



# Financial Crisis Report

Written and Edited by David M. Miyoshi

## Advancing in a Time of Crisis

**Words of Wisdom:** “When you want to help people, you tell them the truth. When you want to help yourself, you tell them what they want to hear.” Thomas Sowell

Inside this issue:

1. Trump's Turbulent Future
2. Mother of all Financial Crisis
3. Looming Government Debt
4. Father of AI
5. Why AI is Important
6. Why Europe Copying Japan
7. What Japanese Think of Americans

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.

### Trump's Turbulent Future



I voted for Trump because I thought he was more capable than Clinton. But I was surprised when he was elected.

Now after two years of being constantly attacked by the Democrats, the media and some Republicans, I am now convinced Trump IS more capable than Clinton. But I also believe he faces a very rocky and turbulent future.

On April 24, 2019 Trump vowed to fight a host of congressional efforts to scrutinize his conduct, business and policies, opening the path toward a constitutional clash that will likely last for the rest of his term or longer. Here is my take on why I believe this to be so.

On Thursday April 18, 2019, accompanied by the usual fanfare, the Mueller Report in redacted format (448 pages) was released to the public. But as everyone expected, the report contained no earth-shattering revelation. Primarily it established there was no collusion between Trump and the Russians to throw the election. But on the issue of obstruction of justice, the report revealed that while Mueller indicated he could not exonerate

Trump from this charge (as if it was his job to do that), he left it to Congress to investigate on their own the facts and the law to support an impeachment action. The report stated the Special Counsel felt bound by DOJ policy that prohibits bringing charges against a sitting president and therefore did not try to reach a prosecutorial decision. Usually when a Special Counsel finds insufficient evidence to support an indictment, he is expected to recommend that no formal charge be brought, not that “he did not reach a prosecutorial decision.”

This sets the stage for a long bumpy ride for Trump well past the 2020 election. But did anyone think it would be different? Some poop has already hit the fan but there is more coming.

Alan Dershowitz, Professor Emeritus at Harvard believes the Mueller Report should never have been written in its current form because it gives Democrats a "roadmap" to pursue more investigations and, potentially, an impeachment.

Dershowitz said, "He's been vindicated legally, but factually, morally, politically, there's a lot in there that will be used by Democrats to try to show that although he may not have committed criminal conduct, he certainly committed conduct that's not desirable by a president."

"That's exactly why there should never have been a Mueller report. The tradition of the Justice Department — a very good one, we remember when [former FBI Director James] Comey violated it with Hillary Clinton — is that when you decide not to charge somebody with a crime, you then don't write a series of essays, or in this case a book, about all the bad things that they did that didn't amount to criminal conduct. That seems to be very, very unfair, and that's the negatives that



## Trump's Turbulent Future

have come out of this for President Trump."

"I predicted months ago that he (Mueller) would provide a roadmap to Congress for further investigations, impeachments – also a roadmap for other prosecutors in various districts of the United States. And he's done exactly that."

"That's appropriate if you do it discreetly. . . . But when you issue a public report that includes innocent conduct, non-criminal conduct, however conduct that is condemnable, not criminal, that really violates the long tradition of the Justice Department in the same way that Comey violated the traditions of the Justice Department when he accused Hillary Clinton of being sloppy with her emails after concluding that she committed no crime."

Prosecution for obstruction of justice requires proof that the president acted out of a corrupt intent and that there was an underlying crime. AG Barr believes Trump's intent was to avoid an investigation so as to allow him to do his job as the president and therefore not corrupt. As for the underlying crime, the report revealed that Mueller's investigation did not establish that "the president was involved in an underlying crime related to Russian election interference." So, for the Democrats, establishing obstruction of justice may provide more poop for the fan but will likely fall short in legally proving that obstruction of justice occurred.

As a practical matter, the Mueller report poses a big dilemma for the democratic presidential hopefuls in 2020. Do they stump for impeachment or will they stick to the issues and attack Trump's programs for the Wall and immigration, health care, foreign relations and so forth. The challenge will be how to construct a campaign message that attracts the swing voters in the general election while still stoking the enthusiasm of Democratic activists who crave Trump-bashing. It will be a delicate but strategic balance for them to attain. But if the economy stays healthy, they will likely lose no matter what they argue.

### The Lesson of Watergate

John Marini, professor of political science at the University of Nevada Reno recalls being struck at the time of Watergate by the fact that there was a tremendous mobilization of partisan opinion against Nixon, but very little partisan mobilization in Nixon's defense. The reason for this, in retrospect, is that it is difficult-if not impossible-to mobilize partisan support once the contest is removed from the political arena and placed in the hands of prosecutors, grand juries, and judges. Nixon believed, correctly, that his partisan enemies were trying to destroy him. But even Republicans in Congress came to accept Watergate primarily in legal terms. The most remembered line from a Nixon defender was that of Senator Howard Baker: "What did the President know, and when did he know it?" Nixon quickly became boxed in; he was limited to making a legal, rather

than political, defense of his office. Also surprising at the time was how little disagreement there was about how to interpret Watergate. The political and intellectual elites of both parties came quickly to agree that executive abuse of power under Nixon posed a threat to democracy, and that Nixon's removal was required to meet that threat. Few noted the adverse effect on democratic or popular accountability: removing the elected chief executive further empowered the unelected executive bureaucracy (the Deep State), and further relegated Congress- which had created that bureaucracy- to serving as an executive oversight body rather than a legislative body.

Here are how the editors of the Congressional Quarterly summarized the situation at the time:

When the 93rd Congress first convened in January 1973, President Nixon's sweeping assertions of executive authority posed a threat to the viability of the legislative branch. Even as Congress braced for confrontations with Nixon over spending, war powers, and other issues, its defiance was tempered by doubts as to whether it was indeed any match for the newly re-elected President. But by the time Congress adjourned [on] December 20, 1974, the balance of power had shifted dramatically. Both Nixon and ... [Vice President] Agnew had been driven from office in disgrace-replaced by men whom Congress had a hand in selecting. Meanwhile, moving into a vacuum created by the disintegration of executive leadership, Congress had staked out a commanding role for itself.

The popular understanding of the Watergate scandal-that it was somehow rooted in Nixon's flawed personal character, and that it was essentially a legal matter-remains unshaken after more than 40 years.

But Marini was not convinced then, nor is he convinced today, that Watergate can be properly understood in either personal or legal terms. By promising to use his executive power to bring the executive bureaucracy under his control, Nixon posed a danger to the political establishment after his landslide re-election. In response, the establishment struck back.

It wasn't until many years after Watergate that we learned the identity of the source of the leaks that led to Nixon's removal. Deep Throat, the source for the reporting of Bob Woodward and Carl Bernstein at The Washington Post, turned out to be Mark Felt, a high-level FBI official who had access to all the classified information pertaining to the investigation. Felt leaked that information selectively over the course of a year or more, helping to shape public opinion in ways the prosecution could not. Although Woodward and Bernstein were lauded as investigative reporters, they merely served as a conduit by which the bureaucracy undermined the authority of the elected chief executive. Geoff Shepard, a young member of Nixon's defense team who has continued investigating Watergate using the Freedom of Information Act, has recently established as well that





## Trump’s Turbulent Future

the prosecutors and judges involved in Watergate violated the procedural requirements that ensure impartiality, acting instead as partisans opposed to Nixon (sounds familiar).

Our country was divided at the time of Watergate, as it remains divided today, over how we should be governed, and thus over what constitutes a good and just regime. Is the modern administrative state—the progressive innovation that took shape in the New Deal and was greatly expanded in the Great Society—the just and proper way to govern? Or is it just and proper to govern through the political structures established by the Constitution? Does the regulation of Americans' economic and social lives by a centralized bureaucracy establish the moral justification for government? Or does the underlying principle of American constitutionalism —the principle that the power of government must be limited and directed to the protection of its citizens' natural rights—remain valid?

Between these alternatives there can be no compromise. This division was not solely of Nixon's making, and it was the inability of the political parties and of the two elected branches of government to forge a consensus one way or the other that made the Watergate scandal possible, if not inevitable.

Therefore, if the lesson of Watergate is not learned and Trump is forced to defend his actions in the legal arena rather than the political one, then it is highly likely Trump will lose critical support of the electorate and will finish as a one term president. The Deep State will have prevailed and lived to fight another day.

### A Civil War

We are now in a civil war in the U.S. But unlike the civil war of the 1860’s, this one is not violent or bloody, but the stakes are just as high. Today’s civil war is being fought over the issues of nationalism versus globalism, secure borders versus open borders, trade, sound money, domestic manufacturing and so-called progressivism versus tradition.

On one side we have Trump and his ardent supporters composed of most Republicans and many independents.

On the other side are the Deep State, the resistance and the media. The Deep State consists of nameless bureaucrats with lifetime jobs who are entrenched in their positions, protected by the civil service and able to derail Trump by hiding documents, slow-rolling policy initiatives, leaking to the press and stonewalling congressional information requests. The resistance is a collection of former public officials, community organizers, professional agitators and neo-fascist thugs who use violence, including Antifa. They are united in the cause of thwarting and defeating Trump. The media require little

discussion. Their bias is well-known and their attacks on Trump are never-ending. The main culprits are *The Washington Post*, *The New York Times*, ABC, NBC, CBS, NPR, CNN and MSNBC. Fox News is the exception and a rare supporter of Trump.

When a conservative states a position, the resistance often views (or at least calls) the statement “hate speech” and therefore it does not deserve free speech protection. This is exactly as Orwell predicted in 1949. Big Brother and the Thought Police are alive and well. So this begs the question, do the Democrats notice this coincidence?

Now that Trump has rather handily survived the first 2 ½ years of his term, the resistance, aided by the Deep State and the media, have turned their attention to the 2020 election. Efforts to harass and distract Trump are now mainly for the purpose of weakening Trump’s reelection prospects and promoting the election of an opponent from among a rather broad and varied field of Democratic candidates.

Trump’s foremost election pledge was to build the Wall and have Mexico pay for it. So far the Wall has not been built and Mexico does not seem inclined to pay for it. But aside from those two failings, there certainly is a national emergency at the southern border.

This is due to the arrival of drugs, terrorists and criminals. There is also a humanitarian crisis involving child custody, sexual slavery, rape, malnutrition and disease. Both these crises could be mitigated in great part with a Wall that would discourage attempts to migrate in the first place.

This border crisis is not phony, it is real. Those claiming otherwise (both Democrats and many Republicans) have a not-so-hidden agenda of open borders to provide cheap labor for big corporations. This cheap immigrant labor also holds down wage gains for legal workers, which improves profits and bonuses for rich Americans. Those wealth beneficiaries return the favor with campaign contributions (and the beat goes on). To his credit, Trump has taken straight aim at his crony capitalism in an effort to improve wages for everyday Americans.

Overall Trumps accomplishments are extraordinary. But even with this, Trumps opponents have no lack of ammunition. Even the strongest Trump supporters must acknowledge that Trump is by turns vulgar, boorish, immature, impulsive and quick with an insult. He’s not alone in those types of behavior, but he is president and does have a large footprint in social media.

If Trump tweets in favor of the Wall, his enemies call him “racist.” We know that he is no racist. The Wall is not about black or brown skinned immigrants; it’s about security and sovereignty. Trump welcomes legal immigration from all sources. Racism is a cheap shot smear, but its effective with the Democratic base.





## Trump’s Turbulent Future

### Why is Trump So Despised by Other Countries?

Trump’s slogan that helped win him the election is “Make America Great Again.”

Simply stated, in order to make any country “great” in the colloquial sense, the country must be able to exercise hegemonic powers over others. Great Leaders from Alexander the Great to Julius Caesar to Napoleon to Genghis Khan believed this to be so. Apparently so does Donald Trump. The reason the other countries are against Trump’s posture is because they fear they will be the recipient of those hegemonic powers.

### Why is Trump So Despised by His Own Country?

As I see it there are three main reasons.

The first is that the press covered up most of the indiscretions of prior presidents. This was done both in exchange for favors and to protect the dignity of the office. This policy was enforced by the publishers and editors, even if individual reporters did not want to go along for which they would be fired. This firewall has eroded over time, mainly during the Clinton Administration. These days the press protection is just about all gone. Trump is now fully exposed.

Second is the rise of social media and smart phones. These days there is a camera in every purse and a voice recorder in every pocket. Privacy is a thing of the past and private affairs by public figures are almost impossible to hide.

The third difference is the most insidious and important of all. Trump is an outsider. With him, the distinction between left and right and Democrat and Republican has lost all meaning. The “Republican” Bushes pushed through liberal projects like the Americans with Disabilities Act, expansion of Medicare drug plans and the No Child Left Behind educational reforms. The “Democratic” Clinton pushed through conservative projects like welfare reform, NAFTA and a balanced budget.

Political parties and labels no longer mattered. What mattered was the embrace of an “inside the Beltway” mentality and loyalty to expanded government and the permanent administrative state. Trump rejected the Beltway and pledged to “drain the swamp.” This made him an existential threat to both the left and the right. The permanent establishment, both left and right, know who butters their bread and it’s not Trump. Thus they united with their media allies to destroy him. This effort is ongoing. It will not change until the day Trump leaves office.

This visceral hatred of Trump by the establishment is not based on

policies or personality. It is based on the fact that Trump despises the political elite and they return the favor. If Trump were a Beltway insider, his gaffes would be ignored or treated with humor. He’s not. He’s an outsider. This means the insiders in both parties must destroy him in an act of self-preservation of their privileges. Trump is an existential threat to their very existence. The Democrats are especially blinded by anti-Trump rage that they can no longer see the route to victory. Whether they come out of their fog in time is one critical factor that bears watching. The other factor is the economy.

The bottom line is that Trump is the favorite to win reelection in 2020. The smart money gives a Trump victory a 60% probability today with the expectation that the odds will shift further in Trump’s favor as we approach the Election Day.

Here are the main factors affecting the probability at this time:

#### Favorable to Trump

Democrats sticking to a socialist agenda

Howard Schultz offers a “safe space” for white female Never Trumpers

Trump’s base is rock-solid

A growing economy (for what it’s worth which may not be much, on April 23 the stock market hit an all-time high, but this may just presage a big fall)

#### Negative to Trump

Democrats may nominate Biden or Beto

Trump fails to build a material stretch of the Wall

Economy goes into a recession (or worse)

Most of these factors should be in Trump’s favor. The Democrats seem determined to pursue the socialist path. Howard Schultz seems set to jump into the race. At least part of the Wall will get built. The Wall will solidify the base. Once on the campaign trail, Trump is a master of rallies and debate stages.

The hardest to forecast and therefore the biggest wildcard is a recession (or worse). Trump was elected in large part, despite his off-putting demeanor, because he promised a better economy. He has delivered in part but has to keep on delivering. If the economy goes into a recession, that could translate into a voter search for a new economic solution and that could lead straight to the Democratic promise of “free everything.”



## The Mother of all Financial Crises

In case of recession it would behoove us all to protect ourselves with a permanent portfolio of gold, silver, land, cash, intermediate term-treasury notes, and private equity.

In effect Trump's probability of victory is simply the inverse of the probability of a recession in the next 18 months. If recession odds are 40%, then Trump's chance of losing is also 40%. The inverse is a 60% chance of winning. As goes the economy so goes Trump. The familiar adage "It's the economy stupid" hasn't changed.

Well, let's see what happens in November 2020.

D. Miyoshi

## The Mother of all Financial Crises



**A**lmost 11 years ago on Monday September 15, 2008 Lehman Brothers filed for bankruptcy.

Lehman had debts of \$619 billion. It was the biggest bankruptcy in history.

And over the next six months, the S&P 500 crashed 40%. This dragged the rest of the world into a financial panic that we remember all too well.

Now, let's imagine what happens when a debt pile worth more than \$22 trillion goes sour. That's more than 35 times Lehman's liabilities when it went bust...

There's never been a bankruptcy anywhere near that scale in history. But simple math tells us it could trigger the biggest financial crisis in history.

And, that would have huge implications for our wealth – even if you don't live where its going to happen.

This mother of all financial crises is not going to happen in New York where Lehman Brothers was located but is brewing more than 3,000 miles due East in Brussels, Belgium – the administrative capital of the European Union (EU).

Similar to what happened with the Soviet Union in the early 1990s, we have heard that the EU is breaking apart as a political and economic unit.

"Brexit" – Britain's ongoing attempt to break free from the EU – is one widely publicized fissure.

But as legendary crisis investor Doug Casey has been warning, Brexit is part of a wider trend – a trend away from the kind of centralization of power the EU represents...

It's not just the United Kingdom (UK) seceding from the EU, but Scotland from the UK. The Basques and Catalans may eventually secede from Spain. Belgium, a totally artificial country, may eventually break up into Flemish-speaking Flanders and French-speaking Wallonia.

As I write this article on Monday April 15, 2019, one of the most iconic edifices in the world, the Notre Dame has almost completely burned down. The question, which is not politically correct is, was this fire caused by an accident? Or worse? The word is an electrical short circuit is suspected to have been the cause of the fire. But it is a fact that recently many churches in Europe have been set on fire. We should note that exactly 6 years prior to the exact day (April 15, 2013) the Boston Marathon bombing occurred. Is this symbolic of what is happening in France now, which, as a matter of fact, is the most irreligious country in Europe. We have witnessed the secession movements in France including the Yellow Vest demonstrations in Paris and the riots taking place throughout the country.

Italy was only unified into its present form from scores of principalities, duchies, and baronies in 1871 by Garibaldi. It was the same with Germany until Bismarck in 1871.

In short, political power is being decentralized in Europe. It's breaking down into smaller units. Eventually, Casey says, this process will sink the entire EU project.

And when that happens, it will have massive implications for our wealth – no matter where in the world we are based.

Remember, the EU has the world's second-largest economy after the U.S...

And the euro – the currency shared by 19 of the 28 EU member



## The Mother of all Financial Crises

states – is the world’s second most traded currency, behind the U.S. dollar.

The euro is also the world’s second-largest reserve currency. And it makes up about one-fifth of foreign exchange reserves.

Then there’s the towering euro debt pile to consider.

There’s about \$22 trillion in debt denominated in euro – in the form of government (\$11.3 trillion) and corporate (\$10.7 trillion) bonds.

As we mentioned in the beginning, total eurozone debt now dwarfs Lehman’s debt pile when it went bankrupt. It also dwarfs the \$1.3 trillion in U.S. subprime mortgage debt outstanding at the peak of the subprime bubble in early 2007.

That was enough to send the global economy into a tailspin...

The so-called Great Recession that followed the Lehman bust led to a loss of more than \$2 trillion in global economic growth. Thousands of businesses went under. The damage was second only to the Great Depression of the 1930s.

So, you can begin to imagine what’s in store when the EU’s economy collapses.

And, like the Notre Dame fire, a financial inferno can spread in an instant. The 1997 Asian Financial Crisis is a classic example of how a crisis in one part of the world can quickly infect other parts of the world. As Nickolai Hubble, financial analyst with Agora Publications, explains, on July 4th 1997, a medium sized Thai property developer called Somprasong Land Development bondholders voted to default on an \$80 million debt. Over the next two days, it triggered the unimaginable contagion which became known as the Asian Financial Crisis.

And the effects were felt around the world. Hubble explains that as a result, the biggest ever drop in the Dow forced trading to be suspended for the day. One of Japan’s top ten banks failed, as did one of its top ten brokerage firms, sending the country into its first recession in 23 years.

Russia went into default after hiking interest rates to 150%. The “G7” richest nations had to create a rescue plan for Brazil. The International Monetary Fund (IMF) rescued three other nations. Three more escaped by the skin of their teeth.

It’s hard to overstate the damage this relatively small Thai default

wreaked thousands of miles away. Indonesia went from almost eliminating poverty to 40% of its population living below the poverty line within two years.

Keep in mind... that all stemmed from a default on just \$80 million in debt. That’s just a rounding error in comparison with the \$22 trillion debt pile that could go bad in an “End of the EU” scenario.

The analogy Hubble uses to describe how these things work is an avalanche...

Like snow at the top of a mountain... debt accumulates. You get a bigger and bigger pile until a trigger finally sends it careening down the slope.

The same thing applies to a financial avalanche. According to Hubble ...

If you look at the EU and American banking systems, and how interconnected they are, there’s no way you can say that the contagion from an End of the EU scenario won’t just spread to the U.S. very quickly.

All it takes is a U.S. bank that has lent a lot of money to a failing European bank. In Europe, governments have switched from “bailouts” to “bail ins.” Without getting too far into the weeds, that means that the folks who’ve lent to banks... are the ones who pay for the rescue.

As a result, the bank in America who thought it had a good loan with an Italian or a French bank, suddenly finds it’s owning worthless bank shares. And that could be the trigger that makes the crisis go global.

Of course, those of us who live in America, may not be interested in the ins and outs of European banking policy. So maybe if we don’t understand it, it won’t affect us so much.

But how much did the average American know about subprime mortgage bonds in 2006?

That’s the question we need to ponder.

We now know subprime mortgage bonds were financial weapons of mass destruction...

...and we know they detonated in 2007 and 2008 under the foundations of the global financial system.



## The Looming Government Default

But imagine if someone had tried to explain to you what collateralized debt obligations ("CDOs") were in, say, 2005 or 2006. Imagine they pleaded with you to listen to them about why they were primed to blow.

Your eyes probably would have glazed over. But had you been clued in... you could have saved yourself from having a huge chunk of your wealth wiped out when the crisis hit.

The same thing is true of the time bomb that is the end of the EU.

That's why I am writing this article to us living outside of Europe. It is hard to say exactly when the European crisis will hit. But it's important to be prepared before it does... not when it's too late.

Charging a fire extinguisher before the fire starts is much easier than after it begins.

D. Miyoshi

## The Looming Government Default



**I**n March, the national debt opened a new window. It surpassed \$22 trillion -- or nearly \$180,000 per taxpayer. That figure will roughly double within three decades, since spending on Social Security will also open a window when it faces a \$13.2 trillion cash shortfall between 2034 and 2092. Medicare and Medicaid will balloon as America's population ages.

Such stratospheric debt levels will be completely untenable -- it'd be like saddling every taxpayer with an additional mortgage on top of his or her existing housing, credit card and student loans. The lion's share of tax revenue would go toward interest on the debt, leaving little for safety net programs, the military or core government functions. By 2050, the federal government will spend more on interest

payments than Social Security, health care or national defense.

If our elected leaders had been responsible, they would have reformed entitlement programs long ago and eliminated pointless tax breaks to balance the budget. Unfortunately, it's too late for a "grand bargain" now.

Dramatically hiking taxes, or drastically cutting Social Security and Medicare benefits in the late 2020s or early 2030s when entitlement trust funds run dry, would send the economy into a depression. Ignoring the debt and indefinitely printing more money, as proponents of "modern monetary theory" effectively advocate, would lead to uncontrolled hyperinflation.

Our leaders have dug us into a hole. According to renowned economist Jim Rickards, the best way out is a "soft" default on the national debt.

A hard default, where the government simply refuses to pay its debts, would cause a global economic meltdown. Dollar-denominated Treasuries and federal reserve notes are the lifeblood of the global financial system. But a soft default -- a one-time devaluation of the dollar which enables the government to pay back its debts in full, albeit at a lower intrinsic value -- needn't be catastrophic.

Rickards explains how a soft default would work.

The Treasury would peg the dollar to gold, oil, natural gas or silver -- or perhaps a basket of those commodities. By choosing a weak valuation, for instance, \$10,000 per ounce of gold, compared to the current market price of roughly \$1,290 per ounce, much of the debt could be paid down thanks to a much weaker dollar.

To be clear, a soft default isn't a good idea. It certainly isn't moral. It'd hurt everyone who socked away money in bonds, certificates of deposit or savings accounts.

But realistically, a default of some kind will happen anyway -- simply put, the debt load isn't sustainable. A soft default is the least bad option. And we ought to bite the bullet now before we rack up even more debt.

The timing for a soft default is comparatively ideal. We have historically low unemployment and a growing economy. To prevent hyperinflation, the government would have to assure investors that the soft default was a one-time occurrence and that future politicians won't repeatedly pull the same trick. That'd require a law or perhaps even a constitutional amendment.



## The Father of AI

Under normal circumstances, Congress would never agree to this plan. But if the Trump administration acted unilaterally to peg the dollar to a commodity basket, the short-term chaos that would ensue in the financial markets could pressure Congress to support such a law or amendment.

Pegging the dollar to physical commodities would cause short-term instability, but ultimately strengthen our nation. It'd force our leaders to balance the budget since the Treasury and Federal Reserve wouldn't be able to create new money without producing an equivalent amount of commodities. The Founding Fathers favored a commodity-backed currency for that very reason -- they rightly worried fiat money would lead to irresponsible borrowing.

The United States could easily maintain such a peg. We have the world's largest gold reserves. We recently became the world's top producer of crude oil and have been its top producer of natural gas since 2009. And we remain one of the top ten silver-producing countries. This immense mineral wealth ensures that a commodity-backed dollar wouldn't leave us vulnerable to the whims of OPEC nations or major silver and gold producers.

America's looming debt crisis threatens not just our economic prosperity, but our national security. Seventy percent of all federal spending goes to entitlement programs and interest payments, leaving just 30 percent for the military and other discretionary programs. That ratio will become even more lopsided due to demographic changes -- by 2030, for the first time ever, there will be more seniors than children in the United States.

D. Miyoshi

## The Father of AI



The first time I heard about artificial intelligence (AI), I was at an investment conference in 1989. The lecturer informed us that in the future computers with artificial intelligence will be picking stocks for investment companies and financial agencies. It sounded both logical and simple. He went

on to explain he was using AI to manage money. At the time, I thought that AI was a recent discovery and that Einstein had developed it. I was wrong on both counts.

Much later in 2014 I saw the movie *The Imitation Game*, an historical drama about the British cryptanalyst Alan Turing who decrypted and broke the German intelligence code for the British government during World War II. It was an exciting and very well acted movie. I thought the protagonist Mr. Turing was a brilliant person and a true hero during WWII.

Moreover, artificial intelligence actually began way back in 1950. You see, Turing the brilliant person who broke the German intelligence code is credited with developing the first computer and who laid the foundation for AI.

Turing came up with a test for AI that changed the way we looked at computers. And nothing has been the same since...

### Alan Turing, the Father of AI

Turing was born in 1912 in Paddington, London. He was a computer scientist, mathematician, logician and cryptographer.

As depicted in the movie, one of his greatest accomplishments was breaking the code of the Nazi Germany Enigma machines during World War II.

Nazis used Enigma machines to protect diplomatic and military communication. It was a way to change the letters used in a message so that the message appeared scrambled or random to those who intercepted it.

In 1945, the National Physical Laboratory (NPL) in London recruited Turing to begin creating an electronic computer. Turing created a design for the Automatic Computing Engine (ACE). It was the first specification of an electronic stored-program, all-purpose digital computer.

The ACE was never built. The NPL thought that Turing's design was too difficult to build.

A smaller machine, the Pilot ACE, was built instead in 1950.

After Turing's arrival at the University of Manchester in 1948, he worked on the development of computers by designing an input-output system and a programming system.





## WHY IS AI SO IMPORTANT

Turing also wrote the first-ever programming manual. And his programming system was used in the Ferranti Mark 1 — the first marketable electronic digital computer.

Turing had many breakthrough accomplishments during his short life. Those accomplishments have been the basis of many technology advancements throughout recent history.

And this is especially true when it comes to the field of computer science, computers and AI.

“Can Machines Think?”

Turing initially asked this question in the opening of his paper “Computing Machinery and Intelligence” while working at the University of Manchester.

But because the word “think” is a hard term to define, Turing replaced that question with another: “Can machines do what we (as thinking entities) can do?”

Turing believed that this question could be answered. His quest to find the answer led to the creation of the Turing test.

This test measures whether a computer has the capacity to behave like a human being.

It involves three participants: a computer, a human interrogator and another human.

The interrogator has to identify which one of the two participants is human based on their replies to different questions — all within a fixed time frame.

If the computer is misidentified as the human, then the computer was successful at doing what we (as thinking entities) know how to do.

This was a breakthrough for Turing, and it happened in the mid-20th century. No doubt, he was ahead of his time.

AI Revenue Will Exceed \$89 Billion by 2025

Now, AI is a staple for most of the technologies and applications we use today. Every time you search for something through Google or get alerts from your bank when it notices “suspicious activity,” it’s all because of AI.

And that’s just the tip of the iceberg.

The benefits that this type of technology will have on our lives have just begun.

Every major company in the world is scrambling to use it. Every billionaire I know is ready to invest in AI.

PricewaterhouseCoopers estimates that AI will drive economic gains of \$15.7 trillion over the next decade.

And Statista, a leading provider of market and consumer data, projects that revenue from the AI market will swell to more than \$89 billion by 2025. That’s a 2,700% increase since 2016!

AI will touch approximately every industry and almost every part of our lives.

It’s that big.

But these are merely the early days of AI. Fortunes and vast new industries will be founded on the feats of AI for years to come...

All thanks to the foresight of a brilliant young Englishman back in 1950.

D. Miyoshi

## WHY IS AI SO IMPORTANT



Water filters, smoke detectors, non-stick pans, and cordless phones...

What do these four innovations have in common?





## WHY IS AI SO IMPORTANT

They're all products of the Space Race between the U.S. and the Soviet Union in the 1950s and 1960s.

So are satellite-based communications and satellite-based navigation, otherwise known as the Global Positioning System (GPS).

Most folks don't know it yet. But today, there's a new "Space Race" underway – one that will unleash an even bigger wave of technological innovation.

Except this time, it's being fought between the U.S. and its new chief rival, China.

And it isn't a race to the moon. It's a race to create the world's most advanced "thinking machines" – aka artificial intelligence (AI).

Why should you care about this battle for AI supremacy?

As you'll learn in today's dispatch, this is the mother of all tech trends.

And it will have even more profound effects on the technology we use and the world we live in than the Space Race did a few decades ago.

In fact, it will change nearly every aspect of our lives... even what it means to be a human.

That's because we're living through the first chapter of history when humans are no longer the smartest creatures on the planet.

According to Legacy Research's, Jeff Brown...

AI is the most disruptive technology of our age... by far. People will look back and see these breakthroughs that we're having right now in artificial intelligence as the next revolution. AI technology will remake our society in ways we can't yet predict.

It will also create new investment opportunities – from self-driving cars... to AI virtual assistants... to new types of AI-specific semiconductors.

Simply put, AIs are intelligent machines...

And depending on the task you set them to, some AIs are already smarter than we are.

Way smarter.

Take the ancient Chinese strategy board game Go. There are more possible Go board positions than there are atoms in the universe. There simply aren't computers powerful enough to calculate every possible outcome.

So to outsmart the top human Go player and win the game, an AI has to think for itself. It can't rely on crunching through a database of past moves, as most human-beating chess AIs do.

And in May 2017, that's exactly what happened. A Google-made AI called AlphaGo beat the world's No. 1 Go player, a Chinese man named Ke Jie.

Then, five months later, Google built a second AI that learned to play Go from scratch... except this time, without access to any human data about the game other than its rules.

As Google AI guru David Simon explained it...

It starts from a blank slate and figures out only for itself, only from self-play, and without any human knowledge, or any human data, or features, or examples, or intervention from humans. It discovers how to play the game of Go from first principles.

By running millions of simulated games against itself, AlphaZero was able to beat the best existing AI Go players in just 40 days.

Let that sink in for a moment...

The race to AI dominance will see hundreds of billions of dollars in investment... and the governments of the two most powerful nations on Earth will be throwing their full weight behind R&D.

We're only at the start of this race. But we're already living in a world where thinking machines are already smarter than people.

They don't even need to rely on humans to make them smart. They can figure stuff out on their own.

That includes figuring out the best way to make a nation's weapons systems impervious to a cyberattack. Or figuring out how to launch an unstoppable cyberattack against a rival's weapons systems.

AIs can also deliver more accurate targeting for weapons... help save the lives of wounded soldiers on the battlefield (via robotic surgical systems)... even help predict what the enemy will do next (AIs excel at spotting predictive patterns in data).





## WHY IS AI SO IMPORTANT

In short, whoever has the most powerful AI will have an unbeatable edge over any rival.

It's why China has launched a program to build the world's most advanced AI...

Two months after AlphaGo defeated Ke Jie at Go, the Chinese government announced a national development policy on AI.

It's called the New Generation AI Development Plan. And as Jeff put it...

China has put the stake in the ground – or better said, the sword in the ground. The aim of the new initiative is to make China the most dominant country in the world with respect to AI by 2030. That's it.

The government there is going to put laws in place to stimulate innovation. It's putting investment funds behind AI research. And it's putting a policy in place at the national level to support these initiatives.

China means business. And it's thrown down the gauntlet on AI dominance.

And the U.S. is answering this challenge...

In February, President Trump signed an executive order called the American AI Initiative.

Its goal is to make sure the U.S. is investing enough in research and development to remain the world leader in AI.

And you can expect a wave of new tech innovations to come out of the race for AI supremacy... just like what happened with the Space Race in the 1950s and 1960s.

AIs could give the U.S. or China a decisive advantage in warfare...

But having superior AI technology will also bring economic advantages.

Most folks aren't aware of it. But AI technology is already becoming part of our everyday lives. Here's Jeff...

Anyone that's used a search engine... spoken to an Amazon Echo

speaker... called into a call center... or driven a Tesla... has used AI without even realizing it. It's that pervasive.

AI is also being used right now for self-driving cars, image recognition, speech recognition, facial recognition, high-frequency trading, and network optimization.

And Jeff says that AIs will also be able to help us solve some of the biggest problems we face...

Machine learning can optimize any process, any development, any design. It will do everything from helping us design and develop nuclear fusion, which will be essentially limitless clean energy for the world... to analyzing crops to determine which parts of the field may need more or less fertilizer or water in order to improve yields... to helping educate every child on the planet.

This is why the AI industry is set to explode.

In 2017, the market for AI software was \$2.75 billion. By 2025, it's forecast to hit \$78 billion.

That's a 2,736% increase in just eight years.

It is said AI is the most disruptive technology of our age.

Over the next decade or so, advances in AI will bring such fundamental changes to our lives they'll dwarf all the technological progress we've seen in our lifetimes.

This begs the question, how can we profit as the AI mega trend plays out?

AI can help solve just about any problem you can think of...

So, as AIs get more and more powerful, we'll see a quantum leap in technological progress unlike anything we've seen before.

AIs excel at crunching through vast amounts of data to figure out patterns that predict certain outcomes. This gives them a superhuman ability to solve the problems humans struggle with.

For instance, an AI could help us figure out how to create nuclear fusion. This would give us an unlimited zero-carbon, non-combustion energy source... and radically transform the energy industry.



## Why is Europe Copying Japan?

An AI could also help us feed the world's growing population. From detecting pests on crops... to figuring out what crops will deliver the best yields... to predicting the exact moment of ripeness for fruits and vegetables... AI algorithms are also going to change farming for good.

AIs will also be able to help improve schooling. For instance, they'll be able to do the tedious task of grading, freeing up human teachers to spend more time with students.

And they'll help with individualized learning, too. Not everyone learns in the same way... or at the same pace. AI "teachers" will be able to customize lessons to suit individual students' needs.

AIs will even work for us as digital personal assistants...

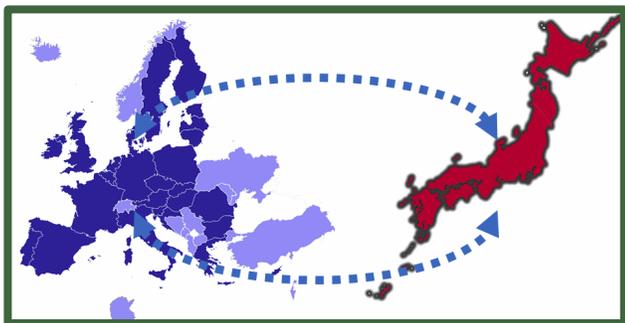
These days, corporate executives and other wealthy individuals have human personal assistants who manage their daily schedules... arrange their travel... and keep track of expenses.

But in the near future, an AI assistant will do those tasks. And it won't just be for the elites. Everyday consumers will have access to an AI assistant... just like we have access to more basic digital assistants such as Apple's Siri or Amazon's Alexa today.

It is evident that the country that maintains a controlling lead in AI technology will be best situated to economically and militarily dominate the other countries of the world. For some countries, this is the ultimate incentive.

D. Miyoshi

## Why is Europe Copying Japan?



When it comes to manufacturing, Japan has been called the best copycat of Europe's products. But according to Charles Hugh Smith, economic writer for the *Daily Reckoning*, when it comes to economies, perhaps Europe should be called the best copycat of Japan's economy.

We recognize these days that a popular theme in the financial media is the Japanification of Europe. Japanification refers to a set of economic and financial conditions that have come to characterize Japan's economy over the past 28 years:

Persistent stagnation and deflation, a low-growth and low-inflation economy, very loose monetary policy, a central bank that is actively monetizing debt, i.e. creating currency out of thin air to buy government debt and a government which funds "bridges to nowhere" and other stimulus spending to keep the economy from crashing into outright contraction.

The parallels with Europe are obvious, but they don't stop there: the entire world is veering into a zombified financial, economic, social and political status quo that is the core of Japanification.

While most commentators focus on the economic characteristics of Japanification, social and political stagnation are equally consequential. If we only measure economic/financial stagnation, it appears as if Japan and Europe are holding their own, i.e. maintaining the status quo via near-zero growth and near-zero interest rates.

But if we measure social and political decay, the erosion is undeniable. Here's one example. Few Americans have access to or watch Japanese TV, so they are unaware of the emergence of the homeless as a permanent feature of urban Japan.

The central state propaganda media is focused on encouraging tourism, a rare bright spot in Japan's moribund economy, and so you won't find much media coverage of homelessness or other systemic signs of social breakdown.

If you watch Japanese detective police procedural dramas, however, you'll find constant references to homeless people and homeless encampments: detectives seek witnesses to a crime in the nearby homeless encampment; a homeless man living in an abandoned warehouse is found murdered, etc.

Here's the core dynamic of zombification/Japanification: the top 25% are doing whatever is necessary to maintain the status quo because it works well for them, but the system is failing the bot-

## Why is Europe Copying Japan?

tom 75%, who must be politically, socially and economically neutered so they can't upset the apple cart.

Depending on the economy/society in question, one could argue that it's the top 40% defending the status quo and disenfranchising the bottom 60%, or it's the top 20% disenfranchising the bottom 80%.

The exact ratio doesn't matter; what matters is the status quo no longer works for the majority, but they are powerless to change the system because it's controlled by the minority who benefit so greatly from it being locked in its present setting.

By the way, this is not the result of free market capitalism, but crony capitalism on a massive scale. A true free market system would afford far more opportunity and mobility.

The other dynamic of zombification/Japanification is: past success shackles the power elites to a failed model. The greater the past glory, the stronger its hold on the national identity and the power elites.

And so the power elites do more of what's failed in increasingly extreme doses. If lowering interest rates sparked secular growth, then the power elites will lower interest rates to zero. When that fails to move the needle, they lower rates below zero, i.e. negative interest rates.

When this too fails to move the needle, they rig statistics to make it appear that all is well. In the immortal words of Mr. Junker, when it becomes serious you have to lie, and it's now serious all the time.

The necessity of neutering the majority politically, socially and economically manifests in two destructive ways: young people who opt out (or are frozen out) of the failed status quo do not mate and have children, do not buy houses, new cars, etc.

This sets off a demographic time bomb that guarantees the implosion of the financial promises made by the self-serving status quo. This is social depression, and once it is embedded it is essentially impossible to reverse.

Needless to say, if young people no longer have kids and no longer make enough money to buy houses, cars, etc., the economy is doomed to stagnation and decline as old people don't spend much. That leaves the entire economy's spending and borrowing on the top 10% who are doing splendidly.

But the top 10% cannot hold up the entire economy for long. That fragility is exposed once one of the many rotten props holding up the status quo collapses.

The second option is political upheaval, i.e. populism. When the losers in the winner-take-most economies of the world (and every economy is now winner-take-most once you scrape away the PR and propaganda) have had enough, they take to the streets.

Beating them, shooting them, vilifying them and so on only hardens their resolve to bring the status quo crashing down, regardless of the damage.

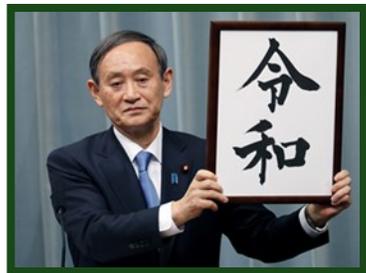
Either way, the brittle status quo collapses from political rebellion (i.e. USA). Or from social depression or the fragility that arises from pursuing ever more extreme measures of defending the status quo's winners at the expense of the many losers.

Zombification/Japanification is not success; it is only the last desperate defense of a failing, brittle status quo by doing more of what's failed. Japan has perfected the art of managing decline while maintaining the illusion that the status quo is solid and permanent.

In this, the entire global status quo is embracing Zombification/Japanification. By all the usual economic measures — growth, national debt, percentage of tax revenues devoted to interest on the debt, and so on — it is heading down the same track. How long can the status quo continue to maintain the facade of solidity?. Maybe by the end of 2019 we will know the answer to that.

D. Miyoshi

## What Japanese Think of Americans



**O**n April 1, 2019, the Abe administration announced that the name for Japan’s next Imperial era would be Reiwa. Reiwa is the combination of two words, namely “Rei” meaning “Order/Auspicious” and “Wa” meaning “Peace/Harmony.” Definitely, two qualities we could well do to emulate here in the west.

I love the culture of Japan to the point that I married a lovely Japanese woman (who has since shelved some of the aspects of Japanese culture for the free spirit features of western culture).

As an attorney, my first job was in a Tokyo International law firm. It was a fascinating and eye-opening experience. It was here I learned that learning still more from the Japanese could do us Americans a great deal of good.

But on the other hand, while I continue to love Japan, I have also come to understand the things the Japanese appreciate (and not so appreciate) about America.

To most of the world, we Americans have an unfortunate reputation of being loud and aggressive. This is a stereotype that is too often earned. The contact made with Americans in Japan or Japanese visits to the US often belies the notion of the blustering American. America tends to celebrate the individual at the expense of the group. When it comes to how Americans in general are perceived by people who have never met them, Japanese perceptions can seem very unfair and undeserving.

By and large, the Japanese view Americans as open and friendly, as opposed to being more reserved and shy. The flip side to this coin is that America is considered a violent place with prolific crime. Japan has the lowest homicide rate in the world, yet Japan has 40% of the US population squeezed into a land area smaller than California. It makes sense that there are complex

rituals and polite personal protocols in place to reduce friction. Americans live in a more spacious country and tend to be just as open with their feelings and passions, often providing opinions where none were requested which can lead to some rather lively conversations. The world media reinforces the stereotype that Americans are fat, gun toting, selfish consumers. Perhaps this is an unfortunate case of “you are what you are portrayed to eat”. Evidently all Americans drink extra-large beverages, eat Dunkin Donuts daily, and forever munch burgers that are at least 1.5 times bigger than those served in Japan.

The American Pew Research Center poll revealed that most Americans and Japanese “trust” each other either a great deal or a fair amount, but opinions diverge when it came to assigning national traits. The vast majority of Americans view Japanese as hardworking, inventive and honest, but unfortunately the Japanese weren’t quite as eager to assign the same traits to Americans.

Only 37% of Japanese considered Americans “honest.” That rate dropped to 25% for “hardworking.” But 67% could agree that Americans were “inventive” (must be all those phone apps). Aside from a few personal misgivings, both populations were united in their belief that the countries should maintain strong relations as China’s military power grows.

**Americans, Japanese See Each Other Through Different Lenses**

*Which characteristics do you associate with \_\_\_*

	American views of Japanese	Japanese views of Americans
	%	%
Hardworking	94	25
Inventive	75	67
Honest	71	37
Intolerant	36	29
Aggressive	31	50
Selfish	19	47

Source: 2015 Pew Research Center survey. Q4a-f.  
PEW RESEARCH CENTER

## What Japanese Think of Americans



Advancing in a Time of Crisis



Financial Crisis Report



David M. Miyoshi is a California attorney at law 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.

The youth in Japan are far more gracious than their grandparents of the war years with 76% saying that Americans are clever and inventive. Younger Japanese also embraced rock-n-roll and produce their own brand of music that goes beyond imitation and integrating English lyrics. One OK Rock is an example of excellent music produced by Japanese rock bands.

World War II is now 70 years in the past. Baseball is now the National game in Japan since it gained popularity in the 1880's. Nippon Professional Baseball has 12 professional teams in two leagues.



vs



Baseball has been taken from American roots and customized to mesh with Japanese philosophy. Things work through "consensus and compromise, not through confrontation".

Unlike American baseball, Japanese baseball games can end in a tie. ... If there is no winner after 12 innings, the game is declared a tie; these games count as neither a win nor a loss to team standings or to postseason series (settling for a tie may be a bit too unsettling for the American spirit).

Also, there is no free agency or agents representing players whose salaries are kept confidential to maintain harmony (there is that "wa" again). Cromartie, an American player in Japan called

Japanese baseball "work ball" because, among other reasons, there is no such thing as a day off in the Nippon league.

While the distance between Japan and America can be measured in miles, the gulf between cultures is wider and requires a different yardstick for comparison. Americans are judged by their exports. Movies, TV and news does not improve (but perhaps may exacerbate) the Japanese notion that Americans are prone to violence or eat too much. The divide between individualism vs. group promotion can't be bridged by a single span nor one proved superior to the other.

In Japan there is an entire grammatical rule-set and vocabulary for speaking respectfully to others called keigo. Perhaps a little dash of this cultural etiquette would benefit America and earn greater respect abroad (are you listening president Trump?).

For the most part president Trump's programs and policies have been efficacious in advancing America's interests both domestically and abroad (albeit the Democrats would take issue with this assertion). In any case, maybe some Trump supporters would like to don caps bearing "Make America Respected Again (MARA)." It's worth a try.

D. Miyoshi



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

Phone: +1-310-378-0615  
Fax: +1-310-378-0000  
E-mail: david-miyoshi@us.mcmillanwoods.com  
www.mcmillanwoods.com

If you would like to unsubscribe to this newsletter please email to [info@mcmillanwoods.com](mailto:info@mcmillanwoods.com)