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Financial Crisis Report

Advancing in a Time of Crisis

Words of Wisdom "You can always count on the Americans to do the right thing after they have tried everything else." Winston Churchill

Inside this issue:

Except for the Great Depression, we are experiencing the most economically unstable period in the history of the modern world. This period will be marked with extreme fluctuations in the stock, commodity and currency markets accompanied by severe and sometimes violent social disruptions. As is typical of such times, many fortunes will be made and lost during this period. After talking with many business owners, executives, professionals and government officials from around the world, the writer believes that for the financially astute investor, this is a time of unprecedented opportunity given the global trade unbalances and distortions in the commodity and currency markets. The *Financial Crisis Report* is a free compilation of the opinions of David Miyoshi as well as of those advisors he himself subscribes to (with appropriate credits given) on how to benefit during this time of crisis. The writer receives no compensation of any kind from any advisors whose articles or ideas may appear in this report. The reader is welcomed to check on all sources of information mentioned herein. Because the opinions and observations of this writer and other advisors are provided herein without charge, the reader is asked to make his/her own judgment on the contents.

Trumps Undoing?

In June 2019, President Trump tweeted that if he is not reelected president in 2020, there will a "Market Crash the likes of which has not been seen before!"

The worst stock market crash in history (at least so far) began on October 24, 1929. Historians call it Black Thursday. It was the beginning of a four-day earthquake in equities. The stock market crash ripped the bottom out of the economy and catalyzed the Great Depression.

The Dow Jones Industrial Average dropped 25% in value during that crash. Therefore, Trump is predicting if a Democrat is elected in 2020, the Dow could lose even more than 25% of its value. In other words, at today's benchmark around 26,000, Trump foresees the Dow potentially below 20,000 in this blue wave scenario.

Most presidents avoid talking about a rising market because they know how fragile it is.

There's a reason most presidents are cautious when talking about the stock market. The stock market can go down easier than going up. This became evident in this last week of February.

Now President Trump is experiencing the downside of having spent the last three years personalizing much of what happens in the markets and the economy, saying that the soaring stock values under his watch are a reflection of his special ability, and a central part of his case for re-election in November.

Most presidents avoid boasting about a rising stock market because they know how fragile it is, and how little control over stock prices they really have, and how stock prices can move sharply for reasons outside their control, or sometimes for no clear reason at all.

The cost of claiming personal credit for stock market gains comes when you get stock market losses. And that is particularly relevant after the more than 10 percent drop in the S&P 500 in less than a week seemingly caused by a recognition on Wall Street that the spread of coronavirus could disrupt the world economy.

"I think the stock market is something I know a lot about," President Trump said in a news conference Feb 26. "I think the stock market will recover. The economy is very strong." He also said the stock market decline was partly a result of the Democratic presidential candidates' rhetoric on the debate stage on Tuesday.

It's evident the outbreak of the new type of coronavirus in China and its spread to other nations was not something Mr. Trump could have prevented. But even as the CDC began to warn that many Americans may become infected, the Trump administration devoted lots of effort to talking up the stock market.

Trumps Undoing?

"Stock Market starting to look very good to me!" the president tweeted shortly after the market closed Feb 24 after a 3.5 percent drop.

It went on to close out the week losing more than 3500 points, one of the worst drops in its history.

On Feb 26, President Trump seemingly blamed the stock market sell-off on alarmist coverage by cable news networks and said the country was in great shape.

If the sell-off continues in March, it will undermine a key pillar of the president's re-election pitch. That might be less of an issue if Mr. Trump had not so frequently spoken of the stock market as a real-time barometer of his presidency's success.

But, according to Neil Irwin, senior economist at *The Upshot,* there's more at stake than public relations. There's also the risk that the administration's focus on the optics of the market distracts them from the bigger task at hand — <u>trying to protect against the potential spread of disease and loss of life that would accompany a global pandemic.</u>

Ideally, even economic officials who don't have expertise in disease transmission would spend their time trying to understand what industries are likely to be heavily affected and whether government can do anything to help them work through the supply chain disruptions and other bad effects of the virus.

On Feb 27, the chief White House economic adviser, Larry Kudlow, was interviewed on CNBC in the midst of the sell-off, and focused on talking up the markets.

"The virus story is not going to last forever," he said on "The Exchange." "To me, if you are an investor out there and you have a long-term point of view, I would suggest very seriously taking a look at the market; the stock market, that is a lot cheaper than it was a week or two ago."

Kudlow then proceeded to suggest that fears that the virus would spread and cause major damage to the U.S. economy were misplaced.

"We have contained this," Mr. Kudlow said. "I won't say airtight, but it's pretty close to airtight."

But that's not what public health officials said, in a briefing that same afternoon.

"It's not so much of a question of if this will happen anymore, but rather more of a question of exactly when this will happen," said Dr. Nancy Messonnier, director of the National Center for Immunization and Respiratory Diseases.

"We are asking the American public to prepare for the expectation that this could be bad," she added.

The effort to set an optimistic tone on the markets was clearly at cross-purposes with what public health officials see as necessary to minimize the damage from a potential pandemic.

"It's understandable that the administration, in an election year, is focused on keeping the stock market and the economy strong," said Michael Steel, a partner at Hamilton Place Strategies and former spokesman for House Speaker John Boehner. "But they risk creating the impression that they're more focused on the economic impact of the virus than effective public health measures."

Then there is the broader question of credibility. During the global financial crisis in 2008, White House and Treasury officials were acutely aware that if they seemed too boosterish in public comments on the crisis, it would undermine their credibility and the sense in markets that they were taking the threat seriously enough.

When the government announces some important good news toward resolving a crisis — whether it's that banks have adequate capital or that a pandemic has been contained — you want people to believe it, which they will do only if the same government has been upfront about the realities of that crisis to begin with. Neither the president's tweets nor Mr. Kudlow's interviews suggest this administration is overly worried about this idea.

Imagine a company facing a major crisis, like a safety recall of its products, which in turn causes a plunging stock price.

If the company's executive team devoted all its energy to going on TV to complain about the falling stock price, it probably wouldn't do much good. If the team instead ignored the stock price for a while and tried to fix the safety problem and show consumers that the company was reliable, it still might take a while for the stock to recover, but eventually it probably would.

The risk for the United States is that the Trump administration, given election-year politics and the president's penchant for personalizing the markets, follows something more like the first strategy.

This is especially concerning when you consider what Yale professor and Nobel Laureate Robert J. Shiller said on the subject.

Shiller believes that President Trump's personal narrative is unlikely to survive a severe economic downturn because people pull back during such periods and reassess their views and the stories they find believable.

Shiller explains that part of Trump's genius has been to pursue for a lifetime the features that have sustained narrative contagion: showcasing glamor, surrounding himself with apparently adoring beautiful women, and maintaining the appearance of vast influence. Trump

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had firmly embraced this career strategy by 1983, when an article in the *New York Times* entitled "The Empire and Ego of Donald Trump" reported that he was already, in that year, "an internationally recognized symbol of New York City as mecca for the world's super rich."

Consider his interest in professional wrestling – a form of entertainment that attracts crowds who by some strange human quirk seem to want to believe in the authenticity of what is obviously staged. He has mastered the industry's simulated style and uses it effectively everywhere to increase his contagion, even going so far as to participate in a fake brawl in 2007. Trump had the good luck to be invited to host a new reality television show in 2004 called *The Apprentice*, which featured real-life business competition. He immediately saw the opportunity of a lifetime to advance his public persona, becoming famous for a tough-love narrative. "You're fired!" he would bark at losers on his show, while also showing some warmth to winners and losers alike.

Now that Trump has established a contagious narrative, he continues to live out his TV show persona. At the Republican Party's 2016 convention, after portraying the U.S. as a declining power, he declared, "I alone can fix it." Accordingly, he has fired his top officials at an unprecedented rate, ensuring that no one of independent stature remains part of his administration. This has established a new form of arbitrariness in the U.S. government, the Trump whim, which, given the linkages of the U.S. and global economies, can affect the entire world.

None of this is original. Trump has been pursuing a variation on a recurrent narrative that dates back thousands of years. The ancient cynic Lucian of Samosata, in a second-century essay on oratory, "A Professor of Public Speaking," describes to would-be leaders how one can exploit a power narrative by acting it out in one's own life:" ... In your private life, be resolved to do anything and everything, to dice, to drink deep, to live high and keep mistresses, or at all events to boast of it even if you do not do it, telling everyone about it and showing notes that purport to be written by women. You must aim to be elegant, you know, and take pains to create the impression that women are devoted to you. This also will be credited to your rhetoric by the public, who will infer from it that your fame extends even to the women's quarters. "For Lucian, this narrative does not describe reality, but creates it. What matters is not substance, but consistency: "Bring with you, then, as the principal thing, ignorance; secondly recklessness, and thereto effrontery and shamelessness. Modesty, respectability, self-restraint, and blushes may be left at home, for they are useless and somewhat of a hindrance to the matter in hand … If you commit a solecism or a barbarism, let shamelessness be your only remedy."

Of course, in an era when people usually did not live as long as they do today, Lucian could not have imagined that one could plan to maintain narrative consistency for 50 years. Nor can such a narrative be sustained forever. And the end of confidence in Trump's narrative is likely to be associated with a recession (or huge stock market downturn). During a recession, people pull back and reassess their views. Consumers spend less, avoiding purchases that can be postponed: a new car, home renovations, and expensive vacations. Businesses spend less on new factories and equipment and put off hiring. They don't have to explain their ultimate reasons for doing this. Their gut feelings and emotions can be enough.

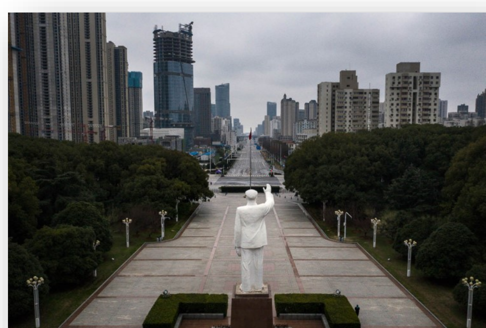
So far through February 2020, with his flashy lifestyle, Trump has been a resounding inspiration to many consumers and investors. The U.S. economy has been exceptionally "strong," extending the recovery from the Great Recession that bottomed out just as Barack Obama took over the U.S. presidency in 2009. The subsequent U.S. expansion is the longest on record, going back to the 1850s. Ultimately, a strong narrative is the reason for the U.S. economy's strength.

But motivational speakers often end up repelling the very people they once inspired. Witness the reactions of students at Trump University, the fraud-based school its namesake founded in 2005, which shut down by multiple lawsuits a half-decade later. Or consider the sudden political demise of U.S. Senator Joe McCarthy in 1954, after he carried his anti-communist rhetoric too far. There is too much randomness in Trump's management of the presidency to make persuasive predictions. He will surely try to stick to his public narrative, which has worked so well for so long. But a severe recession will likely be his undoing. And even before economic catastrophe strikes, the public may begin paying more attention to his aberrations – and to contagious new counternarratives that crowd out his own (not to mention contagious viruses).

As we enter the month of March and on through November, things will come into more focus and we will see if the American people will ultimately say to President Trump "Your fired!."

D. Miyoshi

Is the Coronavirus Man Made?



This is a question that was recently circulating in the social news site Reddit but was suddenly and inexplicably removed citing efforts to combat misinformation. But the question, is it man made, still remains in the realm.

In the Marine Corps, before Vietnam I was sent to Nuclear Biological and Chemical Warfare school at El Toro Marine Corps Air Station in California to become the Yuma Air Station officer in charge of nuclear, biological and chemical warfare. I had to learn how to organize, conduct and direct a defensive stand of the air station in

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case we were ever attacked by either a nuclear, biological or chemical (NBC) weapon. In 1967, Marines believed there was a "snowballs chance in hell" this would happen. Expecting this assignment to be a sinecure, NBC school at El Toro actually turned out to be a blast (no pun intended) because on the weekends I was able to visit my parents in Gardena California.

But now with the recent outbreak of the coronavirus in China, Japan, South Korea, Italy, Iran, Croatia, Austria, Switzerland, U.S. and elsewhere, I am now thinking the one month I spent in El Toro studying strategies to defend and defeat a biological attack could perhaps become useful at last.

After the question "is Coronavirus man made?" was suddenly and inexplicably deleted from Reddit, my curiosity was piqued and I was inspired to search for an answer all the while knowing that if the coronavirus is man-made, then the reason why the question was suddenly deleted from a website becomes obvious. But, no matter, I wanted to find out what I could.

My search led me to a recent interview by the consulting firm *Geo-Politics and Empire* by Dr. Frances Boyles that was broadcast on Feb 6, 2020 over KPOO in San Francisco. That interview gave me some intriguing insights into the matter.

Here is a gist of the interview.

Dr. Frances Boyle is a Harvard educated Bioweapons Expert and international lawyer and current professor of international law at the University of Illinois.

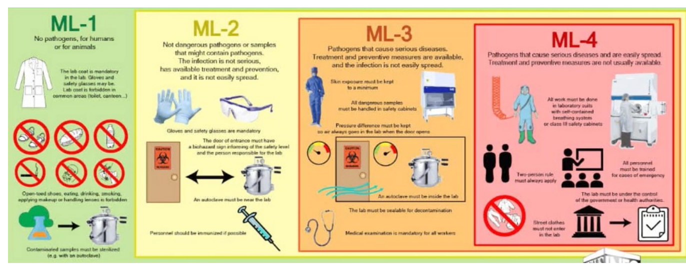
He received an AB (1971) in Political Science from the University of Chicago, then a Juris Doctor degree *magna cum laude* from Harvard Law School, and AM and PhD degrees in Political Science from Harvard University. He practiced tax and international tax with Bingham, Dana & Gould.

Dr. Boyle wrote the legislation for the biological weapons convention known as *the Biological Weapons and Terrorism Act of 1989* that was approved unanimously by both houses of the U.S. Congress and signed into law by President Bush. He is author of the book *Warfare and Terrorism* available on Amazon.

In the interview Dr. Boyles gave his professional opinion that in all likely hood the coronavirus otherwise known as COVID-19 was a genetically engineered virus that was likely released accidentally from the Biosafety Level 4 (BSL-4) laboratory located in Wuhan, China. He firmly believes it did not begin from a fish market or because a person ate some tainted bat stew. Dr. Boyles also believes that the infamous SARS, another coronavirus, may have also been released from this same laboratory.

Biosafety Level 4 laboratories are located around the world including in America and Europe and are used for diagnostic work and research on easily transmitted pathogens which can cause fatal disease. These include a number of viruses known to cause viral hemorrhagic fever such as Marburg virus, Ebola virus, Lassa virus and Crimean-Congo hemorrhagic fever. Other than that, they have no scientific or medical purpose. They are designed to test, research, develop and stockpile offensive biological weapons. They also develop vaccines but only after genetically engineering a bioweapon and then reverse engineering it, do they to create a vaccine to inoculate the friendly forces if and when the bioweapon is launched. BSL-4 labs are quite common here in the U.S. and other developed countries. In fact, St. Jude Hospital founded by celebrity Danny Kaye has its own BSL-4 lab.

Below is a table listing the 4 levels of pathogen lethality that are researched including ML-4 pathogens researched by BSL-4 labs.



Regarding COVID-19, Dr. Boyles says it is a form of the SARS virus that was "turbocharged" by mating it with a flu virus to increase its communicability as well as HIV to increase its lethality. It is likely that somehow a live edition of the vaccine for COVID-19 unintentionally got out causing the current epidemic. Since that time the Chinese government has been lying and covering it up.

Interestingly, the Wuhan BLS-4 lab is a World Health Organization sponsored facility and WHO is very likely aware of the details of the release but is keeping it secret from the public, probably to avoid being embarrassed and causing panic and hysteria.

According to *Lancet* the publication of the American Medical Association, COVID-19 has a lethality rate of 15% and an infectivity rate of 83% with a spreading radius of 6 feet (SARS has a 3 feet spreading radius), an incubation period of at least 14 days and can be asymptomatic in that a person can carry it and not display any symptoms. It should be noted that on Feb 9, the death toll from COVID-19 surpassed that of SARS. By the end of the SARS epidemic, 8,000 people had been infected. Already in mid Feb, more than 73,000 people have been diagnosed with COVID-19, and some experts think undetected milder cases push the true tally even higher.

Dr. Boyle calls for the shutdown of all BSL-4 laboratories in China and the United States as well as around the world due to the dangerous failure of health and safety measures being taken at these facilities.

Additionally, Dr. Boyles says he was considering the possibility that the coronavirus is race as well as gender and age specific (i.e. it was developed to infect primarily young Asian males). Dr. Boyles admits that countries including China, America, Canada, Britain, Israel and South Africa to name a few, have conducted research on de-

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veloping race specific bioweapons. As for why this current coronavirus can be race specific, we can only speculate. Perhaps in the wake of China's past population control policies that led to the killing of an estimated 400 million female babies and resulted in a serious unbalance in the gender ratio allowing young Asian males to be the vanguard of the current unrest and protests being waged against the Xi Jinping regime, perhaps this virus was hideously developed to deal with this problem. Admittedly this is only a guess as to why the coronavirus could be race, gender and age specific. Of course, as the virus mutates, it will come to infect other ethnic groups especially Latin which share a similar DNA structure to Asians. However, official reports now show that in other parts of the world non-Asians have been infected including Italy, Iran and others. It appears non-Asians have been officially infected by COVID-19 which would preclude the idea that the virus is race specific.

Why countries engage in developing lethal bio weapons

Dr. Boyles is against the development of biological weapons and advocates that America cease this practice by making it punishable by life imprisonment as promulgated in *the Biological Weapons and Terrorism Act of 1989* that he authored. But Dr. Boyles calculated that in America in 2015 there were over 13,000 "Life Scientists" involved in the research, development and testing of biological warfare agents. The reason why? Money. Since 9/11 through 2015 the U.S. spent over $100 Billion on research, development and testing of biological warfare agents. This largess has provided the inducement for these so called "Life Scientists" to work in these projects. Since 2015, the U.S. has continued to spend about $5 Billion per year on these projects for a sum total of approximately $120 Billion. To put this into prospective, on a constant dollar basis, Dr. Boyles estimates that America spent approximately $40 Billion on the Manhattan Project to develop the atomic bomb. This leads Dr. Boyles to believe America has an offensive bioweapons industry that goes back to at least the Reagan era, if not earlier.

So this begs the question, is the impetus for developing lethal biologically based weapons a simple matter of greed over ethics or is there an overriding need to adequately protect one's country at the expense of morality that prompts nations to spend enormous sums of money on such projects?

Recently President Trump gave his endorsement of President Xi's program to quell the coronavirus epidemic. But why did President Trump give his approval?

Politically, Dr. Boyles is an independent. He did not vote for President Trump or Hillary Clinton and does not believe in the ideology of either the Republicans or Democrats. But Dr. Boyles believes that President Trump is being led astray by his many science advisors who are deeply benefiting from the spoils of the bioweapons industry. Dr. Boyles believes these advisors did not inform President Trump that the original purpose for the coronavirus was to be an offensive bio weapon and that President Trump should fire all these advisors and shut down the BDL-3 and BSL-4 labs in the U.S. But Dr. Boyles knows this is easier said than done. In order to develop vaccines against biological agents, one needs to first develop the biological agent. If other countries are doing this, it results in a bio weapons arms race which if not engaged in, will defeat you. In the eyes of many, in order to make America Great again, getting out of the bio weapons arms race is simply not an option.

In the end, Dr. Boyles says he does not have an answer to this conundrum and believes we each have to take the course our moral compass leads us in how to deal with the matter.

Is there a coverup?

Following the U.S. anthrax attacks in 2001, Dr. Boyles gave three interviews, one to Fox News in Boston, another to a radio station in Washington DC and finally to the BBC in which he stated he believed the source of the anthrax came out of a U.S. government led facility that was researching biological weapons. After these interviews were given, the order went out to the main stream media never to interview Dr. Boyles again in the U.S. or Europe. And thereafter Dr. Boyles was never interviewed again about biological weapons by any main stream media source. This is fairly solid evidence that, at least by the main stream media, there is a cover up of this matter.

What else is new?

As I wrote this article during the last week of February, the U.S. stock markets plunged more than 12.4% from a record high hit just before on Feb 12, the biggest correction ("fall?") since 2008. The coronavirus can turn out to be the dreaded Black Swan event, the inevitable but unexpected event that obliterates the status quo. For sure President Trump is now dusting off his worry beads.

Near the end of February, news trickled out from China that even after patients have been apparently cured of the virus, it has come back to infect them, not because it has mutated but because this is the nature of the beast (pun intended). If this is true, this is extremely concerning.

Overall, the reported deaths worldwide are now well over 2,900 and the confirmed cases of infections over 83,000. Of course, realistically the actual number of infections is much, much higher, as many more people with mild symptoms don't go to hospitals or doctors at first. It's like the classic "under the surface" picture of an iceberg.

Three well-connected experts have told our advisor Bill Bonner that the infections are more like 10 times what China is reporting – suggesting as much as 800,000 infections.

A study by Imperial College London estimates two-thirds of cases have not been reported. That would suggest at least 230,000 infections. A study by doctors from Henan Province, north of Wuhan, revealed that a woman with no symptoms over 19 days spread the infection to five family members.

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The normal incubation period without symptoms has been estimated at two weeks… now it looks like it can be longer, up to 24 days. This long incubation period is the most dangerous part of this disease – not its lethality rate compared to others. It means that it can spread faster without being visible rendering it difficult to contain or mitigate easily… and that's exactly what appears to be happening.

The global areas most projected to get hit at this point are East Asia, Mongolia, East Russia, Northeast India, South Africa, Northern Europe, New Zealand, and the very low population in the upper northwest of Canada. Bill Gates has warned that this could end up killing 10 million in Africa. Thus far, the U.S. and Australia look the least vulnerable, albeit cases in the U.S. are now slowing increasing.

On February 25, Dr. Nancy Messonnier, head of the Centers for Disease Control and Prevention informed Congress that Americans should begin preparing for the possibility of coronavirus outbreaks at the community level. This is because a spike in illnesses outside of China has stoked fears that global travelers returning to the U.S. will accelerate the spread of the virus too quickly for health officials to trace. More than 95% of the 80,400 cases have occurred in mainland China, but cases have spiked over the past week in February in places like South Korea (almost 1,000 cases), Italy (320), and Iran (100).

It should be noted that Dr. Messonnier is reported to be the sister of Rod Rosenstein, the former Director of the FBI who was involved in the Russia Spygate Investigation of President Trump. While the CDC is saying there is a distinct possibility of an epidemic breaking out in the U.S., President Trump is saying there is no imminent threat of an epidemic. This begs the question, on what information is President Trump downplaying the threat and if he is wrong won't his detractors use this to try and get him out of office. Why did the CDC order the states not to test suspected carriers until now? Given that time to incubate in the U.S., will there be a sudden outpouring of cases as happened in Italy? Can this be a setup by blaming these cases on President Trump?

Also, at this time the economic fallout tab for the U.S. is a big unknown. It depends on how hard the coronavirus will hit, which at this time is hard to know; how long outbreak conditions will last (whether weeks, months, or longer); and most unknowable of all, the level of psychological impact. A financial crisis is one thing but an existential crisis, the likelihood of which is extremely low, is entirely another. A big question that now looms is if this becomes an epidemic requiring travel restrictions, how will this affect the outcome of the November presidential elections?

As a general rule of thumb, panic is rarely a good idea, but risk management is always a good idea. Keeping that in mind, it makes sense to be aware that this could get worse — while holding out hope that it doesn't — to avoid being blindsided if worse scenarios come to pass.

If COVID-19 is a bio-weapon that was either intentionally or accidentally released (the likely case), the central question remains what country and or agency was responsible for this? Also, what will be the response of the victimized countries and will they be able to distribute a vaccine in time (or if they already have a vaccine, when will they release it).

In 1967 we thought it highly improbable a country or agency would use biological weapons to impose its will. We don't think that way anymore.

The situation in Asia and the rest of the world is now becoming very dire and I am looking for my notes on biological warfare that I had taken a long time ago at Marine Corps NBC school El Toro.

I will keep you posted of future developments.

Semper Fidelis,

D. Miyoshi

Can You Afford It?

For those who like to go to restaurants and don't notice that menu prices have gone up, you likely own a lot of stocks and/or real estate. Those who are more or less bereft of assets will more than likely have noticed the rise in prices.

This gap in perception is because the breach between the wealthy and those who are not is widening in America. And because of the Fed's current monetary policies, this hiatus will worsen.

In fact, in 2020 the increasing monetary and fiscal stimulus by the Fed will be the equivalent of spraying gasoline on a fire to extinguish it.

Economically, the 11 years since the Global Financial Crisis of 2008-09 have been one relatively coherent era of modest growth, rising wealth/income inequality and coordinated central bank stimulus every time a crisis threatened to disrupt the domestic or global economy.

Can You Afford It?

This era will draw to a close in 2020 and a new era of destabilization and uncertainty begins. Why will all the policies that have worked so well for 11 years stop working in 2020?

All the monetary/fiscal policies of the past decade were simply extreme versions of tried-and-true policies that central banks and governments have used for the past 75 years to restore growth in a recession or financial crisis: lower interest rates, increase credit/liquidity, and ramp up government spending (i.e. deficit spending) to compensate for declining private-sector spending.

These policies were designed to be short-term stimulus programs to jump-start the economy out of a slowdown (recession), which typically lasted between 9 and 18 months.

<u>These policies are now permanent, as the system is now dependent on these policies</u>. Any reduction in central bank stimulus causes a market crash (witness the 20% drop in 2018 as the Fed slowly raised interest rates from near-zero) and any reduction in deficit spending threatens to trigger a recession.

The problem is that these policies create distortions that cannot be fixed with more of what caused the distortions in the first place: more extreme monetary and fiscal stimulus.

Systemic distortions include:

A. Soaring wealth-income inequality across the entire global economy.

B. Dependence on asset bubbles to generate the "wealth effect" that encourages spending by the top 5% who own two-thirds of the assets bubbling higher.

C. Dependence on asset bubbles to generate capital gains and property tax revenues for state/local governments.

D. Loss of cost discipline: the solution across the entire spectrum -- government, corporate and household -- is now to borrow more, not trim costs via innovation or increases in productivity and efficiency.

E. Reliance on debt to fund spending leads to rising defaults which will collapse the system. (Soaring auto-loan defaults are the canary in the coal mine).

F. Zero interest rates have generated over-capacity/over-production as everyone seeks a return on capital by expanding market share. Now there are global gluts in everything from autos to natural gas to electronics.

G. With the yield on savings now less than zero due to inflation, investors must gamble in the asset-bubble casino as this is only available way to earn a return.

H. Buffers are thinning. Those in know have discussed this over the years; dependence on stimulus lowers systemic resilience, rendering the entire system increasingly vulnerable to a phase-shift that fatally destabilizes the system.

I. Prior to the 2008-2019 era, the "real economy" of sales, wages and profits led the stock market. Now the stock market dominates the real economy, as the central banks have turned the stock market into the 'signaling device' that all is well and the source of bringing demand forward (i.e. the wealth effect), which is being threatened at this very moment In Mohammed El-Erian's words: "The Fed can't pull back because it's worried it will disrupt markets that can be a spillover on the economy. The Fed's in a lose, lose, lose situation, they can't stay where they are, they can't do more, they can't do less."

In Andy Xie's words: "The Fed has gone from the financial bubble's hostage to its guardian."

J. There are limits on encouraging more borrowing by lowering interest rates to zero. Even at zero interest rates, income must be devoted to paying principal. At some point, all available income is already consumed in debt service.

Basically, we're already there: zombie corporations (that only survive by increasing their debt loads) are becoming more numerous, and households burdened with student loans, auto loans, credit cards and mortgages cannot afford more debt even at zero interest.

Policy makers are now trapped. Unable to reverse the policies that have created the distortions lest that crash the system, they only have two responses, neither of which actually address the distortions undermining the system:

1) push extremely distorting policies to new extremes, or

2) attempt policy-tweaks -- higher taxes on the wealthy, etc. -- that ignore the causes of the distortions.

These policy tweaks are the classic "band-aids treating cancer."

The abject failure of these policies (short-term turned into permanent, with all the resulting long-term distortions) is now visible to all, and we're seeing articles in the most influential mainstream media outlets questioning the current versions of global capitalism.

For example, the new issue of *Foreign Affairs* magazine is devoted to The Future of Capitalism, an implicit confirmation that the current version, dependent on extremes of debt, speculation and stimulus, has no future.

Is there a way out?

Unfortunately at this stage of the game, no. That these policies have not restored "organic growth" (i.e. growth that isn't dependent on zero interest rates, speculative bubbles and tens of trillions of dollars in permanent stimulus) must be accepted, along with the need for a painful reset.

The odds of this happening are near-zero, as the politicians who have caused economic pain will lose the support of the populace.

This leaves us with the pain of ever-greater distortions, which will drive economic instability, fragmentation, social disorder and financial crashes.

The Fall of Higher Education

Inherently unstable systems can appear stable for quite some time as the instability builds beneath the placid surface.

As stated above, in 2020, increasing monetary and fiscal stimulus will be the equivalent of spraying gasoline on a fire to extinguish it.

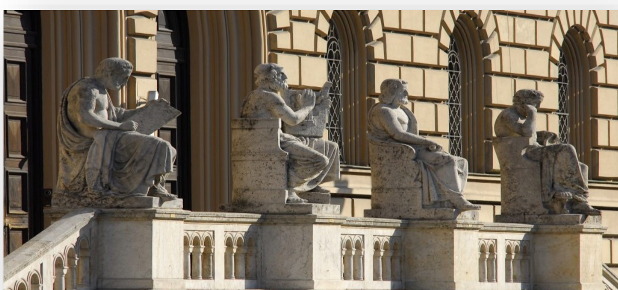
This summarize the disastrous consequences of permanent monetary stimulus: wages' share of the economy are in relentless decline, while the equally relentless rise of financialization has generated soaring wealth/income inequality that increasingly threatens to rip our society and economy to shreds.

The current system is unsustainable and is approaching its final, dying throes. What will replace it?

Time will only tell. But those who are now preparing for this downturn will have a significantly reduced chance of suffering a disastrous loss.

D. Miyoshi

The Fall of Higher Education



There is a cycle to everything, even education. And its cycle is ending soon. Not because we are becoming less intelligent but because we are becoming less populous.

In fact, for higher education, the process is not only cyclical, it's also countercyclical. When the economy is bad, and people lose jobs, many of them will go back to school. You have probably heard about the for-profit education boom and bust (Phoenix, DeVry, etc.). But did you know that total enrollment has been declining for the last eight years as the economy has improved? What comes next will pulverize nearly every institution of higher learning in the country, private and public.

The reason: demographics. Basically, an echo of the baby bust of the early seventies. The current baby bust generation is now making its way through college. This will lead to a drop in enrollment of 15% on average, on top of the eight-year correction that schools have already experienced. This may not seem like much, but finances at colleges and universities have deteriorated sharply, and many of them will not even be able to withstand a drop of a few percent.

There have been bull markets in dot-com stocks, homebuilder stocks, energy stocks, and FANG stocks. There can be a bull market in anything, even higher education. We all know that college is expensive. It is expensive because it is implicitly subsidized by the federal government, which will lend almost any amount of money to almost any student without regard for willingness or ability to repay.

The demand for higher education has been relatively inelastic, but demand elasticity is starting to set in. Today, 45% fewer 18- to 29-year-olds say going to college is "very important" than in 2013. A 45% drop in just seven years. Higher education has become so expensive that it makes practically no sense for anyone, except as a luxury purchase for the wildly wealthy. Not even a Wall Street job is going to be any help in paying off $200,000 to $300,000 in debt.

So, we have fewer students going to college and fewer students wanting to go to college. The bull market was awesome. New academic buildings, new athletic facilities, new residence halls with swimming pools, climbing walls, and recreation facilities. Lots of administration and diversity staff. Ironically, the one cohort that utterly failed to benefit from the boom times was the professors, who are really the only people adding value and remain vastly underpaid. When the cuts come, they won't come for the administration or the diversity staff. Academic programs will be the first to go, which raises some interesting questions about what the purpose of a modern university is.

A discussion on higher education would not be complete without a discussion about my favorite sport, college football. Except for the big schools that make Saturdays in Fall fun, college football is a drain on resources in the majority of cases. Yes, Alabama is wildly profitable. But only a handful of football programs are, and hundreds of schools have tried to replicate what Alabama is doing. The economics of college athletics is widely misunderstood. Some people complain that football is a source of alumni support, but it really isn't. It's popular among alumni, yes, but financially speaking, the majority of schools would be better off without it. However, for the schools that are successful at the sport, they are a mainstay of a major sport in America and should continue to be so.

Some schools are thinking outside the box and trying to recruit students outside the rapidly shrinking pool of high school seniors. There are millions of people in the U.S. who have "some college" on their resumes, all of whom are potential customers, depending on how much debt they have left over from the last time around. Schools will also be recruiting foreign students heavily. But it won't be enough to plug the gap. Smaller liberal arts colleges are already closing, and many more will close their doors for good, or merge with larger schools to stay afloat. But state schools will suffer too, and many of them will require explicit taxpayer assistance, which will be politically distasteful to say the least.

Schools will resort to lowering standards to keep enrollment up, but that is a race to the bottom, and the value of every student's degree will decrease correspondingly, setting off a vicious cycle that makes college even less attractive. My suspicion is that universities—allegedly with very smart people in charge—have done pretty much zero to prepare for the coming bust. Except for the leading academic and sports schools, many institutions have lots of debt, not much cash, and a lot of fixed costs. Almost nobody has prepared for what is about to come next. And this is operating under the assumption that the Department of Education continues to be as willing to lend money as it has been in the past.

Highly successful investors tend to look for the bear markets. And we have had some outlandish ones during the last 20 years. The downturn in higher education will be up there, with pretty profound economic effects. Colleges and universities employ a lot of people and in many cases are the lifeblood of a single town. Some may notice that the nicest buildings in their town are the academic buildings. Well, wait and see when they are empty.

No Need for a College Degree

Job recruiting site *Glassdoor* recently reported that companies like Google, Apple, IBM, Bank of America no longer require that applicants have a college degree.

Neither do companies like Costco, Whole Foods, Publix, Chipotle, Home Depot, Starbucks. (Does it really take a college degree to know how to roll a burrito, pour coffee, or stack giant jars of mayonnaise?)

When jobs were scarce and unemployed workers plentiful, requiring a college degree might have made some sense, if only to easily weed out most applicants. When workers are scarce, companies can't be so picky.

But in any economy, there's a downside to college requirements. Limiting the worker pool to graduates feeds into the notion that everyone has to go to college, when many kids shouldn't. It also eliminates opportunities for the two-thirds of people without a degree, many of whom would probably be better workers than pampered graduates holding a degree in sociology and lugging a mountain of debt.

Further fueling this college bubble has been an upward spiral of federal grants, aid, subsidized loans and tax credits. College Board data show that federal college aid shot up 93% between 2001 to last year, after adjusting for inflation.

Not surprisingly, colleges and universities have been happy to take advantage of this artificial demand by raising tuition with impunity. Over those same years, public college tuitions climbed 72%.

Fueling Paper Pushers

Where did all that money go? As economist Mark Perry notes, mostly to overhead. College administrator jobs have climbed much faster than student enrollment.

In the rush to enroll as many students as possible, colleges clearly have been lowering their standards. Walter Williams points out that only 37% of today's high school graduates are proficient in reading and 25% in math. Yet colleges will enroll more than half of them. "It's inconceivable that college administrators are unaware that they are admitting students who are ill-prepared and cannot perform at the college level," he says.

Meanwhile, good-paying jobs that require real skills, like electricians, carpenters, and so on, are going begging. The Associated General Contractors of America says that 70% of construction companies are having trouble finding qualified workers. The Department of Education forecasts that the next five years will see 68% more infrastructure job openings than workers with the skills to fill them.

If the current corporate trend away from college requirements catches on, it would go far to burst the higher education bubble. And that would be a very good thing. For students, their parents, taxpayers.

And last but not least, for the economy.

D. Miyoshi

EV’S WILL TAKE TIME TO ADAPT

On New Year’s Day, my good friend Chris gave me a ride in his Tesla and man was it fast!

I believe few people would say the future of personal transportation is not in the electric vehicle.

And in all likelihood they're absolutely right. Every major automaker is moving in that direction.

But according to Luke Burgess, Editor of *Energy & Capital*, there's a bit of a catch...

The transition from gasoline and diesel to electric vehicles is going to take much longer than Tesla or any of the Elon Musk fanboys are leading you on to believe.

If you believed all the hype surrounding EVs — and, yes, of course

EV'S WILL TAKE TIME TO ADAPT

there is a degree of hype surrounding the industry — one day in the near future you'll wake up and every car on the road will be electric.

But according to Burgess, it's not going to happen like that. And there's one very good reason...

EVs are simply less convenient than gasoline and diesel vehicles.

And most people are not likely to give up convenience without a significant reduction in costs.

Burgess is not saying there is no future for electric vehicles. Nor that we should not be invested in the sector... we absolutely should be.

But without some kind of drastic change, the switch to EVs is going to take longer than most people expect. So, we would be wise to temper our expectations.

First let's look at range...

The median range for gasoline- or diesel-powered vehicles is over 400 miles and maxes out at about 700 miles. Of course, this has a lot to do with the size of fuel tanks and various other factors. A small vehicle like a Honda Civic holds about 12 or 13 gallons of fuel, while something like a Ford Super Duty pickup truck can hold about 50 gallons.

The husband and wife team of John and Helen Taylor, known as "the world's most fuel efficient couple," hold the world record for the longest distance traveled on a single tank of fuel. The couple drove 1,626 miles on a single 19.3-gallon tank of diesel in their stock 2012 Volkswagen Passat powered by a 2.0-liter TDI Clean Diesel inline four-cylinder engine with a six-speed manual transmission.

Meanwhile, the median range of a full electric vehicle right now is only about 115 miles and maxes out at around 375 miles.

Now, of course, EV ranges will increase in the future. The 2020 Tesla Roadster, which is scheduled to be released late this year or early next year, is promised to have a range up to 620 miles. But that's only a promise at this point. And, as Car and Driver Magazine points out, "certainly that number will be achievable only under very light use."

In other words, it's unlikely the 2020 Tesla Roadster will have an average range of +600 miles for most drivers.

But let's just assume for a moment that EVs will have comparable driving ranges to gasoline- and diesel-powered cars. Heck, let's even assume EVs will have significantly longer driving ranges than traditional combustion engines in the future. There's still other factors to consider.

The big one: Charging times.

To fill up a gasoline- or diesel-powered vehicle takes about five minutes. The last time I filled up my car with gas, it was finished in the time it took to walk into the station, buy a drink, and walk back to my car.

To recharge an EV can take days — depending on the model and where you charge it.

A Tesla Model S has a 100 kWh battery that can be charged at home or at one of Tesla's supercharging stations. If you're using a standard wall plug, you'll be using 120 volts. While this will get the job done, charging your Tesla Model S this way can take three days. Other EV models like the Nissan LEAF and Chevy Volt have significantly lower recharge times using a 120-volt plug.

Most people use a 240-volt plug which shortens recharging time drastically. But we're still talking hours — not minutes.

The fastest way to charge an EV right now is at one of Tesla's supercharging stations. Yet it still takes much longer than pumping gas.

To charge an EV at one of these supercharging stations just to 50% takes about 20 minutes. If you want a full charge, it takes about an hour and 15 minutes.

So where does that leave us?

Well, in short, at this time, electric vehicles are simply less convenient than gasoline- or diesel-powered vehicles. And I don't know many people who are willing to give up convenience without a significant reduction in costs.

Nevertheless, there's little doubt electric vehicles are, in fact, the future. But it's probably not because they're any more convenient. More likely, electric vehicles are the future because people won't have much of a choice.

First, we absolutely know that oil is a finite resource. And while the world will never run out of oil exactly — that is, every oil well in the world won't run completely dry — sooner or later we will run out of cheap, easily accessible oil.

At that point, consumers will have to choose between paying through the nose for fuel or accepting a less convenient option.

It's also not out of the realm of possibility that governments around the world will simply outlaw gasoline and diesel vehicles. In fact, they've already begun down that road (pun intended). At that point, EVs will absolutely take over the market. But that doesn't change driving range or recharging time. It just forces the hand of the consumer.

I also have to mention that it's possible — albeit far less likely — that we as a society may become willing to accept less convenience from our vehicles for environmental reasons. But, again, that's very unlikely.

Pose this hypothetical to even the most ardent environmentalist you know: You have the opportunity to clean up all pollution and completely restore the Earth to a pre-human condition. However, to do this you must personally live in a dirty, highly-polluted environment yourself for the rest of your life. Would you accept that deal?

Of course, there are people who would say yes. But the majority are going to tell you to kick rocks.

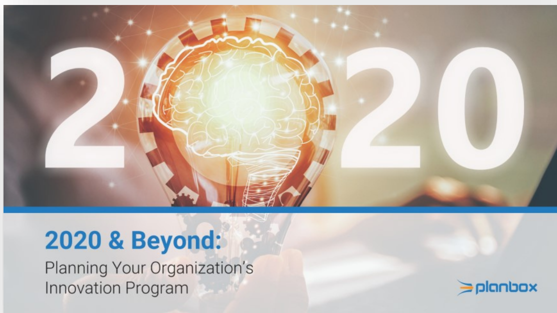
Yet, as mentioned, despite electric vehicles being less convenient, there's still little doubt they are the future. They're just a future that consumers will be forced into one way or another. And that's why Burgess says the transition from gasoline and diesel to electric vehicles is going to take much longer than Musk and his fanboys are leading us on to believe.

Invest in EVs?

Yes, for sure. But don't expect an overnight transition. Instead, expect a slow and steady switch.

D. Miyoshi

Five Tech Predictions for 2020



We witnessed that 2019 was an incredible year for technology…

5G wireless networks went live in cities around the world on a weekly, sometimes daily, basis. Artificial intelligence accelerated faster than anybody predicted. And precision medicine technology is on the cusp of rewriting health care as we know it today.

This is such an exciting time to be a technology investor. And we have a lot to look forward to in 2020.

Jeff Brown, Editor of *the Early Stage Trader* is a consultant I follow and he gives his top five predictions for the world of high technology for this year. Let's see what he says.

Prediction #1: A Tidal Wave of 5G Devices

Brown's first prediction has to do with 5G wireless networks. As a quick refresher, 5G is the next generation of wireless network technology. It is expected 5G will average speeds that are 100 times faster than 4G networks. 5G will also have incredibly low latency, or delay.

In 2019, we saw the first 5G-enabled smartphones go up for sale. There are now 10 5G smartphones available for purchase.

But in 2020, Brown predicts we will far exceed even the most optimistic projections for shipments of 5G devices. The current forecast is that there will be about 300 million 5G-enabled handsets sold. But that number is far too low.

Earlier this month, Apple reached out to its suppliers to increase its manufacturing numbers in preparation for the 5G-enabled iPhone launch, which is expected to come next September 2020 (albeit the Coronavirus epidemic may change this).

Apple told suppliers that it now expects to ship more than 100 million 5G-enabled iPhones. That's up from the company's previous projection of 80 million 5G iPhones.

And keep in mind that Apple only has about 12 - 13% of global market share for smartphones.

Brown's point is that if Apple plans to sell 100 million 5G iPhones, how many 5G devices will Samsung, LG, Huawei, and the other big global manufacturers sell?

Brown believes sales of 5G phones will far surpass 300 million. There will be a tidal wave of 5G devices in 2020.

Prediction #2: Buy Your Own Self-Driving Car

Brown's second prediction is that 2020 will finally be the year that we will be able to buy or lease our own fully autonomous car. He is talking about a self-driving car you can buy or lease for your own personal use. It will be able to take you from point A to point B. And the car will drive 99% of the way by itself.

Brown has been covering the development of self-driving cars extensively. And 2020 will finally be the year when they go mainstream.

Remember that self-driving vehicles rely on artificial intelligence. They must "learn" how to be safe drivers. And the underlying semiconductor technology used for AI will double in power over the next 12 months. The amount of data that's being collected from fully autonomous vehicles will more than double year-over-year.

And the AI algorithms – the software that makes self-driving cars possible – is improving significantly every month. So, the AI algorithms won't be twice as good from 2019 to 2020. They'll be about five times as good as what we have today.

That means we're getting to the point where these cars are essentially fully autonomous. It's just a matter of time before a company puts one of these cars up for sale. Brown believes that will happen in 2020.

We'll have to wait and see which company it is. But Tesla would be a prime candidate.

Prediction #3: CRISPR Will Cure Five Diseases

Prediction number three has to do with CRISPR genetic editing technology.

As a reminder, CRISPR can edit our DNA as if it were software. It can fix – or edit – any mutations in our genetic code that can cause disease.

In November 2019, Brown attended a biotech conference, the STAT Summit. He found that one of the most incredible presentations at

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the STAT 2019 Summit came from Vertex Pharmaceuticals (VRTX) CEO Jeffrey Leiden.

Vertex has been working with CRISPR Therapeutics (CRSP) on a therapy for sickle cell disease and beta thalassemia. Bad mutations in the hemoglobin gene cause these blood disorders. The therapy is CTX001.

And Leiden stated directly, "We have essentially cured these diseases. We have cracked the biology of sickle cell and beta [thalassemia]."

Of course, it is not FDA approved yet. The next step for Vertex is to expand the clinical trials to another 45 patients. They are expecting identical results compared to the first two patients.

But going off Leiden's comments, it appears CRISPR technology has cured these diseases caused by genetic mutations.

Brown predicts that CRISPR will cure at least five more diseases caused by genetic mutations in 2020.

To be clear, he doesn't expect that five therapies will be approved by the FDA in 2020. But he believes at least five CRISPR therapies will demonstrate in either preclinical or clinical trials that they have cured the diseases they were meant to cure.

Brown thinks it goes without saying that he is very bullish on CRISPR and the biotech space for next year. Expect to hear more in 2020.

Prediction #4: China's State-Backed Crypto

For prediction number four, we turn to the world of blockchain and digital assets.

China is preparing to launch a digital version of the renminbi – its currency – in the next few weeks. That's Brown's next prediction for 2020. He believes China will launch a digital version of its currency sometime next year.

To be clear, this cryptocurrency won't be backed by China's currency. It will be China's currency.

And this could serve as a major wakeup call for the U.S. The United States has been slow to adopt this technology. But if, in the months after launch, the digital renminbi is widely adopted and used, then it will absolutely light a fire under the U.S. to do the same.

Brown believes (as I do) that the age of fiat currency is coming to an end…

Prediction #5 Quantum Computers Will Become Unstoppable

Brown believes that in September of 2019, we reached the point of quantum supremacy.

That's the point at which a quantum computer can outperform the most powerful classical supercomputer on Earth. Here's what happened…

Google ran tests on its 53-qubit quantum computer. In those tests, it gave the quantum computer a task that would take the world's most powerful supercomputer, Summit, 10,000 years to complete.

The quantum computer finished in three minutes and 20 seconds. Beyond amazing.

Now, Google's quantum computer had 53 qubits. We don't need to worry about the specifics too much.

Just know that we can associate the number of qubits with the power of the quantum computer. The more qubits, the more quantum computing power there is.

Here's Brown's final prediction for 2020…

The world will see its first 256 qubit quantum computer. And this is why it's important.

When people refer to military-grade encryption, it's called 256-bit encryption. That's the standard for security and encryption technology.

But the moment you have a 256-qubit quantum computer, you can crack that encryption software in milliseconds. It's over…

Brown predicts we will reach that point in 2020.

Obviously, the cybersecurity company that can address this problem would be a great investment target. That is the company Brown is now actively searching for.

In conclusion, besides a rancorous election, a looming deadly epidemic and a drama infused Olympics, 2020 promises to be a sensational year for the history books.

D. Miyoshi

Why Instant Wealth Ruins People's Lives

Remember the commercial by stock brokerage company Smith Barney where the actor John Houseman says, "Smith Barney makes money the old-fashioned way….we earn it"

There is a lot to be said about coming into money through earning it.

Looking at this from the opposite perspective, a question was asked to copywriter Robert Allen "Why does instant wealth ruin people's lives?" Allen had family members who had this experience, gave the following answer.

"I wish that we had torn the ticket up," said Jack Whittaker, the winner of a $315 million lottery.

$315 MILLION DOLLARS.

But for that money, he paid the ultimate price: His daughter and granddaughter both died due to drug overdoses, which were brought on by the lavish lifestyle they led after winning the Powerball.

He's not alone either.

An astonishing 70+% lottery winners end up broke or worse off than the day they cash the big check.

Why in the world does it happen?

A lot of lottery winners come from extremely poor situations in life. Meaning:

- **Most of these people don't do jobs they love or feel respected in so they quit as soon as they win.** Not realizing the importance of having at least some money coming in. They think a couple million before will last them forever, not realizing how quickly that money disappears after taxes are paid

- **Their loved ones feel entitled to "get their share."** In families, money swaps hands a lot, but in poor families it's different. It's not: "Let me get dinner this time." It's "You get the rent and I'll get your car payment in June when I have more steady money coming in." And when a lot of money goes to one person in the family, the family comes from all over to call in those old favors

- **Most of these people don't know what it means to have a financial planner or money manager.** So when they come into a lot of cash fast, they're either taken advantage of or they try to keep all their money in bank accounts and cash — which always leads to a lot of it getting stolen

Drug abuse wrecks everything. When you come into that kind of money at once, it can be intoxicating. The only thing that comes close to that kind of high is drugs, which many turn to in these situations. And you'd be surprised just how fast the money goes once you're buying huge amounts for 5, 10 even 15 of your "friends"

My family didn't win the lottery, but when my grandpa died, there was a life insurance policy that would have been enough to let my grandma live a comfy retirement.

But because of all those reasons above the family burned through the money so fast, it's like she never had it.

Author Nathan Gibson, explains the obvious that many people think winning the lottery is the best thing that could happen to them. After all, who wouldn't want to suddenly have lots of money? Mega millions winners might assume they have financial security for life, and can stop worrying about bills and start buying new stuff. The appeal of that type of windfall is clear. No wonder so many people play the lottery.

But Gibson goes on the explain that matching the winning numbers might turn out to be as much of a curse as it is a blessing. An estimated one third of lottery winners later go bankrupt. Even those people who won the lottery who manage their finances effectively can find they lose out in other areas, whether that means slipping into depression or becoming estranged from family members.

The harsh truth is that there are plenty of lottery winners who have lost their money. As for the reasons why, those can be complicated. Here are 12 of them.

They Feel Pressured To Share With Friends And Family

Of course many lottery winners want to share their newfound fortune with their family and close friends. After all, these are the people who mean the most to them. The problem is that people can soon become greedy if they know someone has suddenly come into millions.

Close acquaintances can demand more and more money under the pretense that they would be just as generous in the same situation. This guilt tripping can quickly deplete funds and leave the winner with far less than they started with.

Tax Obligations Can Get Very Complicated

One of the main reasons why lotto winners lose money and run into debt is due to their tax obligations. While some places will exempt lottery winnings from tax, the majority of countries will tax the prize money like any other earnings. This could mean paying income taxes as high as 40-45%. Things get worse in the

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United States, where many states have their own income tax, meaning that winners will have to pay twice for the cash they won.

The biggest misunderstanding over what tax is owed comes from gifting money. A lottery winner who gives millions of dollars to their friends and family is obligated to pay gift tax, which can be up to 40% of the amount given away. This is why it is so important to get a competent tax advisor as quickly as possible.

The Payout Is Much Less Than They Might Have Thought

Lotto winners might be surprised by how much money they actually end up with. The vast majority of lotteries allow players to receive their prizes in different ways, like taking yearly payments for a long time or accepting a lump sum. But the lump sum will often be dramatically less than the advertised winnings due to taxes; sometimes it's only around 60-75% of the actual cash prize. This can leave people will a lot less money than they expected.

Mental Accounting Changes How They Think Of Money

A psychological behavior called mental accounting impacts the way people think about their money. It essentially puts perceived value onto cash and other valuable belongings. This means that lottery winners treat the money they have won from the prize draw differently than money they have earned, despite the fact that all the cash has the same intrinsic value. As a result, they are much more willing to be frivolous with lottery winnings, as that sum is seen as "free money" to be spent.

The Euphoric Feeling Of Winning Clouds Their Judgement

Imagine the feeling of discovering you've just won a life-changing amount of money. The happiness and excitement would be almost indescribable. This is exactly what happens to lottery winners, and often that spells disaster. Their joy makes them lose their grip on what is sensible, and they make rash decisions because they think nothing can bring them back down to earth.

"People who were little, ordinary people all of a sudden become extraordinary," says Steve Lewit, the CEO of Wealth Financial Group. "They're euphoric. They lose all sense of reality. They think they're invincible and powerful. They think they're Superman."

They Spend Uncontrollably On Things They Don't Need

The easiest trap to fall into after receiving a big cash windfall is to start spending on things you don't need. With lottery winners who have won tens of millions of dollars, this urge to spend becomes even worse. It's not uncommon for winners to blow cash on extravagant items like luxury cars or gadget-filled mansions. While each individual purchase may not put a dent in the overall bank balance, they can quickly add up if the winners don't keep a close eye on what they are spending.

Bigger Homes And Fancier Vehicles Mean More Bills

A lottery winner often wants to move into a larger, more luxurious house and upgrade their car. They might even buy a yacht or other lavish vehicle. However, they may fail to consider the fact that these trappings will naturally incur bigger bills.

Regular charges like utilities will rise in price due to the larger home, while that sports car will need a costly insurance policy. When a lottery winner overlooks these types of expenses, they can quickly lose control of their budget.

They Make Bad Investments Trying To Earn More Money

Not wanting to lose their winnings like so many others, many individuals seek to invest their funds to earn extra income. Unfortunately, too many lottery winners don't put the proper research into these investments or don't properly understand how they work. Their acquaintances might even take advantage of them by getting them to invest in their own business ideas or companies. This leaves them open to losing large amounts of money.

Hardly Any Of Them Get Professional Help From Financial Advisors

Despite the fact that sudden wealth can present financial complications, very few lottery winners seek professional help. The National Lottery in the UK speaks directly to winners about hiring financial advisors, but this is not a widespread practice around the world. Instead, most people tend to rely on the advice of those around them, leading to bad decisions and waste that could have been avoided if an expert had been consulted.

They Might Not Be The Best At Saving

Lottery winners don't just spend – they might not have had much in the way of savings to begin with. Most people simply don't have experience with the tremendous wealth involved in lotto payouts. So, when a winner suddenly comes into millions of dollars, they are unprepared for the financial changes they need to make. One study found that winners only managed to save 16% of their entire winnings after receiving half of the amount.

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Social Media Makes It Difficult To Hide The Fact They've Won

The vast majority of lottery services are happy to let winners collect their prize anonymously. There are some exceptions, but in most cases a winner can avoid official publicity if they choose to. In the past, this more or less guaranteed you could keep it a secret if you suddenly were awarded millions of dollars. Things are a little different today thanks to social media.

Most people will want to share the great news with the world. But even if the winner refrains from posting, that doesn't guarantee everyone they know will stay quiet. Once the story of that lotto win is out there, family members, friends, and onetime acquaintances might start coming out of the woodwork and demanding their share of the cash

They May Slip Into Depression And Spend More On Drugs And Alcohol

It may be cliche to say money can't buy you happiness, but there's some truth behind the saying. The complications presented by winning the lottery can quickly make someone depressed or stressed. Having to manage huge amounts of money, put up with constant requests for handouts, and face resentment from their closest friends and family over the fortune they won has led many winners to squander their funds on alcohol and drugs. Some unfortunate winners have even committed suicide over the pressures brought about by their sudden wealth.

Former staff writer for *the Wire* Jen Doll collected some true and terribly sad stories of lotto winners that show that winning the lottery, despite the seeming wonderfulness of having some $500-600-million more dollars (before taxes) to your name, is not all it's cracked up to be. In fact, what seems like an American dream may actually be something of an American nightmare. Interestingly, the psychology that draws us to lotteries is the low-risk factor: While you might win big, your life goes on virtually unchanged if you don't, so there's not a ton to lose. What you might have to lose, at least according to historical precedent, often comes after you win. At least for these people, to whom the following occurred:

Poverty, after spending all the money on drugs and hookers. This is the sad tale of "Lotto Lout" Michael Carroll, the "self-styled King of Chavs," who "turned up to collect his £9.7million [UK] win wearing an electronic offender's tag." After winning, he used his money on drugs, gambling, and "thousands of prostitutes" only to end up back on the dole after eight years of living the Lotto life. Said Carroll to the Daily Mail, "The party has ended and it's back to reality. I haven't got two pennies to rub together and that's the way I like it. I find it easier to live off £42 dole than a million." He sounds pretty chipper given the details of his story, which involve his wife leaving him and taking their daughter with her, and the loss of £100,000 over eight years in payments to prostitutes, among other rather grave financial mistakes.

Poverty, after excessive gambling. Evelyn Adams won the New Jersey lottery twice, in 1985 and 1986, raking in $5.4 million. "Today the money is all gone and Adams lives in a trailer," writes Ellen Goodstein in a story titled "Unlucky in Riches." Adams said, "I was a big time gambler. I didn't drop a million dollars, but it was a lot of money. I made mistakes, some I regret, some I don't. I'm human. I can't go back now so I just go forward, one step at a time."

Losing friends, fighting among coworkers. Take the case of the Greenwich asset managers who won the $245 million jackpot recently. Whether they were collecting it for a client or not, office lunches are surely a bit uncomfortable nowadays, as are social events with the neighbors who didn't win.

Being looked down on for the winnings. Steve Granger won $900,000 in the West Virginia Lottery in September of 2005, and, after paying the taxes, "put most of it away for his and his wife's retirement," writes Oren Dorell in USA Today. But along with everyone knowing his business, everyone asking for investments, and everyone grabbing at him because he was suddenly considered "lucky," there are the lotto snobs, too. He once heard "someone say in an ugly tone, 'There go those lottery people,' as he and his wife passed by." Ouch.

Ending up in debt for failing to manage the money properly. These tales go on and on. Here are just a few.

A descent into crime (and bankruptcy, too). In 1998, William "Bud" Post III won $16.2 million in the Pennsylvania lottery, only to later wish it had never happened. That's because his brother hired a hit man to try to kill him and his sixth wife (and was arrested for doing so), other relatives made him invest in businesses that never paid off, a landlady made him give her a third of his winnings, and Post "spent time in jail for firing a gun over the head of a bill collector." He declared bankruptcy and, in 2006, at the age of, 66, "died of respiratory failure... at a Pittsburgh area hospital," writes Patricia Sullivan in The Washington Post. Then there's Victoria Zell, who won an $11 million Powerball jackpot with her husband in 2001, only to end up in Minnesota prison after being convicted of a drug- and alcohol-induced collision that killed one and paralyzed another. "This just goes to show you winning the Powerball doesn't guarantee you happiness," said County Attorney Amy Klobuchar (the one running for president?).

Ending up murdered. Abraham Shakespeare won the $31 million jackpot in Florida in 2006. He disappeared in 2009, having spent most of his fortune; his body was found in early 2010 under a concrete slab. John Campanelli writes in The Plain Dealer, "A woman who had befriended him—and fleeced him for $1.8 million, say police—has been charged in connection with his murder." Campanelli goes on to list 9 other unfortunate lotto cases,

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including the sad tales of Willie Hurt, who killed a woman over crack cocaine, and Callie Rogers, who won $3 million at the age of 16 in the UK lottery, and used her money on "vacations, cars, gifts, drugs and even breast implants." Rogers was broke by 2009, "driving a used Volkswagen Golf to her job as a maid and had twice attempted suicide."

Suicide. In June of 1997, a man named Billie Bob Harrell Jr. took the $31 million Texas Lottery jackpot. At first, all was great: "Harrell purchased a ranch. He bought a half-dozen homes for himself and other family members. He, his wife and all the kids got new automobiles. He made large contributions to his church. If members of the congregation needed help, Billie Bob was there with cash," writes Steve McVicker in The Houston Press. "Then suddenly Harrell discovered that his life was unraveling almost as quickly as it had come together ... everyone, it seemed—family, friends, fellow worshipers and strangers—was putting the touch on him. His spending and his lending spiraled out of control. In February those tensions splintered his already strained marriage." And tragically, 20 months after winning the lottery, Harrell committed suicide.

Everything terrible happens that possibly can. Jack Whittaker of West Virginia was an already wealthy businessman when he won what was at the time the largest jackpot ever by a single ticket, garnering him $314.9 million on December 25, 2002. A chain of awful events followed, including his car being broken into twice, first with $545,000 in cash stolen, then later with $200,000 stolen (and later recovered); a plot was revealed in which two club employees had planned to drug his drinks and rob him; his granddaughter's boyfriend was found dead in Whittaker's home from an overdose; Whittaker's granddaughter was found dead at a male friend's house after being reported missing (the death was ruled an overdose); Whittaker had a DUI; Whittaker was sued by Caesars Atlantic City casino for bouncing $1.5 million worth in checks to cover gambling losses; Whittaker was sued by a woman who had previously sued him for not paying her money (he claimed thieves had stolen it all from him); and Whittaker's daughter was found dead. "I wish I'd torn that ticket up," Whittaker has said.

In closing I would just like to remind everyone that the slogan "We make money the old-fashioned way, we earn it" won an award for best motto. Perhaps there is a good reason for this.

D. Miyoshi

How Socialism Can Win in the U.S.

At the end of February, to the surprise of some, Bernie Sanders was leading the race for the Democratic candidate for president. Why are so many Americans supporting a self-proclaimed "democratic socialist?"

A recent Quinnipiac poll showed Sanders with 54% support among Democrats age 18–34. Meanwhile, 50% of adults under 38 told the Harris Poll last year that they would "prefer living in a socialist country."

But do Americans want socialism? No, according to economist and investment consultant John Mauldin. Mauldin thinks that very few Americans understand what socialism really is. He believes what Americans really want is simply CHANGE. Americans see little hope for improvement in their situations, no matter how hard they work and sacrifice. They don't see anyone in authority trying to help them. So, when someone offers what sound like easy answers, they jump aboard. As Harvard professor Ed Glaeser says people think of socialism as "hyperredistribution." They are not looking to control the means of production per se, just redistributing the fruits of that production.

In one regard, Sanders is similar to Trump in 2016—an outsider whose message activates previously neglected voters. Trump went on to win. If Sanders gets the nomination, it's easy to imagine scenarios where he wins, too (that's kind of scary).

That the U.S. could plausibly swing from someone like Trump to someone like Sanders in the space of four years says, to Mauldin, that something bigger is happening. And until we fix

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it, desperate people will keep making desperate choices.

What's the Appeal?

To Mauldin's (and my) generation, "socialism" is the second "S" in USSR. We grew up being taught the Soviet Union was a mortal foe bent on world domination. We didn't have to wonder if this adversary had nuclear weapons; we knew it could drop them on us any time. Remember the "duck under the desks" drills?

Thankfully, the threat of imminent nuclear war receded, and attitudes changed in those who didn't grow up with it. A 1974 poll showed 75% of Americans aged 25 to 34 thought the U.S. had "moved dangerously close to socialism." Now 50% of young Americans want to embrace what they think of as socialism.

Its meaning isn't entirely clear to older generations, either. A Mises Institute article entitled *"Socialism: a Brief Taxonomy"* does a good job outlining the ideologies we call "socialism." Broadly speaking, they involve various degrees of collectivizing property and redistributing wealth. Those can sound pretty attractive if you have no property or wealth, and threatening if you do.

This raises a question: If the U.S. economy is performing so well, and the rising tide is lifting all boats, why is socialism getting any traction at all? Public opinion data says this shouldn't be happening. Polls from Gallup and others find solid majorities saying their financial condition improved in recent years, or at least got no worse.

Mauldin sees two answers to that. One is in the question itself. Your financial condition can be better than it was but still not where you think it should be. If you are no longer drowning and are instead treading water with no lifeboat in sight, then yes, your condition has "improved." But you're still looking for answers.

The broad "better or worse" responses are heavily weighted by political affiliation. Republicans say both their own condition and the economy are better. Democrats say both are worse. They can't all be right.

Polls that ask more specific questions find a considerably less rosy scenario.

For instance, a December 2019 *Bankrate.com* survey found half of U.S. workers didn't get any kind of pay raise in the last year. Gains in average hourly earnings may have been heavily weighted toward a smaller number of workers who got much larger raises.

Another survey by *Salary Finance* of 2,700 U.S. adults working at companies with 500+ employees found 32% saying they ran out of money between paychecks. That's consistent with the Federal Reserve's annual "SHED" survey, which last year found almost 40% of U.S. adults would need to borrow money to cover a $400 emergency expense. It also found an additional 18% of Americans considered themselves "just getting by" and 7% "finding it difficult to get by."

Perhaps not coincidentally, the Fed reported in February that household debt balances hit $14 trillion, an all-time high. This was actually low as a percentage of disposable income, but disposable income is again highly weighted toward the top. Many at the bottom are in debt up to their eyeballs. And we're not even in recession yet.

From what Mauldin sees, it may be true that most Americans are in "better" financial condition. But Mauldin thinks Ray Dalio is right when he divides the country into a bottom 60% and top 40%. More than half the country is in various degrees of trouble, and they are open to anything they think might help them, including what they think of as socialism.

Affordability Crisis

Recently in *The Atlantic,* Annie Lowrey wrote an article entitled *"The Great Affordability Crisis Breaking America."* The gist of that article follows:

In the 2010s, the national unemployment rate dropped from a high of 9.9 percent to its current rate of just 3.5 percent. The economy expanded each and every year. Wages picked up for high-income workers as soon as the Great Recession ended, and picked up for lower-income workers in the second half of the decade. Americans' confidence in the economy hit its highest point since 2000, right before the dot-com bubble burst. The headline economic numbers looked good, if not great.

But beyond the headline economic numbers, a multifarious and strangely invisible economic crisis metastasized: Let's call it the Great Affordability Crisis. This crisis involved not just what families earned but the other half of the ledger, too—how they spent their earnings. In one of the best decades the American economy has ever recorded, families were bled dry by landlords, hospital administrators, university bursars, and child-care centers. For millions, a roaring economy felt precarious or downright terrible.

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Viewing the economy through a cost-of-living paradigm helps explain why roughly two in five American adults would struggle to come up with $400 in an emergency so many years after the Great Recession ended. It helps explain why one in five adults is unable to pay the current month's bills in full. It demonstrates why a surprise furnace-repair bill, parking ticket, court fee, or medical expense remains ruinous for so many American families, despite all the wealth this country has generated. Fully one in three households is classified as "financially fragile."

Along with the rise of inequality, the slowdown in productivity growth, and the shrinking of the middle class, the spiraling cost of living has become a central facet of American economic life. It is a crisis amenable to policy solutions at the state, local, and federal levels—with all of the 2020 candidates, President Donald Trump included, teasing or pushing sweeping solutions for the problem. But absent those solutions, it looks certain to get worse for the foreseeable future—leaving households fragile, exacerbating the country's inequality, slowing down growth, smothering productivity, and putting families' dreams of security out of reach.

For many and maybe most Americans, life is a constant struggle to make ends meet. They see prices rising for the things they need to survive even as the president says there's no inflation. The central bank that supposedly works for them actually wants more inflation, not less.

This hasn't always been the case. Not so long ago, you could work your way through college with a part-time job, afford a small home or apartment in a city or suburb where jobs were available, see a doctor if you got sick, and send your kids to decent public schools. Those are now out of reach for millions. And while some certainly made poor choices, it is not entirely or even primarily their fault.

Many people perceive, with some justification, that the economy is rigged against them. Correct or not, that perception opened the door for Trump in 2016. We have seen significant improvement since then, but clearly not enough. The door is still open for anyone who can present a convincing argument their way is better. If "their way" is somewhere on the socialist spectrum, millions will be receptive to trying it.

There is a way to close that door, and it's pretty simple: solve the problems that are making socialism seem attractive and capitalism seem evil. Unfortunately, I don't see much interest from the people who would need to do it.

What I do see is a belief, not entirely wrong, that more economic growth will fix everything. The problem is it will take time and people are hurting now. And for reasons I outlined in previous newsletters, our debt-burdened society has borrowed growth from the future. That Pied Piper of current growth is getting ready to be repaid.

Take healthcare. It is not the case that everything was fine before Obamacare. There were serious problems. For one, people under 65 with preexisting conditions were effectively uninsurable, unless they had employer coverage. Now health insurance is "available" to all but only at staggering cost.

Bernie Sanders, Elizabeth Warren, and others keep talking about a "wealth tax" to fund national health care, student loan forgiveness, and other benefits. Others talk about much higher income taxes. Or a return to higher corporate taxes. These are terrible ideas but its understandable why people want them.

It is gallows humor to note that the impulse to pay for the redistribution of income and wealth with higher taxes seemingly comes from the desire to balance the budget. We can pick death by higher taxes or bigger deficits. There are no other choices.

Social Contract

Humans may be social creatures but today's societies didn't come easy. It took millennia of precarious survival-of-the-fittest to arrive at the "social contract" that defines human relations. The norms of how we treat each other, and how the state treats people, are incredibly important. And they are breaking down.

That's not a pleasant thought but it is growing harder to deny. The McKinsey Global Institute has a new report, The social contract in the 21st century: Outcomes so far for workers, consumers, and savers in advanced economies. It is bleak reading. McKinsey's findings in summary (my emphasis in bold):

While opportunities for work have expanded and employment rates have risen to record levels in many countries, work polarization and income stagnation are real and widespread. The cost of many discretionary goods and services has fallen sharply, but **basic necessities such as housing, healthcare, and education are absorbing an ever-larger proportion of incomes.** Coupled with wage stagnation effects, this is **eroding the welfare of the bottom three quintiles of the population** by income level (roughly 500 million people in 22 countries). Public pensions are being scaled back—and roughly the same three quintiles of the population **do not or cannot save enough to make up the difference.**

These shifts point to an evolution in the "social contract": the arrangements and expectations, often implicit, that govern the exchanges between individuals and institutions. Broadly, **indi-**

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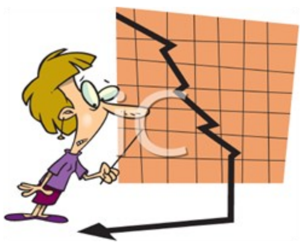
Advancing in a Time of Crisis



Financial Crisis Report

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viduals have had to assume greater responsibility for their economic outcomes. While many have benefited from this evolution, for a significant number of individuals the changes are **spurring uncertainty, pessimism, and a general loss of trust in institutions.**

This isn't imaginary and it is not solely about individual responsibility. Society really has changed in important, structural ways. Achieving stability, much less success, is far more difficult for younger generations than it was for me and my Boomer peers.

We can and should discuss how to ease those challenges without causing even greater harm in the process. But pretending they don't exist, or telling people to pull themselves up by bootstraps they don't have, isn't the answer.

Urging people who live paycheck to paycheck to save more is not realistic. They have no money left after those fast-growing expenses. Almost all saving occurs in the top 20% and certainly in the top 40%. The lowest quintiles have negative savings, i.e., are going into debt.

What if you work for minimum wage, or even \$20 an hour with a family to support, and someone comes along and promises you \$1,000 a month, or to cover your student debt or medical services or child care? That solves a problem you have right now. The fact that giving 40 million people \$1,000 a month would be a \$480 billion additional tax-and-spend which would significantly impact the economy sounds like it should be acceptable somewhere in the Constitution.

For many, it's already an easy choice. And what about after a recession or deeper economic malaise?

Rigged System

According to Mauldin the "financialization" of the American economy has led to increasing income and wealth disparity. As much as it pains him to say it, the "system" really is rigged. Whatever the good intentions of the Federal Reserve in particular and the U.S. government in general have been, it has distorted the economic feedback loops that balance a true market-based economic system.

The fact is we already have "socialism" today. It's not the socialism we feared in 1974. We have socialized the risks of capitalism, to the benefit of a small portion of the country, while a larger portion struggles.

That's why Bernie Sanders may be on our ballot this November, and why he could win if the economy worsens. And there's a chance it will (that's what this newsletter is about). Many believe Japan is a bug in search of a windshield. Maybe we can now add China to that list. In either case, it's beginning to look like virus COVID-19 could be the windshield against which the global economy meets its maker.

Many people can understand if there is a recession, and thus more people in pain… if we haven't given people better answers, they may choose socialism by default.

And the beat goes on.

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