PUBLISHED BY MIYOSHI LAW

INTERNATIONAL & ESTATE LAW PRACTICE

April 2019

Volume 1, Issue 90

Financial Crisis Report

Written and Edited by David M. Miyoshi

Advancing in a Time of Crisis

Words of Wisdom: "During times of universal deceit, telling the truth becomes a revolutionary act." George Orwell

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.

How the Deep State and Democrats Plan to Sink Trump

History books remember Herbert Hoover as one of the worst American presidents.

Hoover, a Republican, was a rich and successful businessman with investments all over the world. He was also somewhat of an outsider, having never held elected office until he was inaugurated in March 1929.

Today, people associate him with massive infrastructure projects like the Hoover Dam, as well as the Mexican repatriation program, which deported over 500,000 illegal Mexican immigrants.

Hoover also placed tariffs on foreign products entering the US and established other protectionist trade policies.

Of course, when people think of Hoover, they mostly think of the Great Depression.

It happened on Hoover's watch. And because of that, people pinned the blame squarely on him, regardless of where the fault lay.

Hoover was an easy target. The Democratic National Committee's publicity chief coined the term "Hooverville" for the countless shantytowns that sprung up across the country.

The term was such a hit, they tried coming up with others.

Newspapers were "Hoover blankets." The cardboard used in a worn-out shoe was "Hoover leather." A "Hoover wagon" was a car with horses hitched to it because the owner couldn't afford gas.

Blaming the Great Depression on Hoover was easy for Democrats. In the minds of many people, the Great Depression = Herbert Hoover.

It was obvious a Democrat would win the next election, which is exactly what happened when FDR became president. It took Republicans another 20 years to take back the White House.

Why is this relevant today?

Because the Establishment is setting up President

How the Deep State and Democrats Plan to Sink Trump

Trump to become Herbert Hoover II.

It's no secret that the mainstream media hate him. Hollywood hates him. The "Intellectual yet Idiot" academia class hates him.

The CIA hates him. The Democrats for sure hate him. So does the rest of the Deep State, or the permanently entrenched bureaucracy that runs the show no matter which party is in office.

They did everything possible to stop Trump from taking office. None of it worked.

And now the Mueller Report is in and from all indications, with no additional indictments to be issued, the Democrats' strategy has to pivot from collusion to obstruction of justice. President Trump is now riding high and feeling his oats. In fact on 3-28-2019 in Grand Rapids Michigan before a packed crowd he proclaimed "We will make America wealthy again"

With Attorney General Barr's letter issued after the Mueller Report stating that he and Deputy AG Rod Rosenstein have concluded that the evidence in the Mueller Report is insufficient to establish obstruction, it is unlikely the president will be facing impeachment.

So it appears the Democrats are now desperate to find a way to stop Trump, whatever it takes, before or after the 2020 election.

Of course, the Dems and the Deep State could try to assassinate him. It's obvious that possibility has crossed Trump's mind. He's taken the unusual step of supplementing his Secret Service protection with loyal private security.

So now, everyone is looking to the 2020 election.

President Trump will certainly pin his reelection prospects upon a pulsating economy and a vibrant stock market.
This is because the president recognizes his path to victory runs through America's wallets.
Hence his public rebuke of the Fed chairman Jerome Powell and his (previous) rate hikes.
A recession would almost certainly sink the president in November 2020.
History's verdict is clear... and unanimous:
The opposition party seizes the White House on each occasion when election season coincides with a recession.

And as I have stated before, worrying economic portents cloud the horizon… and gather momentum.

If the economy plunges into recession and/or the market plummets on the timeline here envisioned…

Trump will likely be heaved from office.

So the Democrats and the Deep State's next obvious move is to trigger a historic stock market crash and pin the blame on Trump. When people think "Greater Depression," they'll think "Donald Trump." There's no surer way to end Trump's ambitions for reelection in 2020.

And to pull this off, the most important variable to watch is the Federal Reserve…

Nick Giambruno of *The Casey Report* explains that the Federal Reserve, or "Fed," is the quintessential establishment institution. After the president of the United States, the most powerful person on the planet is the chairman of the Fed.

Ask almost anyone on the street for the US president's name, and you'll get a quick answer. But if you ask the same person what the Federal Reserve is, you'll likely get a blank stare.

They don't know that the Fed is really the third incarnation of the US central bank. (That's partly because of its deliberately obscure name.)

And they don't know that the Fed manipulates the nation's economic destiny by controlling the money supply*.

And that's just how the Fed likes it. They don't want the average person to understand the king-like power they wield.

By simply uttering the right words, the chairman of the Fed can create or extinguish trillions of dollars of wealth both in and outside of the US. He holds the economic fate of billions of people in his hands.

It's no shocker that investors carefully parse everything he says. They have to if they want to be successful. Some even analyze the almighty chairman's body language.

The international spectacle Alan Greenspan sparked in 1996 illustrates this point.

That's when Greenspan – the chairman of the Fed at the time – said the now famous phrase "irrational exuberance."

It should have been a dull and forgettable speech. But investors took Greenspan's phrase to mean that the Fed would soon raise interest

How the Deep State and Democrats Plan to Sink Trump

rates… which would slow the global economy.

Greenspan didn't actually say the Fed would raise rates. Nor did he intend to signal that.

Nonetheless, the reaction was swift and panicky. US markets were closed at the time, but stocks in Japan and Hong Kong dropped 3%. The German stock market fell 4%. When trading started in the US the next day, the market opened down 2%.

Billions of dollars of wealth vanished in 16 hours… all because one man said two words.

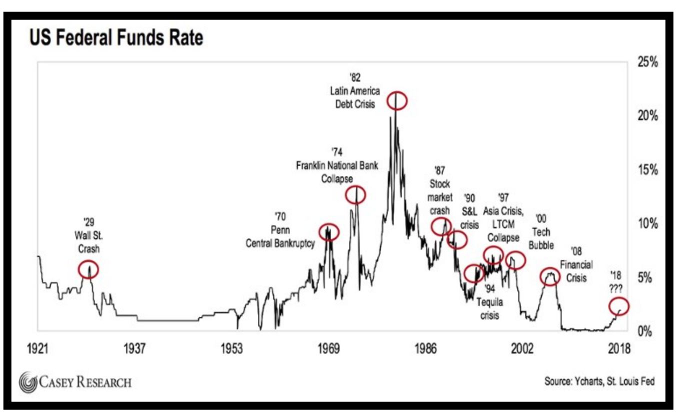
That's the absurd level of power the Federal Reserve has over the global economy.

A Clear Pattern

Almost every Fed rate-hiking cycle ends in a crisis. Sometimes it starts abroad, but it always filters back to US markets.

To be exact, 16 of the last 19 times the Fed made a series of interest rate hikes, some sort of crisis that tanked the stock market followed. That's around 84% of the time.

Let's look at some of the more prominent examples, which you can see in the chart below.



1929 Wall Street Crash

Throughout the 1920s, the Federal Reserve's easy money policies helped create an enormous stock market bubble.

In August 1929, the Fed raised interest rates and effectively ended the easy credit.

Only a few months later, the bubble burst on Black Tuesday. The Dow lost over 12% that day. It was the most devastating stock market crash in the US up to that point. It also signaled the beginning of the Great Depression.

Between 1929 and 1932, the stock market went on to lose 86% of its value.

Latin America's Debt Crisis

In the 1970s, many Latin American countries (notably Brazil, Argentina, and Mexico) borrowed large amounts of money from international creditors during a period of relatively lower interest rates. Of course, these loans were denominated in US dollars.

Latin American countries as a whole quadrupled their external debt from $75 billion in 1975 to more than $315 billion in 1983.

Then in the late '70s and early '80s, the Fed drastically raised interest rates. This made it impossible for the Latin American countries to service their huge external debts.

The resulting debt crisis in Latin America created a prolonged economic downturn, often referred to as the "lost decade."

Of course, this weighed on global markets. When Mexico defaulted on its debt in the summer of 1982, the S&P 500 fell over 13%.

1987 Stock Market Crash

In February 1987, the Fed decided to tighten by withdrawing liquidity from the market. This pushed interest rates up.

They continued to tighten until the "Black Monday" crash in October of that year, when the S&P 500 lost 33% of its value. On that morning I was in my office discussing a Japanese real estate transaction with brokers when we heard the announcement on the radio of the stocks crashing. We all knew immediately that from that point forward future real estate transactions would be limited.

When the stocks crashed, the Fed quickly reversed its course and started easing again. It was Alan Greenspan's first – but not last – bungled attempt to raise interest rates.

Asia Crisis and LTCM Collapse

A similar pattern played out in the mid-1990s. Emerging markets – which had borrowed from foreigners during a period of relatively

How the Deep State and Democrats Plan to Sink Trump

low interest rates – found themselves in big trouble once Greenspan's Fed started to raise rates.

This time, the crisis started in Asia, spread to Russia, and then finally hit the US, where markets fell over 20%.

Long-Term Capital Management (LTCM) was a large US hedge fund. It had borrowed heavily to invest in Russia and the affected Asian countries. It soon found itself insolvent. For the Fed, however, LTCM's size meant the fund was "too big to fail." Eventually, LTCM was bailed out.

Tech Bubble

Greenspan's next rate-hike cycle helped to puncture the tech bubble (which he'd helped inflate with easy money). After the tech bubble burst, the S&P 500 was cut in half.

Subprime Meltdown and 2008 Financial Crisis

The end of the tech bubble caused an economic downturn. Alan Greenspan's Fed responded by dramatically lowering interest rates. This new, easy money ended up flowing into the housing market.

Then in 2004, the Fed embarked on another rate-hiking cycle. The higher interest rates made it impossible for many Americans to service their mortgage debts. Mortgage debts were widely securitized and sold to large financial institutions.

When the underlying mortgages started to go south, so did these mortgage-backed securities, and so did the financial institutions that held them.

It created a cascading crisis that nearly collapsed the global financial system. The S&P 500 fell by over 56%.

2019: The Deep State's Revenge on Trump?

Giambruno doesn't think this time will be different. But for investors such as us, this doesn't mean we can't protect ourselves… and even profit when that happens.

Why is this crisis imminent…

The "Everything Bubble"

As we know, the Fed responded to the 2008 financial crisis with unprecedented amounts of easy money.

Think of the trillions of dollars in money printing programs – euphemistically called quantitative easing (QE) 1, 2, and 3.

At the same time, the Fed effectively took interest rates to zero, the lowest they've been in the entire history of the US.

The too-big-to-fail banks are even bigger than they were in 2008. They have more derivatives, and they're much more dangerous.

Allegedly, the Fed has been taking these actions to save the economy.

In reality, it's simply created enormous and unprecedented economic distortions and misallocations of capital… and it's all going to be flushed out.

In other words, the Fed's response to the last crisis sowed the seeds for an even bigger crisis.

All the trillions of dollars created by the Fed ended up creating not just a housing bubble, or a tech bubble, but an "everything bubble."

The Fed took interest rates to zero in 2008 in response to the financial crisis. It held them there until December 2015, or nearly seven years.

The Fed inflated the housing bubble (which eventually caused the 2008 crisis) with about two years of 1% interest rates. So it's hard to fathom how much it distorted the economy with seven years of 0% interest rates.

As the Fed gets into another rate-hiking cycle, all the malinvestment created by the trillions in easy money will get flushed, just like in previous cycles.

Except this time, the Fed has warped the economy far more drastically than it did in the 1920s, during the tech or housing bubble, or during any other period in history. Giambruno (and I) expect the resulting stock market crash to be that much bigger.

And we're already seeing some serious warning signs…

Warning Sign No. 1 – Emerging Markets Are Flashing Red

Just as in previous crises caused by rate-hike cycles, emerging mar-

How the Deep State and Democrats Plan to Sink Trump

kets are flashing red today.

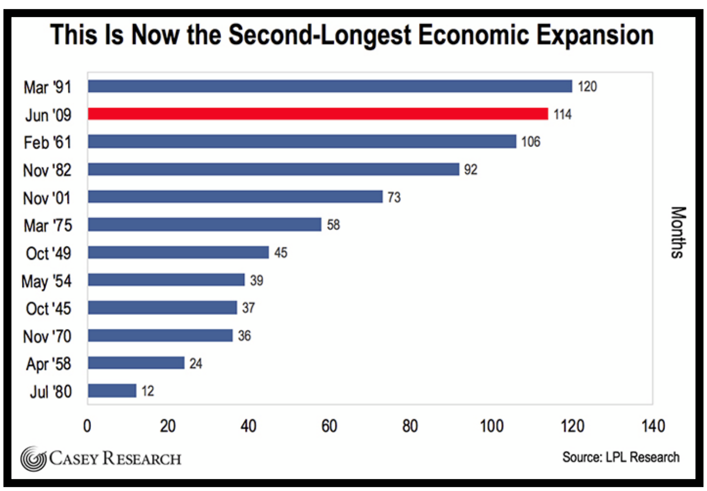
Earlier this year, the Turkish lira lost over 40% of its value. The Argentine peso tanked a similar amount.

These currency crises could foreshadow a coming crisis in the US, much in the same way the Latin American crisis did in the early ’80s and the Asian financial crisis/Russian debt default did in the late ’90s.

Warning Sign No. 2 – Unsustainable Economic Expansion

The trillions of dollars in easy money have fueled the second-longest economic expansion in US history, as measured by GDP. If it’s sustained until July 2019, it will become the longest in US history. As a point of reference, no economic recovery ever exceeded 120 months. This one is currently at month 116. It’s getting close.

In other words, by historical standards, the current economic expansion likely will end before the next presidential election.



On a related note, GDP is a highly misleading statistic. Mainstream economists count government spending as a positive when calculating GDP. A more honest measure of a country’s economic output would count government spending as a big negative.

Of course, government statistics can’t and don’t bother to measure how much of that economic activity is unsustainable once interest rates rise.

Giambruno suspects we’ll find out that much of it is malinvestment built on easy money. It will vanish quickly once the easy money goes away.

In other words, the length of the alleged economic growth is really an indication of how big the “everything bubble” the Fed has blown since the 2008 crisis has become.

Warning Sign No. 3 – The Longest Bull Market Yet

The stock market also points to the enormous size of this latest bubble.

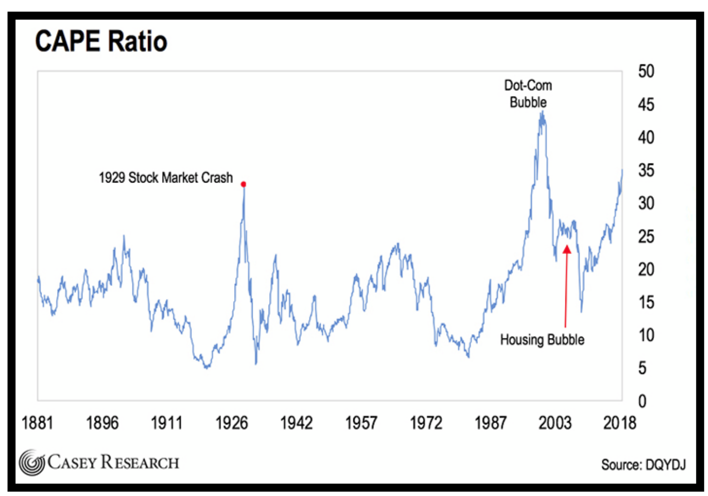
Earlier this year, the US stock market broke the all-time record for the longest bull market in history. The market has been rising for nearly a decade straight without a 20% correction.

Stock market valuations are nearing the highest levels in all of history.

The cyclically adjusted price-to-earnings (CAPE) ratio for the S&P 500 is now the second-highest it’s ever been. And it’s more than double its long-term median of 15.6x.

The CAPE ratio is a valuation metric which smooths out earnings volatility by using 10 years’ worth of earnings instead of one. But just like the better-known P/E (price-to-earnings) ratio, a high CAPE ratio means stocks are expensive.

As we can see in the chart below, the only other time in history that it’s been higher was just before the tech bubble burst. Each time stocks have approached valuations at these nosebleed levels, they’ve been followed by a major crash.



How the Deep State and Democrats Plan to Sink Trump

Some of today's abnormally high valuations are the direct result of near-zero interest rates, which allowed many companies to borrow money and buy back their own stock.

Their share prices have soared. We suspect much of the debt used to fund share buybacks will be unsustainable as interest rates rise.

The Fed Will Pop This Bubble, Too

Just like in all previous cycles, it will be a Fed rate-hike cycle that pops the "everything bubble."

Since December 2015, the Fed has been steadily raising rates, roughly 0.25% per quarter. As of writing, the federal funds rate has a target range of 2-2.25% – the highest levels since the 2008 crash.

The US economy and stock market are overdue for a recession and correction by any historical standard, regardless of what the Fed does.

But when you add in the Fed's current rate-hiking cycle – the same catalyst for previous bubble pops – the likelihood of a stock market crash of historic proportions before the end of Trump's first term is very high.

Remember the chart above: 84% of Fed rate-hike cycles caused a crisis. In many of these cases, it took between one and three years for the effects of rising rates to cause a crisis somewhere.

For example, the Fed started hiking rates in 1994. This produced the 1997-1998 Asian Financial Crisis, Russian debt default, and LTCM collapse.

The Fed started hiking rates again in mid-1999, which popped the tech bubble about a year later.

The Fed started hiking rates again in 2004, which produced the 2008 financial crisis.

As mentioned earlier, the current Fed rate-hike cycle started in 2015. That means it's already nearly three years old. By the end of 2018 the Fed will have made 9 rate hikes in this tightening cycle, and it has no intention of slowing down.

History suggests we are late in the game here. There's no doubt this rate-hike cycle will prick the massive "everything bubble" … very likely before the next presidential election.

This is obviously bad news for President Trump, and he knows it. And it will blindside investors who aren't prepared.

This is why President Trump is pressuring U.S. trade negotiators to cut a deal with China soon in hope of fueling a market rally, as he grows increasingly concerned that the lack of an agreement could drag down stocks, according to people familiar with the matter.

As trade talks with China advance, Trump has noticed the market gains that followed each sign of progress. He watched U.S. and Asian stocks rise on his decision to delay an increase in tariffs on Chinese goods that was scheduled for March 1.

The world's two largest economies are moving closer to a final agreement that could end their almost year-long trade war, an outcome that would also provide a boost to his efforts to seek reelection in 2020.

A new trade accord that would provide Trump with a much-needed win after the collapse of his summit with North Korean leader Kim [Jong-un].

But that's why successful investors are preparing now.

They (and we) plan to profit – and provide a hedge to our portfolio when stocks fall – by shorting the market.

That means we're betting the market will fall… And we can profit by positioning ourselves before that happens.

We can short the market by selling stocks forward or by the safer method of buying put options or selling calls or by combining both in a single iron triangle spread transaction.

So, in the wake of the rather anti-climatic Mueller Report and follow-up letter by AOG Barr that, although it did not exonerate Trump, did affirm there was no collusion, the Deep State (and more desperately) the Democrats, are looking for another way to bring down Trump. A stock market crash and ensuing serious economic downturn would amply serve to accomplish that.

Suffice it to say that in this month of March 2019, for the first time since August 2007, investors are earning less on the 10-year T-bill than on the 3-month T-note. In 2007 after that happened, the stock market sharply dropped. Will it happen again? But if the stock market holds up through November 2020, we know Trump is a shoe in for a second term. We shall see.

D. Miyoshi

Four Dire Predictions About America's Future

Added notes ________________________

* Rate Hikes, Malinvestment, and Bubbles

The mainstream “fake news” media endlessly praises the Fed. It portrays Fed employees as a bunch of selfless, benign bureaucrats trying to save the economy.

The average person thoughtlessly accepts the media’s Fed fairy tale.

In reality, the Fed is the primary cause of most of the harmful distortions in the economy. So, it’s easy to see why investors overreacted to the possibility of a rate hike in 1996.

For one, the Fed encourages malinvestment by suppressing interest rates lower than their natural levels. Companies then invest in plants, equipment, and other capital assets that only appear profitable because borrowing money is cheap. This leads to misallocated capital and, eventually, economic loss when interest rates rise and make previously economic investments uneconomic.

Think of this dynamic like a variable rate mortgage. Artificially low interest rates encourage individual home buyers to take out mortgages. If interest rates stay low they can make the payments and maintain the illusion of solvency. But once interest rates rise, the mortgage interest payments adjust higher, making them less and less affordable until eventually the borrower defaults.

In short, bubbles are inflated when easy money from low interest rates floods into a certain asset. Rate hikes do the opposite. They suck money out of the economy and pop the bubbles created from low rates.

In a nutshell, this is how the Fed-created boom-bust cycle works.

Four Dire Predictions About America's Future

The following report was just released by legendary investor and public thinker Doug Casey. While it paints a rather bleak and sobering scenario of America’s economy, I believe its perceptive insights afford us needed prudence to face the looming economic downturn.

By Doug Casey, founder, Casey Research

Prediction 1: The End of Retirement

The average American can forget about retirement. We’ve all heard the stories about how the average American couldn’t lay his hands on $1,000 to save his life. His expenses aren’t going away, however, even if his income does.

It seems like things have reached a critical mass. And if the economy slows down, there are going to be a lot of people losing their homes again. They’ll be unable to pay their credit card bills, car payments, student loans, or anything else. They aren’t going to be able to buy anything. They wound up in breadlines in the 1930s. But today, 40 million Americans have SNAP cards to take away the hunger pains and embarrassment of being penniless. There could be 100 million in a few years.

I know this sounds outrageous because right now, everything is running fairly smoothly. The standard of living of the average middle-class American has degraded slowly over decades, but hasn’t yet totally collapsed. But that’s the way it is a day before a volcano explodes, or a day before an earthquake, or minutes before an avalanche starts coming down.

This isn’t a theoretical discussion. Most retirement plans are in serious jeopardy. Many pension funds are already seriously underwater, even after a very long boom.

The situation is likely to deteriorate. The stock market is in a bubble. The bond market is in a hyper-bubble. A lot of value could disappear very quickly. By the time this depression bottoms, in today’s dollars—I don’t know what the dollars are going to be worth then—the Dow could trade at 5,000 or less. We’re going to see interest rates exceed what we saw in the early 1980s, when the U.S. government was paying 15%.

From a retiree’s point of view, things are not going to improve. It’s going to get worse, not better. His savings, if he has any, are going to be attacked from several angles. I don’t see any way out of this… unless friendly aliens land on the roof of the White House and present Trump with some kind of magic technology.

Prediction 2: A White Male Privilege Tax and Other Radical Tax Hikes

You’ve got to remember that the prime directive of any organism, whether it’s an amoeba, a person, a corporation, or a government is

Four Dire Predictions About America's Future

to survive. Bankrupt governments—and they're all bankrupt because of welfare state policies—are going to fight to survive. The only way that they can survive is to tax more and print more money. And that's exactly what they're going to do. Of course, don't discount a war; these fools actually believe that would stimulate the economy—the way only turning lots of cities into smoking ruins can.

I suspect they'll try to make white males bear most of the burden. That's partly because they still have most of the money. And partly because it's become fashionable to hate white males in particular. It's natural to want to hurt people that they think are the problem—what Marxists would say are the "class enemy."

We're going to see much higher taxes, among other unsavory things. There's no other way to pay for welfare state programs, except sell more debt to the Fed—which they'll also do, by necessity. Inflation will get out of control as a result.

Of course, you've got to remember that as recently as the Eisenhower administration, the top marginal tax rate was theoretically 91%. The average person didn't pay anywhere remotely near that because it was a steeply progressive tax rate. Nobody did, frankly, especially the rich, because there were loads of tax shelters, which no longer exist. Hiding money offshore, among other things, was easy. Now these things are out of the question.

Now there's no place to hide from the State. And envy is rampant. How bad could it get? In Sweden during the 1970s, the marginal tax rate, including their wealth tax, was something like 102%. So almost anything is possible.

Of course, they'll raise taxes radically. It's time to eat the rich.

Prediction 3: Like Venezuela, Socialism Will Conquer the U.S.

Its ideas already have. First, we should define what socialism is: It's State ownership of the means of production. It was supposed to be a passing stage on the road to communism. Communism is communal ownership of private goods—houses, cars, shops, and consumer items—as well as capital goods. Nobody even talks about that anymore, since capitalism has given most people so much stuff that they don't even have room to store it all.

Socialism in the U.S. is unlikely. Governments have found it's much more efficient to simply have the State control capital, as opposed to owning and operating it. It's so much easier to just take as much as they want of the profits, then blame the capitalists if something goes wrong with delivery of the goods.

Forgetting about North Korea and Cuba, there are no socialist states anywhere in the world. What we have instead are welfare states—where the government provides some degree of free schooling, free medical care, free housing, free food, and so forth. If not free, then subsidized. The next step is a guaranteed annual income.

The word "socialism" today is actually just shorthand for a welfare state, which is what Boobus americanus, the hoi polloi, really want. They don't really care who owns the factories, fields, and mines. What they care about is that somebody gives them a soft life.

When you give people the ability to vote themselves free stuff at somebody else's expense they'll do it. But—much worse—they now actually think it's the right thing to do. Why? Mainly because of the propaganda that they've absorbed through college, the media, the entertainment world, and numerous other places. There's no question about the fact that the U.S. will turn into a full-fledged welfare state.

Socialism is basically about the forceful control of other people's lives and property. It isn't just an intellectual failing. It's actually a moral failing. Although—perversely—it's sold as being moral. People buy it because they like to believe they're doing the right thing.

It will end with an economic collapse. Then, a political and—most importantly—a cultural collapse.

Prediction 4: A New, 9/11-Type Event—Real, or a Contrived False Flag?

It's entirely possible. It's still completely undetermined what actually happened on 9/11, and who was actually behind it. Notwithstanding that, considering how the U.S. government continues to provoke people all over the world, there's certainly some group, most likely Mohammedans, who'll decide to strike out against the great Satan.

And as 9/11 showed, regardless of who was actually responsible, a very small number of people can have a very large effect on things. Especially when the system itself is critically unstable, which it is today.

They might do something like Mumbai in 2008. It took only two dozen fanatics with ordinary guns. They turned the whole city totally on its head for days. That was extremely cheap, low-tech, and easy. Warfare has always been a matter of economics; cheap trumps expensive. There are scores of ways to severely disrupt an advanced society for a trivial investment. On the other hand, it's extremely expensive to disrupt a primitive society, as the U.S. is discovering in Afghanistan.

Anyway, "terrorism" is an extremely low-cost method of warfare. It will have a gigantic effect when someone decides to use it in the U.S. 9/11 was just an amuse bouche. You can plan your life around something like that happening again.

The world is evolving at the rate of Moore's Law in many regards. Let me emphasize that military technology is changing, too. Aircraft carriers, B2s, F35s, M1 tanks, and so forth are basically junk. Great for fighting the Soviet Union, which no longer exists. They serve no useful purpose in the kind of battles that are likely in the future.

If someone wants to attack the U.S., they're not going to use an ICBM; they're extremely expensive, clunky, and you can see where they come from, guaranteeing retaliation. It's total idiocy that even a maniac wouldn't bother with. Not when you can deliver a backpack nuke by FedEx, cheap and on time. Or you could use any commercial aircraft, container ship, or truck.

If you want to blame Iran—and really whip up the U.S. population—there would be nothing like a small nuclear or radiological attack to do it. It's a pity, since they're a distant regional power with a failing economy, and present about zero threat to the U.S.

If I were to attempt putting my finger on exactly when the U.S. will go over the edge, I would think the real catalyst might be the next 9/11-type event. I don't doubt it's going to happen.

The Importance of Philosophy

How are we any different than the Germans in the 1920s? They were one of the most civilized, best-educated countries in Europe and they still fell into the abyss.

Regards,

Doug Casey, Founder, Casey Research

The Importance of Philosophy

A college philosophy class can be the most boring or the most enthralling experience in school. This is because it can either define or change one's life or offer absolutely no clue to solve one's immediate concerns.

So, what should you do if you are running out of time and money?

This is the question I get from readers over 50… over 60… and sometimes, over 70.

We baby boomers were famously saying "Na… na… na… Live for today."

Now, it's tomorrow. And many – often through no fault of their own – are having trouble making ends meet.

In investment consultant Bill Bonner's Diary, he writes about the world of money – about economic policy and how it affects us.

But what if, in your world of money, you are running short? What should you do to get more?

Check under the seat cushions? Rob a bank?

What Really Matters

You are 70. You have no money. What do you do?

Sell your body for medical experiments? Invent a new app?

Sophisticated trading systems and expensive investment programs are not a good idea if you fall into this category.

They are for people who have money already. If you have money, want more, and enjoy the thrill and challenge of financial adventure, they can be highly lucrative.

But what if you don't have money already?

I don't know anything more than anyone else on the subject. I don't have any secrets. But after thinking about it, I have some ideas.

This is not advice. This is just what I would do if I were in that situation…

First, I would go back to philosophy – Democritus, Epicurus, Zeno, Seneca, Marcus Aurelius, and Lucretius (not to mention Jesus of Nazareth!).

They argued – albeit in different ways – that what matters in life has little to do with wealth or status. What matters (at least according to Plato's description) are courage, wisdom, justice, and temperance.

Some would add beauty and dignity. And a good wine. And a good cook. But nowhere on the list is a Rolex or a house in Malibu.

The nice thing about Plato's list… as well as the whole Epicurean/Stoic/Ascetic creed… is that it doesn't cost much!

As many philosophers and religious teachers have said, wealth may get in the way of the things that matter. It may distract you and reduce your real happiness.

You may be better off without it…

A Better Philosophy

I am not ducking the question. I am trying to put it in context. At least the context I am aware of.

If you want more money, you first have to understand what you want it for… and how it might affect your life.

My goal is not to "come to terms" with financial misery. Nor is it to submit to poverty – even happily.

Instead, I want to master poverty… to live better.

The Importance of Philosophy

As Nietzsche put it, we aim to "set to dancing with arms and legs." And for that, we need context.

What we need is a simpler, better philosophy… and how to use it to get more money!

We need a simple philosophy to make sense of it – to guide us past the Gucci bags… past cable TV… and past the million-euro apartments of the 16th arrondissement in Paris.

Not that there's anything wrong with them. But they are expensive.

And if you don't have money, you need to be able to pass up luxury, gluttony, and self-indulgence with your nose in the air… not with your shoulders bent in defeat and self-disgust.

And for that, you need philosophy. Or at least aesthetics.

All people – unless they are saints or mental defectives – want to feel good about themselves. That is their primary aim in life and the only reason they are interested in money (save the minimal amount for survival).

Since we are a competitive species, we feel good about ourselves in direct measure to how superior we feel to those around us.

If we are trim, it does no good unless those around us are not. If we are smart, we get no advantage from it unless others are dumb. And if we are rich, it is only meaningful to the extent that others are less rich.

But so clever is our race that we are able to find superiority almost everywhere.

If we are fat, we redefine the corpulent spectrum so that we are "pleasingly plump," while others are "unhealthy" and "too thin."

If we are dumb, we focus on our "common sense" as opposed to the uncommon nonsense of the "pointy-headed intellectuals" (to borrow a phrase from George Wallace).

And what if we have no money?

Then spending money is vulgar, shallow, and pointless!

Pity the Rich

One person feels superior because of what he owns. Another for what he does not. Still another for what he knows. And another for what he knows not.

And one feels superior because of who he is, while another measures his stature by who he is not.

But the one who feels superior to them all is the one who owns nothing, knows nothing, and is a complete nobody. He is free from the vanities that clutter others' lives!

In 10th-century Europe, having little became fashionable. People gave up their possessions in search of a life of contemplation.

They wanted to get away from the distractions and temptations of everyday life so they could live in a purer way… in simplicity and godliness… and feel superior.

And now, we will take up the challenge. Our goal will be to live better. We will take it as a point of pride to do so without spending money.

We will have less, but we will treasure our frugality as a man might value a collection of old cars or well-developed biceps.

Then – as our days decline, our appetite wanes, and our energy subsides with the tide of life – our treasure of nothing increases, for we will need less and less.

A bed. A book. A candle (or LED). What more could we want?

Yes, we are talking about a program of radical deprivation and happy pennilessness. Our goal would be to feel superior to rich people… without having any money.

But there's a twist. We will wear our newfound love of poverty as a badge of honor… and use it to get rich!

Already, we pity the rich. In our empty coffer, we have the greatest treasure of all – the hope of happiness.

Yes: Blessed be the poor. For they enjoy the gift of ignorance.

They still believe that they could be happy… if only they had more money!

This, of course, is an illusion that only the poor can afford. Rich people know better. They have too much money. They know it cannot buy them happiness. That's why the suicide rate in Aspen is three times the national average. Hollywood comes a close second.

But how lucky are the poor? They still have hope! They will have to win the lottery before they will want to blow their brains out. And the odds are against them.

Still keeping the faith.

D. Miyoshi

Japan Needs to Rearm

Japan Needs to Rearm

Currently Article 9 of the Japanese Constitution reads "the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes"

I love Japan. It is my second home and the first home of my wife. And for it to survive I believe it must rearm.

This became recently evident to me when the U.S. position with North Korea became clear.

As we have all witnessed, the Hanoi talks ended in deadlock and President Trump and North Korean leader Kim Jong Un showed their mutual anger by not shaking hands. The media labeled the talks a failure.

Trump in quoting from his book "*The Art of the Deal*" said to be effective sometimes you must be willing to walk away. This was his obvious stance to test how hungry Kim Jong Un was to make a deal.

So, ending the negotiation, particularly with a show of anger, is routine. At the same time, mutual rejection can be genuine, and now each side is trying to figure out how serious the other is. Establishing that you are prepared to walk away from the table is important – but sometimes the deal falls apart as a result.

As George Friedman so eloquently explained in his book "*The Next Decade*" war with North Korea is not a good option for the U.S. There's the danger of artillery fire close to Seoul, the uncertainty of the location of North Korea's nuclear weapons, and the U.S. aversion to the idea of getting bogged down in another war this century. North Korea, on the other hand, knows that one thing that would trigger a U.S. pre-emptive nuclear strike would be to develop weapons that can reach the U.S., and it wants to avoid such a strike at all costs. So, this failed negotiation leaves a reality in which war is not likely, giving both sides room for obstinacy.

For the U.S., the years since 9/11 have displayed the limits of its military power. The U.S. is very good at destroying enemy armies, but not so good at occupying enemy countries where the citizens' morale has not been crushed (i.e. Germany and Japan during World War II). In Iraq, for example, the U.S. expected Iraqis to welcome the Americans. Some did, some were indifferent and some resisted. The resistance was prepared to absorb substantial casualties; this was their country, and they had nowhere else to go. The U.S., quite reasonably, was not prepared for high casualties, as Iraq was not a fundamental, long-term, American interest. The local forces understood the social and physical terrain, while the U.S. had limited familiarity. The initial attacks were successful. The occupation was a mess.

Thus, out of necessity, the U.S. has adopted a strategy that draws down its forces and is extremely cautious about engagements where it cannot crush civilian morale through World War II-style bombing and blockade. Even if confident in its ability to break a conventional or nuclear force, the U.S. has no appetite for occupation. The strategy since World War II, built on the assumption that U.S. conventional forces can defeat any foe and pacify the country, is being abandoned. And in the case of the Hanoi talks, the U.S. is following a new strategy of diplomatic deadlock without recourse to the insertion of force.

We now can all understand the North Korean, Chinese, Russian and U.S. positions. (South Korea, of course, wants a stable balance on the Korean Peninsula.) But the country whose strategy is now uncertain is Japan.

What to do for Japan

In the wake of the Hanoi talks failure the major question is what Japan will do now. Japan is the world's third-largest economy. It has a stable and homogeneous population, a substantial military force and an enormous capacity to increase that force.

The U.S. has decided to accept that North Korea is a nuclear state, so long as none of its nuclear weapons can reach the U.S. mainland. This completely destabilizes Japan's strategy. Under that strategy, first imposed by the U.S. and happily embraced by Japan, the U.S. guarantees Japanese national security. The U.S., in exchange, has been able to use Japan as a base from which to project force across the Korean Peninsula, threaten China and block Russia's Vladivostok fleet from accessing the Pacific Ocean. Japan, unencumbered by defense expenditures and any responsibility in American wars, could focus on the monumental

Japan Needs to Rearm

task of its dramatic post-World War II recovery (with a noticeable slowdown in the last two decades). Most important, the U.S. nuclear umbrella has guaranteed that any nation that might attack Japan with nuclear weapons would face retaliation from the United States. But in reality, the United States' willingness to launch a massive nuclear exchange if China or Russia hit a Japanese city was always uncertain. But since it was uncertain to potential aggressors too, it served its purpose, which was more psychological than military.

The Hanoi talks subtly shifts that guarantee. The new U.S. position is that it cannot accept a North Korean nuclear program that threatens the United States. Implicit in that position is that it can tolerate one that threatens Japan. The U.S. nuclear umbrella is notionally still there, but the United States' reluctance to engage raises the question of whether North Korea will be deterred. So, the U.S. nuclear deterrent still guards Japan – but can the guardian be trusted?

Japan lives in a rough neighborhood. The Russians hold the Kuril Islands to which the Japanese lay claim, and while it's not a real threat now, the Russian future is always unknown. China is challenging Japan's control of the Senkaku Islands in the East China Sea and is threatening to potentially take control of the Western Pacific, which is currently in the hands of the United States. China has a long memory of Japanese occupation during the Sino-Japanese War. The Korean Peninsula also has a long memory of Japanese occupation. So apart from the current geopolitical reality, Japan lives in a region that resents it for historical reasons.

It is in this context that the Japanese continue to struggle internally over defense policy.

In 1989 Shintaro Ishihara then Minister of Transport and Akio Morita, chairman of Sony wrote a best seller book *"No" to Ieru Nihon* or the *Japan that can say No*. The book is celebrated for its critical examination of United States business practices, and for advocating Japan's taking a more independent stance on many issues, from business to foreign affairs, especially probing the question of amending Article 9 of the Japanese Constitution to allow the country to have offensive military forces.

Under the present constitution, Japan's policy is to build a substantial self-defense force while minimizing its capabilities, saying it is only for national defense purposes. The obvious alternative is for Japan as the world's third-largest economy, to normalize its international status by abandoning the constitutional prohibition on an offensive military force and create an armed force congruent with its economic might and strategic interests.

On the whole, it appears the Japanese public is comfortable with its postwar strategy. But with the rise of China, North Korean nuclear weapons and a potentially aggressive Russia, this likely will not continue. As the U.S. puts pressure on its allies to carry their own burdens, the Japanese strategy is for good reason becoming increasingly untenable. But Japan can't undergo a serious shift until the public does, and that means there will be an internal political crisis over the matter. But seemingly public opinion is already shifting, and the Japanese will face their reality.

Politically, Prime Minister Abe has shown his intention to get Japan to rearm. But with the upcoming elections and his need to garner the Komeito peace party vote, he may need to wait until after he is elected to force his position.

And behind all this is an inevitable shift in U.S. foreign policy, visible in its stance on North Korea and elsewhere and rooted in the failure of U.S. warfare since World War II. The Korean War was a costly tie. Vietnam ended with Hanoi's flag flying over Saigon. The wars in Iraq and Afghanistan failed to establish viable, pro-U.S. regimes. The only 20th century wars in which the U.S. fared well were those in which U.S. allies bore a massive part of the burden. These wars only ended well when there was no U.S. occupation or when the ruthless execution of the war shattered the morale of the enemy and permitted the U.S. to reshape the societies. And very few wars will be like that.

Friedman had foretold this shift in U.S. strategy years ago in his book "*The Next Decade*." This shift has arrived, and that means nations, enemies and allies are repositioning themselves. In Asia, the Chinese and Russians will mostly hold their positions. North Korea will exploit the shift to the extent it can. But it is Japan that will have to undergo the most radical change.

Understandably, this will affect the political, military and economic relationships between the U.S. and Japan. But each country must follow its own dictates for self-preservation for this is what world history is all about.

I close with the Latin adage I learned in the U.S. Marine Corps that I think applies to Japan's current situation - *Si vis pacem, para bellum* ("If you want peace, prepare for war".)

D. Miyoshi

Real Estate v Stock, Which is Better?

Real Estate v Stock, Which is Better?

This is the eternal question asked by investors. All our resources are limited including air, water and even our money are limited. So how do we make the most of what we have.

Asking the questions, “Which is a better investment—real estate or stocks?” is like asking whether chocolate or vanilla is superior or if an Aston Martin is better than a Bentley. There really isn’t an answer because a lot of it comes down to your personality, preferences, and style. It also comes down to the specifics of the individual investment.

Very few stocks would have beat buying beachfront property in California in the 1970s using a lot of debt, and then cashing in twenty years later. Virtually no real estate could have beat the returns you earned if you invested in shares of Microsoft, Johnson & Johnson, Walmart, Berkshire Hathaway, Dell or Southwest Airlines, especially if you reinvested your dividends. So the answer isn’t as easy as it may seem.

Let’s begin by looking at each type of investment:

Real Estate: When you invest in real estate, you are buying physical land or property. Some real estate costs you money every month you hold it — think of a vacant parcel of land that you hope to sell to a developer someday but have to come up with cash out-of-pocket for taxes and maintenance. Some real estate is cash generating — think of an apartment building, rental houses, or strip mall where the tenants are sending you checks each month, you pay the expenses and keep the difference as the profit.

Stocks: When you buy shares of stock, you are buying a piece of a company. Whether that company makes ice cream cones, sells furniture, manufacturers motorcycles, creates video games, or provides tax services, you are entitled to a cut of the profit, if any, for every share you own. If a company has 1,000,000 shares outstanding and you own 10,000 shares, you own 1 percent of the company. Wall Street makes it seem far more complicated than it is. The company’s Board of Directors, who are elected by stockholders just like you to watch over the management, decides how much of the profit each year gets reinvested in expansion and how much gets paid out as cash dividends.

Everyone has a different reason for why they invest.

Some people are planning for retirement. Some are hoping to create a legacy to pass on to their children and grandchildren. Others are saving for that dream house or a once-in-a-lifetime vacation.

But whatever your reason for investing, your goal is the exact same as everyone else: make a profit.

And the stock market is a great place for doing just that. In fact, it’s been called the greatest wealth-building invention in human history.

But if you look at average stock returns over time, they’re not really all that impressive on an annual basis.

A Long Time Coming

According to Investopedia, the S&P 500 averaged an annual return of just 8.6% over the past two decades.

That means you’d make about $86 for every $1,000 you invested at the start of each year. It sounds pretty paltry at first, right?

But the power of compounding allows you to earn a return on your return. Think of it like getting paid interest on your interest at the bank.

So, if you’d invested $1,000 at the start of the 20-year period, you’d be looking at an account worth about $5,200.

Now, that’s a little better. But you could have gotten a lot more profit if you’d invested outside of the stock market.

Outside Investing?

But how do I invest in stocks outside the stock market?

Well, you don’t. You don’t invest in stocks. You invest quite literally outside.

Real Estate v Stock, Which is Better?

Over the past two decades, real estate investments on the whole have outperformed the general stock market.

Commercial real estate returns about 9.5% per year. And residential real estate or diversified real estate investments average a 10.6% annual return.

Again, that doesn't sound so hot, but when you let compounding do its work, your profits get a lot bigger.

A $1,000 investment in commercial real estate 20 years ago would be worth $6,141 today.

That same $1,000 invested in residential or diversified properties would now be worth $7,500.

Commercial real estate would have increased your profit by over 18%. Residential or diversified would have boosted it by nearly 45%.

Starting to understand why real estate is such a great investment?

How You Make Money

There are a few different ways investors plan to profit from real estate investments. Some you probably already know about.

One of the biggest greed drivers in real estate investment is the hope for appreciation. Basically, you're speculating that the property you buy for $500,000 today is going to be worth $525,000 next year.

Typically, real estate prices do rise, but there's no regular path they follow. And as you all remember from 2008, they can go down really fast.

Then you've got the house flippers. These are the folks looking for properties in need of work.

They'll buy a place as cheap as possible, put some paint and drywall up (they hope that's it, but it's often much more) and then sell the house a few months later for a profit.

But you've got to really know your construction for this kind of investment. If you've got to do more than just cosmetic work, renovations and repairs can get very expensive.

And if you can't find a buyer, you've got to figure out something else in a hurry to stay cash flow positive.

Then, of course, you've got the investors who are just looking to capitalize on value. They're looking for that steal of a deal property.

And if you can find a property below market value, you've immediately increased your net worth as soon as you close on it.

But these kinds of deals are not easy to find. And the folks doing it are constantly immersed in reports and ready to jump on any opportunity that presents itself. They're experts and love taking advantage of newbies whenever they can.

Finally, you've got the main reason most folks think of investing in real estate: rental income.

I mean, who doesn't want to be a landlord? Finding tenants that won't need to be evicted down the line. Chasing down rent payments. Contracting with maintenance companies to take care of the property.

That sounds like tons of fun.

Obviously, I'm being sarcastic. And as a former landlord, I can tell you it's profitable, but it's also a massive headache.

But if you can hack the hassles, here are ten reasons why real estate can be worth the trouble.

1. Real estate has a predictable cash flow

Cash flow is the net spendable income derived from the investment after all operating expenses and mortgage payments have been made. A good real estate investment should provide you with 6% or greater cash flow.

2. Real estate appreciates in value

Since 1968, appreciation levels for real estate have been 6 percent per year, including during the downturn in the economy beginning in 2007, according to the National Association of Realtors.

Real Estate v Stock, Which is Better?

3. Real estate can be leveraged

The most important advantage of real estate investing is LEVERAGE! It is the use of borrowed capital to increase the potential return of an investment. In real estate transactions, leverage occurs when a mortgage is used to reduce the amount of investor capital required to purchase a property. The annual return on a $200,000 property with a $20,000 net cash flow purchased with cash is 10 percent.

Now, let's assume a loan of $150,000 is amortized over 30 years at 5 percent interest, but 75% of the money required to purchase the property is borrowed, even factoring in the cost of making the mortgage payment, the annual return more than doubles to 22 percent.

Once you have built up an equity position in an investment property, you can leverage that investment for cash in one of two ways: Secure a second loan against the increased equity or refinance the original loan amount plus the increase equity. This frees up money to buy another investment property.

4. Real estate provides equity buildup

Most real estate is purchased with a small down payment with the balance of the money being provided through debt financing from a lender. Over time, the principal amount of the mortgage is paid down, slowly at first, and then more rapidly toward the end of the amortization period. This principal reduction builds equity.

5. Real estate is improvable

One of the most unique and attractive advantages of real estate is that it is improvable. Because real estate is a tangible asset made of wood, brick, concrete, and glass you can improve the value of any property with some “elbow grease” and “sweat equity”. Whether the repairs are structural or cosmetic, do it yourself or hire someone, the principle is the same. You can make your real estate worth more by improving it.

6. Real estate coincides with retirement

When real estate is purchased, the cash flow is lower and the principal reduction on the mortgage is less. Over time the mortgage is paid down, or paid off, and the cash flow increases. In some respects it's a forced savings program, yielding a greater amount as time goes by which is a perfect investment for retirement as it increases in cash flow down the road.

7. Real estate is tax deductible

Tax codes allows various deductions for the normal expenses incurred in owning real estate, such as property upkeep, maintenance, improvements and even the interest paid on the mortgage. The deductions can offset income and reduce your overall taxes.

8. Real estate is depreciable

Depreciation is a non-cash expense permitted by tax code that depreciates the value of your investment property over time. However, the value of your investment property actually appreciates. The depreciation deduction allows a real estate investor to generate a larger positive cash flow while reporting a lower income for tax purposes. This creates a higher return than you may initially realize.

9. Real estate has a lower tax rate

If your investment property is sold after a year, the gain is subject to capital gains tax rates which depending upon your individual tax bracket is generally 15% or 20% which is usually less than one's personal tax bracket.

10. Real estate gains are deferrable

Our tax code, under a 1031 exchange, permits the gain on the sale of an investment property to be transferred from the property being sold to a new property being purchased, hence deferring the payment of any tax on the sale of the property.

There is one final advantage to a real estate investment and that is it is understandable and is easy for most everyone. It's easy to purchase, it's easy to finance and there are no insurmountable financial barriers to enter. It's easy for most investors to improve their properties and it's easy to use the tax advantages.

While Wall Street is becoming more and more of a mystery and becoming the game of financiers, real estate investing is looking better and better for average Americans.

I hope this adds a little perspective to the question whether stocks or real estate is a better investment.

Here is to your success in investing.

D. Miyoshi

Buying Social Status in America

Buying Social Status in America

Most social scientists in the U.S. agree that the U.S. society is stratified into social classes. Social classes are hierarchical groupings of individuals that are usually based on wealth, educational attainment, occupation, income, or membership in a subculture or social network. Social class in the United States these days is a very controversial issue, having many competing definitions, models, and even disagreements over its very existence.

Many Americans seem to recognize a simple three-tier model that includes the upper class, the middle class, and the lower or working class. Some social scientists have proposed more complex models that may include as many as a dozen class levels. Meanwhile, some scholars deny the very existence of discrete social classes in American society. But, in spite of debate, most social scientists do agree that in the U.S. people are hierarchically ranked in a social class structure.

Over the years people have asked me can one buy social status in the U.S. While there are no established formal procedures to enable one to buy their class such as may still exist in Europe and Asia, there are informal schemes used to circumvent established candidate screening processes, especially at elite educational institutions.

This was made evident on March 13, 2019, when the U.S. Department of Justice charged 50 people with involvement in a scheme that allowed wealthy parents to bribe college and testing officials to smooth the path for their children's admission into top tier U.S. colleges. According to *The Washington Post*, the "alleged crimes included cheating on entrance exams, as well as bribing college officials to say certain students were coming to compete on athletic teams when those students were not in fact athletes." Targeted schools included Yale, Stanford, UCLA, Georgetown, and the University of Southern California.

Conservative columnist Ben Shapiro wrote a report directly on this incident. He reported the case involved TV actresses Felicity Huffman of *Desperate Housewives* and Lori Loughlin of *Full House*. Loughlin and her husband allegedly spent $500,000 in bribes to get their two daughters designated "recruits" for the USC crew team; the two daughters were then admitted on that basis. Huffman allegedly paid $15,000 as a faux charitable donation to the Key Worldwide Foundation so her daughter could be admitted to a top college; the money actually went toward paying a third party to correct her daughter's SAT scores, boosting it to 1420 from 400 points lower on a practice SAT the year earlier.

The question asked by Shapiro is why. Both these families are wealthy. The children of these families weren't going to lack for opportunity in life. Furthermore, isn't college designed to train people for the real world? Wouldn't admission under false pretenses result in the kids flunking out? Wouldn't their lack of merit be revealed by the simple pressure of the schooling?

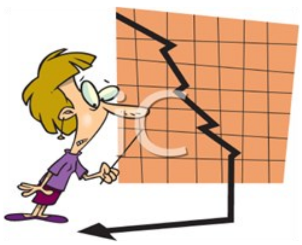
The answer by Shapiro is obvious: no, it wouldn't. U.S. colleges aren't about training kids for the real world, or teaching them significant modes of thinking, or examining timeless truths. Universities aren't about skill sets, either – at least in the humanities. They're about two things: credentialism and social connections.

In American society, Shapiro says, there is an easy way to be perceived as intellectually meritorious: point to your degree. Those with a college degree all-too-often sneer at those without one, as though lack of a college degree were an indicator of innate ability or future lack of success. That simply isn't true. But for generations, the widespread perception has been that the smartest kids go to college – and that the relative merit of each college confers a similar level of merit on the students. A student who goes to Yale is smarter than one who goes to junior college. This provides a lifelong advantage: employers are willing to take more chances on those who earn a Yale degree than those who went to junior college, for example.

Then there's social connection. Social institutions in the United States have been fading over time. Churches used to provide us our chief means of social connection. Colleges now do. JD Vance writes in *Hillbilly Elegy* that admission to Yale Law School granted him social capital: "the networks of people and institutions around us have real economic value." They also

Buying Social Status in America

Advancing in a Time of Crisis



Financial Crisis Report

David M. Miyoshi is a California attorney at law with a Martindale -Hubbell AV Preeminent Rating for Attorneys. He earned his Bachelor of Science degree from the University of Southern California, a Juris Doctor degree from the University of California, an MBA degree from Harvard University and an International Graduate degree from Waseda University in Tokyo.

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

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

have social value. We often get jobs from friends, or from friends of friends. The social circles in which we travel matter. That's true for those born rich as well as those born poor.

Here's the problem: neither of these priorities actually demands that universities teach anything. Credentialism occurs upon admission, so long as you aren't thrown out of school; social capital begins to accrue with presence, not with performance. Hence colleges water down curricula and grades in order to make it easier to credential, and to generate less friction. That's what students and parents demand: not skills, not education, but credentialism and social capital.

After Shapiro was admitted to Harvard Law School, he attended orientation. His 500-strong class was gathered in Memorial Hall, in historic Sanders Theater, where then-Dean Elena Kagan (now Supreme Court Justice) spoke to them. She informed them that the competition was over – they were in! No need to worry about the stuff they had seen in the movie *The Paper Chase* – they were all going to leave with degrees and jobs.

Not just that – as graduates of Harvard Law, they were destined to rule the universe. She informed them of how many alumni were in the Senate, how many in Congress, how many on the Supreme Court. The battle was over upon their acceptance to the institution.

All of this has significant social ramifications, of course. It means that our meritocracy doesn't begin in college – it ends, for many, upon admission to college. And that, in turn, means that the failures of our lower education system loom larger. It also means that in the absence of functional non-collegiate social institutions, the social gap between college-goers and non-college-goers will grow.

This also has significant political ramifications. It means that students admitted to colleges expect to be pampered, not challenged. Professor Harvey Mansfield of Harvard University was essentially forced by the administration not to give honest grades – he started giving two grades, one for merit, and then one for the administration, so as not to penalize people for taking his classes.

Politically, this also means that students expect not to be challenged – they expect to be comfortable. Professors who challenge their students, for example, may threaten their "college experience" – which may, in turn, threaten their social capital. Professors who make students feel uncomfortable may be threatening the ease they were promised. Discomfort becomes a bug, not a feature, of higher education. Pampering becomes the rule.

That's why rich and famous people would spend oodles of money just to get their kids into top universities: not because their kids won't have jobs or will go hungry, but because they want their kids credentialed and admitted into the social club. This story, then, is less about people committing a crime, and more about a system that fails the tests of meritocratic education so badly that people can buy their way past the merit and the education.

If Superman were still flying around today he would undoubtedly ask "How is this part of truth, justice and the American Way?"

D. Miyoshi

Miyoshi Law

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

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