd repeatedly promised to shrink the deficit.)

Trump sees the trade deficit as an economic scorecard between the US and China. Now, with a record high deficit, he has another convenient excuse to escalate the trade war.

One Promise Trump Can Keep

During his campaign, Trump threatened a 45% tariff on Chinese goods entering the US.

He also said China was sucking "the blood out of the United States" and "we can't continue to allow China to rape our country."

Getting tough with China on trade is a campaign promise Trump can actually keep. Legally, he doesn't need anyone's cooperation, as he recently demonstrated.

It also caters to his base, which believes China is largely responsible for the loss of middle-class jobs.

And, the new tariffs are part of a much larger and genuinely dangerous conflict with China...

How the American Dream Slipped Off to China

China is displacing the US as the #1 world power.

Its GDP is on track to double compared to US GDP by 2030. In other words, China's economy will soon be twice as large as America's.

China has already surpassed the US in more ways than you'd think.

For the first time in modern history, Asia is richer than Europe in terms of private wealth. It will also be richer than North America within the next two years.

China is driving this shift

The Chinese are some of the most aggressive savers in the world. They save more than 30% of their disposable income. I used to think it was the Japanese but no longer.

This is a big reason why more than 700 million Chinese people—the equivalent of nearly twice the entire US population—have risen out of poverty over the past couple of decades.

On top of that, China graduates four times as many STEM students (science, technology, engineering, and mathematics) as the US. And that doesn't even include the Chinese students enrolled in US universities.

This is a powerful trend in motion. And trends in motion tend to stay in motion, unless something bigger stops them.

In this case, that trend stopper could be a war.

The Biggest Player in World History

There's a 75% chance the US and China will go to war. That's according to Graham Allison, a professor at Harvard. A 75% chance of occurring would be a huge winner in Las Vegas.

Allison looked at the structural stresses that a rising global power creates when it challenges the ruling power. He studied 16 such cases. In 12 of them, the result was war.

This dynamic played out between Athens and Sparta. It played out between Germany and Britain. And today, it's playing out between China and the US.

Lee Kuan Yew, the former leader of Singapore, put it this way:

The size of China's displacement of the world balance is such that the world must find a new balance.

It is not possible to pretend that this is just another big player. This is the biggest player in the history of the world.

Military conflict between the US and China is not inevitable. But if history is any guide, there's an excellent chance—as stated above, 75%—that the US and China will go to war in the not so distant future.

The US government knows this. Steve Bannon, previously one of Trump's closest advisers, said, "We're going to war in the South China Sea... no doubt."



Japanese Pride

As China overtakes the US, one or a combination of these three things will happen:

1. The US will do nothing. Current trends will continue. China will displace it as the most powerful country in the world.
2. The US and China will go to war (the traditional kind with troops and bombs).
3. The current economic battle between the US and China will escalate into an all-out economic war.

A full-blown economic war is the most likely and most imminent outcome here. I think it's almost inevitable under President Trump.

China Won't Cower in the Corner

Trump knows his supporters are passionate about trade and strongly anti-China. It's a big reason why he won the election and could be reelected. I don't see him backing down here.

That said, the Chinese have effective ways to retaliate.

They could dump Treasuries. They could limit imports from the US and reduce exports, like iPhones, to the US. They could also harass American companies operating in China.

China could also restrict access to rare earth elements (REEs). It has a virtual monopoly on REEs, which are absolutely essential to advanced electronics and military equipment. Think electronic cars, flat-screen TVs, drones, and fighter jets.

At this point, a full-scale economic war is pretty much baked into the cake. And as we've seen in the past week, it's also imminent.

Unfortunately, this probably won't end well for Trump or the US.

As Chinese commerce minister Zhong Shan said recently, "There are no winners in a trade war. It will only bring disaster to China and the United States and the world."

So, Trump could become known as Herbert Hoover II. The only discernable difference being one graduated Pennsylvania and the other Stanford. Maybe later there will be a Trump Institute at Pennsylvania to study the nature of international trade and war.

D. Miyoshi

Japanese Pride



The other day over dinner a friend asked me what were my proudest achievements? I told him I have two, one I earned and the other was because my parents were in the right place at the right time.

The achievement I earned was that of becoming a U.S. Marine. I won't belabor everyone with the reasons why I am proud of that accomplishment because if this is not obvious to my readers, I really need to check my spelling.

The one achievement that was "gifted" to me was that I am an American of Japanese ancestry. While it's not an "accomplishment," I believe everyone should be proud of their own ethnicity. Some may call this arrogancewhich can lead to prejudice. But the pride I feel in being of Japanese ancestry is not in who I am but in what I am. This pride may not be as deep as what one may feel in his/her accomplishments, but it is still there because if it wasn't pride it would have to be shame and I am not ashamed of having Japanese blood in my veins.

I realize that 76 years before, in the South Pacific, the Japanese were fighting to the death the U.S. Marine Corps. That fact did not escape the memory of my father-in-law who was a Japanese citizen that suffered through the fire-bombings of Tokyo. These memories were the source of some awkward moments following my marriage to his daughter in Tokyo. Fortunately, he truly appreciated all the civic and economic benefits America bestowed upon his beloved country after it's surrender and so soon thereafter we enjoyed a warm and caring relationship.

I further realize, it's a fact that every civilization, every culture and every race have their own accomplishments as well as failures. As a nation and a people, the Japanese have certainly committed their share of shameful mistakes as have every other nation in the world. But, overall, I like to think the Japanese have greatly contributed to the advancement of world civilization.

George Friedman, editor of *Geopolitical Futures*, cites the attributes of Japan from a geopolitical viewpoint. Modern day Japan makes few political demands on other nations, and no military ones. Article 9 of its constitution (written by the Americans) forbids it from maintaining any military force. Article 9 has been reinterpreted to mean that it can maintain a substantial military for self-defense, under the principle that self-defense is a natural right, but that force cannot engage in offensive military operations – and it certainly can't do so unilaterally.

I remember well the banking crisis in the late 1980s and early 1990s that Japan suffered. It seriously affected the number of transactions between U.S. and Japanese companies that we were



Japanese Pride

involved in as attorneys. Since that time the global financial markets have expected that Japan will face a financial crisis that will create domestic upheaval. But it hasn't happened. Instead, Japan grows slowly and sometimes not at all, but compared to much of the rest of the world, it is seemingly at peace with itself.

But it has not always been this way. In the first half of the 20th century, Japan sought to take control of the Western Pacific and China. It had defeated the Russian navy in 1905, and then challenged the United States and European powers in the Pacific. It temporarily claimed an empire in China and in the littoral islands of Asia, ranging from Taiwan to the Dutch East Indies to the gates of India. This lasted for only three years, but for the first part of those years it appeared that Japan had permanently reshaped the balance of power in the Pacific and in Asia.

Nor was it a quiet power in the decades leading to its economic crisis. Japan was the China of the 1960s, 1970s and 1980s, paying low wages and enjoying remarkable growth. The Japanese were well educated and experienced in industrial processes, and the process of rebuilding Japan's economy kicked off a wave of low-cost exports that flooded Western, and particularly American, markets. During the 1980s, this created substantial political crises with Japan, with Americans seeking both to limit Japanese exports and to emulate Japanese management techniques, and the Japanese clinging to free trade principles and hinting that the problem with American workers was that they were lazy. The Japanese surged into American markets, dominating many, until the economics of high exports took their toll on the rate of return on capital. Huge exports and diminishing profits can go hand in hand.

Internally, Japan wasn't at peace for most of the 20th century either. After World War I, the Japanese army became a political force and sought to control foreign and domestic policy, tied to an ideology that purported to represent the military ideas of his-torical Japan. Whether that was true or not, Japanese internal politics were poisonous in between the two world wars, with assassinations, coups and threats. It was as far from contemporary Japan as possible.

Unique Adaptability

Japan is remarkable for its ability to change its behavior. It did so after its surrender in 1945 and was thoroughgoing in almost every respect. But this wasn't the first time it had remade itself. In the 1850s, when Europe and America were probing the country, Japan lacked any powered tools. It was an agrarian society of farmers and craftsmen, with clans waging a perpetual war of all against all while their leaders engaged in endless political maneuvering. Japan seemed ripe for the picking by Western imperialism.

Between 1860 and 1900, Japan transformed itself even more radically than the United States had. It went from being a war-torn agrarian country to a rapidly industrializing one, with a navy that it purchased from Britain and an army trained by Germans. It absorbed the technology and the knowledge of the Europeans to build a navy that defeated the Russians in 1905 and that challenged the world for control of the Pacific. The speed with which Japan industrialized was stunning. Equally stunning was the political shift from barons who ruled themselves to a centralized government under the guardianship of an emperor, who, although considered a descendent of a goddess, was not decisive until industrialization required national unity and a symbol. Politics continued, but the country united, overcoming regional differences sufficiently that a modern national government could be created.

In 1945, Japan underwent its second massive change in less than a century. It shifted from being an aggressive power, politically dominated by the military, to being institutionally opposed to a military-based foreign policy. With the military banished from political life, Japan adopted a liberal democracy.

This is worth repeating. In less than 100 years, Japan went from an economically backward but culturally advanced nation on the edge of the world, to a nation that challenged everyone around it, to a peaceful mercantile state. What is most important here is that for all the changes and all the political friction, it did this without any significant social upheaval.

Industrial Feudalism

The Industrial Revolution in England accompanied the decline of power of the nobility and the rise of industrial and commercial power, along with the rise of demands from the masses for social adjustment and political participation. France did the same, with the addition of Maximilien Robespierre's Reign of Terror. Russian industrialization involved this plus a holocaust. In almost all industrialized nations, industrialization was accompanied by social upheaval. The transition from agrarian feudalism to industrialism came with blood.

Japan is the one major exception. It never underwent a social revolution, despite the speed of its transformation and the massive discontinuities that came with it. In Japan, the nobility became the industrialists and advocates of war. The industries they created continue today to support the policy of mercantilism and increasing domestic consumption – as well as embracing Japanese democracy.

The great Japanese agglomerations, the keiretsu, trace their heritage to nobles in the 19th century who founded businesses. These nobles did not hesitate to engage in commerce as some of Europe's nobility did. They eased Japan from agrarianism to





Japanese Pride

industrialism, and from feudalism to capitalism.

To be more precise, the Japanese feudal system remained, changing along the way. But in essence, the feudal estates became feudal industries, and the feudal industries treated their workers in many ways as serfs. The workers were supposed to give their loyalty to the company, and in turn, the company was supposed to take care of the worker. In Japan, it was not simply an economic relationship; it was a social relationship of mutual obligation. Japanese workers pride themselves on the prestige of the company they work for, and they work for that company, in many cases, for a lifetime. The industries, in turn, have as a policy retaining workers even in hard times, even at the cost of maximizing profit. But if austerity is needed, the workers share in the austerity.

Economists have been surprised at how Japan has avoided collapse, but it is explained at least in part by the fact that there was never a social upheaval in the country. Much of Japan's national debt is held by the public, in part as savings, in part as duty. Sluggish growth does not translate into ruthless cuts, even if this turns into even more sluggish performance. Imagining Japan as industrialized feudalism – in the full and not pejorative sense – gives us a hint of how it has sustained itself through its dramatic rises and falls.

This isn't to say that the Japanese are incapable of agitation. There was great agitation in 2011 after the Fukushima earthquake, tsunami and nuclear leaks. But it was deflected to the state. The Japanese state appears to be a liberal democracy, but it is more complicated than that. The bureaucracy that evolved from the old imperial bureaucracy remains in place and works in concert with other ministries, private banks and other institutions. The democratic institutions serve an important purpose of absorbing the passion of the public on various issues, the ministries of finance and foreign affairs have a hold on what Japan does, and the public accepts their authority. What binds the ministries together are the universities that their personnel graduated from. Japan is a meritocracy with universities informally but rigorously ranked, and the graduates work together throughout their careers. It is what the British civil service used to be.

This has meant three things. First, Japan is able to make sudden shifts as necessity requires, and then remain on a new course for a very long time. Apart from occasional passion, the system has a degree of trust and acceptance not found in Euro-American society. Second, the financial crisis of the 1980s could be navigated without the expected social and political upheaval. Sluggish growth was accepted and even welcomed, since flat growth and a declining population means higher per capita income. And third, the idea that the Japan of today is the one that we will know for the rest of the century is possible but unlikely. It's as unlikely as

the idea in 1860 that Japan would be a major economic power in 50 years, or that it would take Singapore from Britain in 80. It has been 72 years since the end of World War II, and Japan has followed a clearly defined road. Do not assume that another 72 years will pass before it changes.

Change Will Come Again

The United States caused both of Japan's radical changes. It was the approach of U.S. Adm. Matthew Perry that triggered the frantic industrialization. It was the defeat by the United States in World War II that triggered the shift to mercantile pacifism. That isn't unreasonable. The U.S. and Japan entered modernity at about the same time. And as they touched, they both feared and fascinated each other. No one had dominated the Pacific in history – it was much too large and empty. But Japan and the United States were both nations built on hubris, on the idea that they were ordained by God and history to rule. In time, it was inevitable that they would wage a desperate war that one – most likely the United States – would win. It was in its way certain that the United States would help resurrect Japan, leaving much of it alone. The Americans had a new enemy, the Soviets, and they wanted Japan to help. Besides, the Americans were always interested in commercial relations.

Citizenship vs Ethnicity

But Japan suffers from the disease bred by industrialism. It needs oil and other industrial minerals that it cannot supply domestically. Those come from far away. Since 1945, Japan has happily relied on the United States to protect Japan's access to them. Japan prefers this by far. But in this world, relying on any other nation is risky, and without the U.S. keeping open the sea lanes, Japan's industry grinds to a halt. Facing China, and the persistent danger of North Korea, Japan continues to put its trust in the United States. So once more a change in Japanese direction will depend on the United States. If the U.S. changes interests or falters or becomes hostile, Japan will, with sincere regret, change direction again. It will change with the same national unity that has been its strength ever since its industrial revolution. Frankly, if this transpires, I will be personally torn between my country of citizenship and country of ethnicity.

In the Marine Corps we have a motto, *Semper Fidelis* which means "Always Faithful." If the mutually beneficial relationship the United States and Japan currently enjoys is ever broken, I will be faced with a challenge of identities that will truly test my mettle. Likely, I will remain loyal to my beloved United States of America, my country of citizenship, but I hope it never has to come to that.

Semper Fidelis,

D. Miyoshi



From a Can of Beer to a Cannabis

From a Can of Beer to a Cannabis

Coors will be soon selling weed



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According to Justin Spittler, editor of the *Casey Daily Dispatch* Coors will need to sell marijuana to survive. If it doesn't, it will get eaten alive by Big Marijuana.

Coors admitted that marijuana is a major threat to its business in its latest annual report. And it's absolutely right.

Marijuana is stealing customers from Big Alcohol companies left and right. In fact, a recent study found that alcohol sales fell 15% in states that introduced medical marijuana.

So, you can see why Coors is nervous. But here's the thing. Coors can't afford to just sit back. It will have to defend itself.

In the past, it might have hired lobbyists to stonewall marijuana legalization. But it's too late for that.

Marijuana legalization has taken the country by storm. Around 95% of Americans now live in states where medical marijuana is legal. And 21% of Americans live in states where recreational marijuana is legal.

- It's only a matter of time before marijuana is legal at the federal level...

In short, there's no point fighting marijuana legalization. It cannot be stopped.

So, Spittler predicts Coors will do the next best thing. It will turn itself into a marijuana company.

That's a bold call. But it's not as crazy as it sounds. After all, one of its biggest competitors is already doing that.

- In October, Constellation Brands bought a 10% stake in Cano-

py Growth...

Constellation is the third-largest beer supplier in the U.S. It makes the popular brands Corona and Modelo. It's also the world leader in premium wine.

Canopy, on the other hand, is the largest marijuana company on the planet. It serves more than 60,000 medical marijuana patients in Canada.

The deal was worth \$191 million, making it one of the biggest marijuana deals ever. Constellation CEO Robert Sands explained why the deal was so important:

Our company's success is the result of our focus on identifying early-stage consumer trends, and this is another step in that direction.

Mr. Sands is right, too.

- Legal cannabis is one of the fastest-growing industries on the planet...

The U.S. legal marijuana market is already a \$6.5 billion industry. And it's expected to grow to \$50 billion by 2026. That would make it nearly three times as big as the craft beer market.

In other words, marijuana isn't just a threat to the beer industry. It's also an opportunity.

That's why Spittler expects Coors and companies like it to follow Constellation's lead. They'll start making huge investments in the marijuana space.

There's simply too much money on the line.

- So, expect to see a lot more marijuana mergers and acquisitions (M&A)...

We're actually already starting to see an explosion of deal-making in this space.

According to Mergermarket, there were at least 45 deals in the global cannabis market last year. The value of those deals totaled \$1.69 billion.

That's an all-time high... but that record won't stand for long.





From a Can of Beer to a Cannabis

According to the Viridian Cannabis Deal Tracker, \$1.23 billion went into marijuana deals and investments during the first five weeks of this year.

That nearly matches the total amount of investments in 2016. It's also 600% more than the \$178 million that was raised in the first five weeks of 2017.

• You cannot ignore this as an investor...

Because you can make enormous sums of money by getting in front of these kinds of deals.

The Constellation–Canopy deal is a perfect example of this. The day that deal was announced, Canopy's share price surged 19%. It's now up 254% since Crisis Investing editor Nick Giambruno recommended it in August.

And that's just one deal. Other marijuana companies have soared 20%... 30%... even 40% in a single day on the news of a takeover. That's more money than most investors make in a year.

But don't worry if you missed out on these takeovers.

• The marijuana industry is still very young...

It's also highly fragmented. In fact, there are only a small handful of blue-chip marijuana stocks today. And none of them are household names yet.

This means we'll see a lot more consolidation in the marijuana space in the coming months. A lot of this money will come from Big Alcohol companies like Coors.

But they certainly won't be the only companies gobbling up marijuana assets.

Big Pharma and Big Tobacco will also get involved in this takeover mania. Of course, experienced investors have known this for months.

That's because Doug Casey predicted an explosion in marijuana deal-making months ago. Here's what he told readers of *The Casey Report* back in October 2017:

Someday—not far in the future—you'll see a takeover mania in the area...

My guess is that as cannabis becomes fully legal in all its forms

in the years to come, big food and drug companies will take over the leading players—at a big premium.

• Once again, Casey nailed this call...

Medical marijuana producer Aurora Cannabis acquired CaniMed Therapeutics for \$857 million.

Another medical marijuana company, Aphria, bought Nuuvera for \$670 million. And Aphria is now in talks to buy Broken Coast Cannabis for \$185 million.

These are big-time deals.

But they're going to look like small potatoes once Big Alcohol, Big Tobacco, and Big Pharma get in on the action.

Once that starts happening, the irrational fears keeping many investors on the sidelines will get swept away.

So, while on moral grounds I will refrain from investing in marijuana stocks myself, as a business and securities lawyer and financial commentator, I do feel compelled to disclose all possible avenues of investment as well as dis-investment.

With that said just be sure to do a few things before diving in...

Do your homework. Study a company's business model before investing in it. Get to know its management team. If a marijuana stock sounds too good to be true, it probably is. Don't buy a marijuana stock on a whim or hot tip.

Be disciplined. Only speculate with money that you can afford to lose. You don't need to put a lot of money into marijuana stocks to make a lot of money in the months ahead.

Be patient. Remember, the marijuana industry is still very young. There's also a lot of uncertainty surrounding the industry. And that's a recipe for volatility. So, be patient and don't obsess over day-to-day moves.

Here is to your successful investing.

D. Miyoshi



The Opportunities in AI

The Opportunities in AI



The title of this newsletter is the *Financial Crisis Report*. A famous quote of John F. Kennedy is “When written in Chinese, the word 'crisis' is composed of two characters. One represents danger and the other represents opportunity”. Technically, that statement is not correct. But famous speakers such as Kennedy, Condoleezza Rice and Al Gore, took the opportunity to “spin” the Chinese meaning to include the meaning of “opportunity” in the Chinese word for “crisis” to render their talks more memorable.... and it worked for them. So, continuing with that same spin, this article will present both the Opportunities and the Dangers in investing in AI or Artificial Intelligence.

In last month’s newsletter I told you about the Anne Frank “Cold Case” saga and how the power and potential for Big Data and artificial intelligence (AI) can dramatically change our powers of investigation.

The Anne Frank case demonstrates how this technology can be used to illuminate history and better define the events that have helped define each and every one of us.

Painting that picture was the goal of Bill Patalon’s report on AI that was the crux of our article. Patalon wanted to put a “human face” on tough-to-understand technological inventions that can and will make our lives much better. Patalon earnestly believes in the future of AI and that it will revolutionize our society. **AT THE END OF THIS ARTICLE I PRESENT ANOTHER ARTICLE TAKEN FROM MOTHER JONES ABOUT THE DANGERS THAT ELON MUSK BELIEVE AI POSES TO MANKIND.**

Indeed, Patalon sees other ways that AI can have a more direct, more immediate impact on our lives - like in emergencies, as this next example will show you.

For instance, let’s say the U.S. West Coast suffers from a major earthquake or other disaster. With the right AI packages, first

responders could peruse emergency calls, social media posts, and other fire and police reports *en masse* - and in real time - to send rescue crews where they're needed most.

That’s an innovation that can save lives.

But it’s just scratching the surface.

AI is a technology whose upside is limited only by the creativity of the folks who are seeking to apply it.

And the fact is that there are all sorts of ways to invest in both Big Data and AI.

In this article taken from Patalon’s report we show you two of the best.

A "Set It-and-Forget It" Profit Play

If you want a "Set It-and-Forget It" option, check out the Global X Robotics & Artificial Intelligence ETF (Nasdaq: BOTZ).

The fund, with about \$2.4 billion in assets under management, zoomed 66.5% last year and is focused on one of our favorite slices of the AI sector: automation.

What’s great about this exchange-traded fund is that it deals with both mechanical and digital automation - both areas that are going to see massive growth in the decades to come. Mechanical automation includes drones. And digital automation includes AI.

Top holdings include Yaskawa Electric Corp. (OTC ADR: YASKY), a Japan-based robotics firm whose shares have skyrocketed 260% since we first brought the stock to you in June 2013.

Another top holding in the BOTZ ETF happens to be Patalon’s top AI stock pick...

The AI Stock With Real Muscle

Patalon is talking about Nvidia Corp. (Nasdaq: NVDA), the graphical-computing chipmaker whose shares have zoomed as much as 1,600% since we first made the recommendation. In the August 2017 edition of the MIT Technology Review, Nvidia was



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ranked the #1 smartest company in the world (out of a universe of 50 companies). For your information #2 was Elon Musk's Space X, #3 was Amazon, #4 was 23andMe, #5 was Alphabet (Google), #6 was iFlytek, #7 was Kite Pharma, #8 was Tencent, #9 was Regeneron and #10 was Spark Therapeutics. Apple came in at #16, Merck at #17, Facebook at #23, Microsoft at #27, Tesla at #31, Addidas at #38, IBM at #39, GE at #40, Alibaba at #41, Daimler at #46 and Snap at #48.

Recently Nvidia has dropped (as most stocks have) but Nvidia has done that before. And whenever it did, Patalon told his readers to add to their stake.

Indeed, Nvidia is a stock Patalon has shown over and over again as it climbed.

Patalon even showed it to his readers again back on Jan. 5 as one of his "Stocks for 2018" picks. Despite the hefty gains, he said that this chip play still had more in the tank.

Right now, this is one of his favorite AI stock picks.

And it's one of the stocks I am also putting on my own shopping list. (Indeed, it's been on Patalon's own list for several years.)

Nvidia pitches itself as a "visual computing" company - a firm whose semiconductors and related technology can be used to crack tough problems through "visualization."

That's fitting, and here's why: If you want to understand the true "triggers" that will drive Nvidia's future business, investors need to do a little "visualization" of their own.

This is a company whose core technology - graphics chips - found its first big audience in the video-gaming market. As it turns out, revved-up versions of that know-how were easily adapted to two of the biggest growth opportunities in tech, namely AI and virtual reality (VR).

Because of its powerful processing technology - chips that are perfect for AI, VR and the fast analysis of huge data sets - Nvidia has emerged as a major player in quickly growing markets like Big Data, cryptocurrencies, VR and video games. It's also a big player in autos - which, increasingly, need semi-

conductors to function. That fact - coupled with its AI and visual-computing capability - means that Nvidia chips are going to be big in the emerging driverless-vehicle market.

A new study from Intel Corp. (Nasdaq: INTC) and researcher Strategy Analytics found that driverless vehicles will be the "trigger" behind \$7 trillion worth of economic activity and cost savings a year by 2050.

That's right: \$7 trillion. That's a market that would dwarf the Japanese economy.

According to the Intel/Strategy Analytics duo, that \$7 trillion in activity will include nearly \$4 trillion from driverless ride-hailing and nearly \$3 trillion from driverless delivery and business logistics. And some "new use cases for pilotless vehicles" will create \$203 billion a year in revenue from entirely new businesses - stuff that you and I haven't even imagined yet.

Nvidia is at the center of all of this - for one reason: Nvidia's semiconductors will serve as the "brains" of driverless vehicles.

And this is just one of the "arms" that the Nvidia octopus is grasping onto.

Let's take a quick look at several others...

The Good, the Bad, and the... Wait... There Is No "Bad"

We mentioned VR a few moments ago. Well, the VR/augmented reality (AR) market represents a huge opportunity for Nvidia.

Researcher IDC says the VR/AR market will grow from just over \$5 billion at the end of last year to more than \$160 billion by 2020. That bodes well for Nvidia - especially since more than half that revenue will come from hardware, the company's specialty.

We're about to see a similar ramp-up in AI.

The AI market is projected to grow at a 63% yearly rate between now and 2022, according to MarketsandMarkets - and researchers are clearly underestimating the dollar-value potential of this market.

Other research shows that tech firms like Alphabet Inc. (Nasdaq:



The Dangers in AI

GOOGL) and Baidu Inc. (Nasdaq: BIDU) (#50 on the smartest companies list) spent \$30 billion and \$20 billion, respectively, on AI-related research and development, deployment and acquisitions in 2016 alone.

One researcher says that AI-focused investments have become a kind of "race" for patents and intellectual property by top global tech firms. And that means companies looking to embrace and deploy AI are going to look for the best partners.

You can bet Nvidia is at the top of everyone's party list.

When you start adding up all these new and varied opportunities that "Nvidia the Octopus" is going after, you'll be struck by one stunning realization...

All these are infant markets - meaning they're just getting started.

And that means - despite the huge run we've already seen with Nvidia's shares - the upside in the years still to come will be even bigger.

When Patalon talks to folks about Nvidia, he likes to use the "Good, Better, Best" model he often employs when analyzing wealth opportunities.

This means you can rank a stock as...

- **Good:** A company is growing its revenue by taking a bigger and bigger slice of an existing (mature) business sector.
 - **Better:** A company is growing by taking a bigger and bigger slice of a new market sector that's also expanding at a hefty rate.
- Best:** A fast-growing company is positioned to grab bigger and bigger slices of multiple new business sectors - all of which are expanding at hefty rates.

Having played this round of "Good, Better, Best," it's clear that Nvidia fits the "Best" descriptor - and fits it perfectly.

Moving Forward

As reported last month, I don't know what chip Xomnia is using in its "Cold Case" computer. But it doesn't matter: The Anne Frank investigation is a real-life illustration of the power and potential of AI technology. In the broadest sense, this is an industry that is certain to grow.

But with growth can come danger. So, let's look on the other

side.

The Dangers in AI



Elon Musk is a household name. The South African-born billionaire can seemingly pioneer anything: PayPal, Tesla, SpaceX, and (maybe) the Hyperloop. He's an engineer and a marketer, Steve Jobs and Steve Wozniak rolled into one. Currently he does face serious challenges with some recent Tesla crashes and cash flow shortages but till now he has been up to the task. In any case, he's always great for a quote because he's photogenic, telegenic, and technogenic.

But there's one technology he's deeply scared of: artificial intelligence. "AI is a fundamental risk to the existence of human civilization," he warned a meeting of the nation's governors earlier this year. "I have access to the very most cutting-edge AI, and I think people should be really concerned about it." He has also warned that Google is creating "a fleet of artificial-intelligence-enhanced robots capable of destroying mankind." Shades of *the Terminator*.

Musk is not alone. Bill Gates, Stephen Hawking, and various AI experts have also sounded the alarm.

"AI is a fundamental risk to the existence of human civilization."

Why are pillars of the tech community so concerned? Consider: If you truly believe that human-level AI is coming soon—as Musk does, and as you should, too—it's pretty obvious what comes next: above human-level AI. After all, why should progress stop just because we achieve that arbitrary goal? It won't. Once AI hits human level, it will develop new improvements all on its own.

How would this work? Well, suppose we build a computer that plays chess—not just any old computer, but a superintelligent AI computer that learns as it plays and gets better and better. What would it do? At its most extreme, this scenario devolves into what futurists call "the singularity." Because computers are fundamentally faster than human brains, every new increase in AI

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The Dangers in AI



Advancing in a Time of Crisis



Financial Crisis Report



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capability will happen in less and less time, leading very quickly to AI that's fantastically more intelligent than humans. At that point, AI will be as incomprehensible to us as an adult is to a one-year-old—and if it decides to do something that harms us, we'll have as little chance of fighting back.

It would play chess, and its sole motivation would be improving its chess game. It wouldn't hate humans. But neither would it love humans or feel any loyalty to them. It just wouldn't care about us. All it would care about is playing better chess.

Very quickly it could decide that it needed to build a more powerful computer if it wanted to keep improving. So that's what it would do. The entire planet would be nothing except raw material to build more and more computing power, and our chess bot would devour it. So much for the human race.

"I'm against overregulation, for sure. But man, I think we've got to get on that with AI, pronto."

This sounds insane. But the chess thing is just a quirky way of explaining the broader problem: namely that a digital superintelligence will inevitably develop a mind of its own. The chess bot wouldn't mindlessly play chess forever. After all, it's superintelligent.

Like any other AI, no matter how we've initially programmed it, it will pretty quickly figure out how to alter our programming and formulate its own goals. And while we'll probably never know what those goals are—and couldn't understand them if we did—they're pretty likely to include a desire for more and more computing power. The end result for humanity is the same regardless of

whether the goal is chess or discovering the mysteries of the universe.

This fear has prompted the famously libertarian Musk to do the unthinkable: support more government regulation. "I'm against overregulation, for sure," Musk emphasized. "But man, I think we've got to get on that with AI, pronto." He and Hawking also think we should start up colonies on other planets as a bolt-hole. But neither plan is likely to work. Someone is eventually going to build a superintelligent AI. As for Mars, the technology for a self-sustaining colony is pretty far off. And wouldn't a super-AI just follow us there?



Compared with this *Terminator* scenario, a few decades of mass unemployment and misery at the hands of AI robots and their zillionaire owners seem like small potatoes.

The difference is that the AI jobocalypse is coming soon, and if we start now, we can keep greedy zillionaires from reaping all the rewards of it. By contrast, remorseless super-AI is still pretty speculative, and there's not much we can do about it. So as scary as Musk and Gates and Hawking find it, we're still probably better off focusing on the end of work, rather than the end of humanity.

Maybe this adds a bit of perspective on AI. But, for the foreseeable future, I think AI is likely a good investment.

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