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Financial Crisis Report

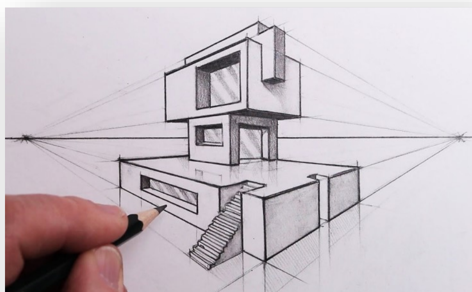
Advancing in a Time of Crisis

Words of Wisdom “We simply attempt to be fearful when others are greedy, and be greedy only when others are fearful.” — Warren Buffett

Inside this issue:

We are experiencing the most economically unstable and socially erratic period in the history of the modern world. This period is marked with extreme fluctuations in the stock, commodity and currency markets accompanied by severe and sometimes violent and deadly social disruptions including historic pandemics, riots and wars. As is typical of such times, many fortunes will be made and lost during this period. After talking with many business owners, executives, professionals, scholars 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 stock, 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 historic 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.

A Proper Perspective



The following was given to me by a good friend. I thought it provides a good way of looking at things these days.

“For a small amount of perspective at this moment, imagine you were born in 1900. When you are 14, World War I starts, and ends on your 18th birthday with 22 million people killed. Later in the year, a Spanish Flu epidemic hits the planet and runs until you are 20. Fifty million people die from it in those two years. Yes, 50 million. When you're 29, the Great Depression begins. Unemployment hits 25%, global GDP drops 27%. That runs until you are 33. The country nearly collapses along with the world economy. When you turn 39, World War II starts. You aren’t even over the hill yet. When you're 41, the United States is fully pulled into WWII. Between your 39th and 45th birthday, 75 million people perish in the war and the Holocaust kills six million. At 52, the Korean War starts and five million perish. At 64 the Vietnam War begins, and it doesn’t end for many years. Four million people die in that conflict. Approaching your 62nd birthday you have the Cuban Missile Crisis, a tipping point in the Cold War. Life on our planet, as we know it, could well have ended. Great leaders prevented that from happening. As you turn 75, the Vietnam War finally ends. Think of everyone on the planet born in 1900. How do you survive all of that? A kid in 1985 didn’t think their 85 year old grandparent understood how hard school was. Yet those grandparents (and now great grandparents) survived through everything listed above.

Perspective is an amazing art. Let’s try and keep things in perspective. Let’s be smart, help each other out, and we will get through all of this.” In the history of the world, there has never been a storm that lasted. This too, shall pass.”

These are very sound words. Admittedly, as I selected this article to feature in this newsletter, I thought assuming a clear perspective would be difficult as I saw American cities burn in the wake of the horrendous George Floyd killing. But then again, we witnessed the same things happen back in 1965 and 1992 and survived them. We just didn’t learn the lessons.

D. Miyoshi

A War with China?

I am student of history and believe it repeats itself or at the very least rhymes.

With history as a guide, we can see that today’s conflict with China is a repeat of what the world went through in the 1920s and 1930s. First came currency wars (1921–-1936). Then came trade wars (1930–34) and then finally a shooting

Are Current investors Deluded?

war (1939–-1945). Are we heading for another shooting war? The signs aren't good.

Trump's using tariffs to punish China for its criminal negligence in connection with the spread of the Wuhan virus. This also has historical precedent. Between June and August 1941, Franklin Roosevelt placed an oil embargo on Japan and froze Japan's accounts in U.S. banks. In December 1941, the Japanese retaliated with the sneak attack on Pearl Harbor.

Will China now escalate its retaliation to the point of armed conflict? We'll find out soon, possibly in the South China Sea or Taiwan Strait.

The building confrontation comes as both China and the U.S. seek to exploit an already fragmented geopolitical environment already shaken by their rivalry that has been thoroughly fragmented by the pandemic.

In the long term, it threatens to cause uneasy choices for US Asian allies who are also keen not to antagonize the giant in their backyard. And the growing tension could have significant repercussions for the global economy as the US seeks to wean itself off supply chains dominated by China.

There are serious questions to be addressed about China's transparency in the early days of the outbreak in Wuhan and whether its autocratic system fostered an attempt to cover it up. The United States is not the only nation that wants answers amid a pandemic that has devastated the global economy and cost hundreds of thousands of lives.

In response to building pressure, China has launched a propaganda effort to distract from its own culpability, including blaming US soldiers for importing the pathogen in remarks that infuriated Trump.

The US/China freeze

Relations with China have plummeted in recent years, amid rising tensions over trade, Beijing's territorial claims in the South China Sea and its rise to challenge the US strategically.

Trump's decision to freeze funding for the World Health Organization, based on claims it was too solicitous from China, could also further undercut US influence, especially in Asia where the US withdrawal from the Trans Pacific Partnership was a big win for Beijing.

China does have a record of overplaying its hand and driving regional powers back into the US orbit. The Obama administration exploited such a misstep with its Asia pivot.

Recent failures such as flawed personal protective equipment sent to Europe have tarnished Beijing's coronavirus diplomacy. Racist treatment of Africans in the southern Chinese city of Guangzhou has had a similar effect. And despite its efforts to change the story, China may never escape the notoriety of being the incubator for the disease and claims its autocratic system was responsible for critical delays in tackling the virus.

So, there is fertile ground for the Trump administration to exploit in its effort to punish China. But its own domineering attitude in the Trump years and a poorly managed effort to combat Covid-19 challenge the credibility of its efforts.

"There is really nobody who does not want to see China held to account for the political coverup attempt, which slowed down international awareness and allowed the virus to spread. There is a resentment around the world," said Danny Russel, an Obama-era State Department official in charge Asia Pacific policy. "But I think you would be hard pressed to find a political leader in Asia or Europe who does not believe this anti-China push by the Trump administration is an entirely a political move. They are trying to deflect blame for the catastrophic incompetence of the administration."

We need to keep a vigilant eye on the flashpoints that may ignite the conflagration especially around the South China Sea and the Taiwan Strait.

D. Miyoshi

Are Current investors Deluded?

To make money in stocks and options, one does not necessarily need to know what will happen in the short term but instead one does need to manage the risk exposure.

It's with that understanding that current developments in stock trading are becoming concerning.

Are Current investors Deluded?

On Wednesday April 29, the benchmark S&P 500 Index hit a new recovery high of nearly 2,955 — just below the first of a couple of major overhead resistance areas — and immediately turned lower. Even after a strong move higher in the first week of May, the index has been unable to move above this area so far.

Meanwhile, all the important indicators that trading consultants are highlighting these days continue to scream "danger ahead."

During the early part of May, broad market trading volume and momentum remained weak. And the market breadth continued to narrow. The critical groups of stocks including financials, transports, and small-caps are still severely lagging the overall market. In fact, in early May both financials and transports plunged to fresh 10-year lows versus the S&P 500.

This is not what we'd expect to see if a new bull market was underway.

And yet, it appears most investors are happily ignoring these risks. Recent data suggest individual investors have been rushing into stocks at one of the fastest rates in history.

For example, online brokerage firms TD Ameritrade, Schwab, Fidelity, and E*Trade have all reported a record number of new account openings in the past few months. More concerning, it appears many of these folks are total novices. As TD Ameritrade vice president of trading and education noted to news website Axios earlier this week…

"The way we can see that a lot of these people are newer to investing is because they are accessing our educational resources at a rate that is three to four times what we'd normally see. And the courses they're accessing are explainer video series about investing principles, investing basics, 'How do I buy a stock?' Our investing courses are laid out as a journey and a lot of them are hitting the ones that are the first part of the journey."

Equity fund flows show a similar trend. Several of the most popular growth- and value-oriented exchange-traded funds (ETFs) have seen record-breaking inflows over the past few weeks.

Justin Brill of Tradesmith has cautioned that virtually every measure of short-term investor sentiment he follows has surged to multi-year — or even multidecade — bullish extremes. And this bullishness isn't isolated to a few specific areas of the market.

According to Jason Goepfert and his team at SentimenTrader.com, short-term optimism has reached "historic and ominous" levels in most of the areas and sectors they follow, including small caps, technology, healthcare, energy, retail, homebuilders, and materials.

By all these measures, investors are literally going "all in" on stocks during these times.

Yet, everything experienced traders have shown us over nearly 20 years of investing, trading, and studying market history tells us the next big move in stocks is likely to be down.

And given the unprecedented — and still widening — disconnect between Wall Street and Main Street, we have to believe this move is likely to mark the beginning of the next bear market decline.

We learned on May 8 that unemployment "only" rose to 14.7% in April, versus expectations of 16% or more? But what you probably didn't hear is that many of the more than 20 million American jobs that have been lost are quietly being relabeled from "temporary" to "permanent."

In other words, many of these jobs aren't coming back anytime soon. And several major companies have already announced plans for additional layoffs in the months ahead.

This is the best-case scenario. However, we lively have not seen the worst of the COVID-19 crisis yet.

As Brill and his colleague Justice Clark Litle have been saying since the beginning, the purpose of shelter-in-place orders were not to stop the virus. Rather, it was to buy time… Time to keep the U.S. healthcare system from being overwhelmed before we had the necessary infrastructure in place to reopen safely.

But roughly two months into these shutdowns, not a single U.S. state has all of these measures in place to our knowledge.

This means that reopening the economy now, which more and more states have already started doing, risks putting us back in the same dangerous situation that prompted the orders in the first place.

We hope this is not the case but if it is we will soon see a massive second wave of infections that is even more severe than the first.

If Brill is correct, it will be only a matter of time before stocks begin to come down in earnest and continue in that direction for a long time.

However, we need to remind ourselves that as investors our primary job is to manage risk, not to predict the future. So, we need to be prepared to take advantage of whatever opportunities the market gives us.

For example, if a decline to new lows is in the cards as Brill expects, we should soon see the indicators he mentioned — like volume, momentum, and breadth — confirm the move downward.

If the broad market pulls back 10% to 15% without this kind of confirmation downward — which is not likely, — then we will need to consider that the bottom may have been reached and the market will keep on rising.

We need to be vigilant because the next few weeks could be historic.

D. Miyoshi

Bitcoin Does Not Need Aircraft Carriers

This is an article by Justice Clark Litle of *Tradesmith Daily* published April 20, 2020

"How many divisions does the pope have?"

The question (possibly apocryphal) was asked rhetorically by Joseph Stalin, the iron-fisted dictator, to emphasize the military might of the USSR.

Stalin measured rivals by how many tanks and guns they had. He is long gone now, but people still think about currencies the same way. The value of a currency is backstopped by the power of the state; the more powerful the state, the more benefit the currency receives.

The U.S. dollar, for example, is backstopped by the U.S. military (and a U.S. defense budget that is larger than the next seven nations combined). You can measure U.S. strength in terms of bombers and aircraft carriers.

The logic makes sense up to a point. A country with no military is vulnerable to being attacked, which means an attacker could seize that country's assets, overturn its legal system, appropriate the means of production, and so on. That would be bad for the currency (obviously).

A country with a powerful military, on the other hand, can guard the homeland, safeguard trade routes, project "soft power" via diplomatic relations, and, when push comes to shove, rely on "hard power" via military threat. All those things are good for the currency.

Then, too, the power of the state ensures government revenue. Governments are funded by taxes, and the ultimate incentive to pay taxes is avoiding prison or the threat of state-sanctioned violence.

If you don't pay your taxes and get caught, the government can throw you in jail — and if you try to resist, they can taser you or shoot you. If a government lacked this power, the people could ignore their tax obligations and the Treasury would be broke.

Some crypto skeptics use this argument against Bitcoin.

In effect they ask the question: "How many divisions does Bitcoin have?"

Bitcoin, the questioners say, has no ability to enforce contracts with a state-sanctioned monopoly of violence. It has no means of enforcing its will, or defending its territory, or requiring its use for mandatory transactions (like taxes).

So how can Bitcoin have value in the way state-backed currencies do? Where are Bitcoin's aircraft carriers?

The answer is that Bitcoin doesn't need aircraft carriers. It is a stateless currency with no need for political power.

Step back and think about the obligations of the state — particularly a state with a large, powerful military (to deter enemies) and a muscular police force (to enforce legal judgements and collect taxes).

Militaries are expensive. So are court systems and law-enforcement measures. A functional nation-state has to fund those things, which means it has to collect revenue in order to get the funding.

In abstract terms, a state has to protect its assets (citizens, property, technology, and so on) and also has to extract revenue from its assets (collect taxes) in order to fund itself.

Bitcoin doesn't require any of that. The only thing Bitcoin has to "protect" is the integrity of the distributed ledger, a process that is built into the software code. As such, Bitcoin does not require state-backed force to be viable.

Some will ask: "What if Bitcoin is outlawed?"

What happens, in other words, if the state tries to use its monopoly on violence to block access to Bitcoin?

Cash, now under suspicion

The answer is that, if a state tried to kill off Bitcoin today, it would fail. That ship has already sailed. Bitcoin is too global, and too easily accessible, to suffer a mortal blow from being outlawed.

At this point, trying to outlaw Bitcoin would be like trying to outlaw gold. Acknowledging Bitcoin's power in such a way would almost function like a public relations announcement: "Bitcoin is a big-enough deal to scare the government — maybe you should own some."

Yet, Bitcoin is a head-scratcher for many analysts because it has asset properties never before seen in history.

Take the value of gold as a comparison. Gold has value because of its physical properties. It is the only element that is scarce, eternal, and easily usable at room temperature. Gold never rusts, it never goes away, and it doesn't disintegrate or turn into a poisonous gas.

For basic reasons relating to physical composition and rarity of supply — gold's physical advantages as a metal — the world gold supply has been accumulating for literally thousands of years, which gives it a very stable asset base. It is physically impossible to add to the world gold supply at a rate above 2% per year. Too much gold already exists, compared to what is being mined.

That is why gold is a "stateless currency," too. It has nothing to defend other than its advantageous position on the periodic table.

But getting back to Bitcoin, some are flummoxed by the fact that Bitcoin has properties like gold's — which is why it is nicknamed "digital gold" — while having no physical form.

To see the parallels, you have to think in the abstract.

Bitcoin, like gold, has global circulation and global brand recognition. Try getting the word out on a product, any product, to 150 countries around the world. Think about how challenging that would be, and reflect on the fact that Bitcoin has a 10-year head start.

Then, too, Bitcoin's integrity is enforced by the distributed ledger, and its limited supply is enforced by mathematics. These are the equivalent of physical properties — like the properties of a precious metal — but expressed in code.

When you put together global brand recognition, the integrity of the ledger, and limitations of supply, you get an asset that demonstrates the key properties of gold without having to exist in physical space.

What's more, Bitcoin and gold share the power of network effects. Gold is widely accepted as an asset — and has been for thousands of years — because a far-flung network of human beings have awareness of gold and respect for its attributes.

Imagine if gold was the same in every way except nobody had heard of it. The network effect would then be zero, and gold would have no value as a medium of exchange. Network effects are important, even for something as old and venerable as gold. Reversing that logic, we can see the value of the network that Bitcoin has built here and now.

So Bitcoin doesn't need the power of the state — that is to say, militaries or law-enforcement mechanisms — because it doesn't have property or revenue streams to defend.

And yet, as a kind of amusing twist, nation-states may one day need Bitcoin.

When the world's nation-states are done debasing their own currencies to a point of fiscal ruin, and a total loss of faith on the part of the citizenry, a stable medium of exchange could come in handy.

Bitcoin might not in fact "stabilize" until it has taken a fat percentage of gold's global market share — but there is more than enough room for two stateless currencies in the world, one physical and one digital, and that will be a fun journey.

Cash, now under suspicion

This is an article that appeared in the Associated Press on May 20, 2020

BEIRUT (AP) — In troubled times, people have been known to hoard currency at home — a financial security blanket against deep uncertainty. But in this crisis, things are different. This time cash itself, passed from hand to hand across neighborhoods, cities and societies just like the coronavirus, is a source of suspicion rather than reassurance.

No longer a thing to be shoved mindlessly into a pocket, tucked into a worn wallet or thrown casually on a kitchen counter, money's status has changed during the virus era — perhaps irrevocably. The pandemic has also reawakened debate about the continued viability

Cash, now under suspicion

of what has been the physical lifeblood of global economies: paper money and coins.

From the supermarkets of the United States and Japan to the shantytowns of Africa to the gas stations of Tehran, a growing number of businesses and individuals worldwide have stopped using banknotes in fear that physical currency, handled by tens of thousands of people over their useful life, could be a vector for the spreading coronavirus.

Public officials and health experts have said that the risk of transferring the virus from person to person through the use of money is minimal. That hasn't stopped businesses from refusing to accept currency, and some countries from urging citizens to stop using banknotes altogether.

In the midst of the coronavirus era, a thousand calculations are made before cash is handled — mostly with gloved hands. Some leave the money laid out on surfaces for days, for the virus to die. Others disinfect banknotes with spray. Some even microwave them in the belief it kills the virus. In China, banks are now required to sterilize cash with ultraviolet light or heat, then store notes for at least a week before they are given to customers.

"In many areas, cash was already beginning to disappear due the increased risk of robbery, the ease of internet ordering, and the ubiquity of cell phones," says Zachary Cohle, an assistant professor at the department of economics at Quinnipiac University in Connecticut.

"Cash," Cohle says, "now carries an extra stigma."

But is ditching cash altogether even feasible?

Sweden, Finland, Norway, Canada and others have slowly phased out cash to the point where using it in large amounts seems suspicious. The United Kingdom and Australia are among countries expected to become cashless societies. And in China, use of cash by consumers has plunged as smartphone-based payment services rose in popularity over the past decade.

But for much of the rest of the world, letting go of cash is difficult if not impossible.

`CASH IST FESCH!'

Humans have a centuries-old emotional relationship with physical money that is difficult to erase.

"Currency represents value that we can hold in our hands. Cash provides a way for us to translate a day's work into something tangible and easily traded," Cohle says. "We may not know what goods we will need in the future. However, holding money allows for us to feel as though we can buy whatever goods we will need."

"Cash ist Fesch" is a common saying in Austria and southern Germany. The phrase, which literally means cash is beautiful, reflects both countries' attachment to cash — and not just among the older generation or those who worry about the loss of privacy that comes with cashless payments, but also among some younger people who see it as a status symbol.

"I always pay with cash — as a matter of principle!" Ingel Strobl, a 76-year-old pensioner, says while shopping at a bakery in central Vienna. "I know they want to abolish cash. But I don't want that we lose our right to our own money. You know what I mean anyway! I stick to cash — corona or not.'"

Since the virus outbreak, however, shops that have remained open, like grocery stores, have posted signs encouraging people to pay with cards. Many are: According to Germany's central bank, the Bundesbank, 43% of people have changed their payment behavior in the past few weeks; now, a large percentage are likely to make contactless payments with a card.

Japan, for its sophisticated reputation, is also a solid believer in cash, which makes up for 53% of a household's assets, according to the Bank of Japan. The belief in "cash is king" reigns, though the country has had zero interest rates for two decades, far longer than the rest of the developed world.

But the threat of the coronavirus could be the impetus the nation needed to move toward going cashless, said Hiroki Maruyama, who heads the Fintech Association of Japan, a nonprofit that supports innovation in financial services.

"The culture," he says, "is slowly changing."

CASH IN A CRISIS

"Cash combined with courage in a crisis is priceless," billionaire investor Warren Buffett says.

In crisis-hit countries and parts of the world gripped by conflict or inflation, cash is still carried in thick wads for simple shopping expeditions.

In Lebanon, as the economic situation deteriorated late last year and the fear of banks collapsing mounted, many people began saving cash in their homes. The sale of home safes surged. An estimated $3 billion was withdrawn and stashed at home, according to the governor of the country's Central Bank.

As banks imposed capital controls, trips to the bank to withdraw foreign currency — followed by a trip to one of the ubiquitous exchange shops to change money on the black market — became the norm for many Lebanese.

"All I do is handle cash all day," said one money changer in Beirut, who insisted on being identified by his first name, Ihsan. He said he feared unwanted attention from authorities.

"I wear gloves. But honestly? Corona is the last thing on people's minds right now," Ihsan said. "All they're thinking about is how to handle this crisis and get money to live."

In Iran, one of the world's worst coronavirus hotspots, there are no international bank cards, like Visa or Mastercard, because of U.S. sanctions. Many were surprised at the new banners that appeared at some gas stations in Tehran: "Service is only for those who will pay by debit cards."

In Venezuela, it is common to see bolivars littering the streets because the local currency has lost its value.

"The truth is that I haven't had any bolivars in my wallet for a long time," said Fátima Figueras, a 32-year-old office worker, waiting in line to enter a Caracas pharmacy. "What worries me most is having to hand my debit card to a cashier who touches it," said Figueras, wearing a facemask against the coronavirus.

Cash still rules in West and Central Africa even with the growth in regional banking options and mobile money service providers. Monthly banking account fees are prohibitive for many, and the self-employed often keep their savings at home in hard currency. ATM machines often don't work.

Dorothy Harpool, director of student and community initiatives and lecturer at Wichita State University's W. Frank Barton School of Business, predicted the pandemic would lead some consumers to rethink their use of cash. But going completely cashless, she says, is a long way off.

"Until everyone and every country has reliable access to the internet, I do not believe the pandemic will singularly change past practices," Harpool said. In particular, cash transactions are also likely to remain for businesses operating under the radar of government and other regulatory bodies.

Ihsan, the Beirut money changer, said there are certain things you just can't do without cash — particularly in a dysfunctional and developing nation.

"Like how else can you bribe a government employee to get your business done? With a credit card?"

China Fights Modern Day Siege

One of the famous battles of the U.S. Marine Corps is the Boxer Rebellion in 1900. This was a Chinese uprising in Peking (now Beijing) by the Chinese Society of Righteous and Harmonious Fists (simply called the Boxers) that attacked foreigners and Christians who they felt were responsible for foreign domination of China. In this battle, the U.S. Marines especially distinguished themselves. The Boxers were defeated and China ended up paying reparations to eight countries including the U.S. The following article by Katsuji Nakazawa reflects on that battle and how it continues to affect the way China is responding to the condemnation it's receiving today from most of the world. D. Miyoshi

Haunted by a phantom, China fights a modern-day siege

Bitter memories of Boxer Rebellion make virus compensation a non-starter

By Katsuji Nakazawa, Nikkei Asian Review, May 14, 2020

Are China's memories of the Boxer Rebellion 120 years ago keeping Beijing from being open, transparent and cooperative? (Nikkei Montage/Getty Images and Xinhua/Kyodo)

TOKYO -- In the heyday of the Qing dynasty, the emperor who was credited with stabilizing China after years of war eventually came across a seemingly intractable foe, malaria.

Having contracted the mosquito-borne disease, Emperor Kangxi (1661-1722) pursued all avenues for an effective remedy but to no avail. His condition only worsened.

China Fights Modern Day Siege

By chance, a French Jesuit named Jean de Fontaney, who was part of a Christian mission to China, had some quinine, a magic bullet for malaria, and presented it to the ailing emperor.

The emperor made four ministers try the drug first to make sure it was harmless before taking it himself. The drug kicked in, and he was fully cured.

The jubilant emperor then granted Fontaney and his colleagues' permission to build a church within the imperial palace. The Church of the Saviour, Beijing, was completed in 1703.

This tale, borrowed from "Beijing Rekishi Sanpo (History Walk)," a book by Japanese scholar Kenichi Takenaka, tells a wonderful anecdote of international cooperation saving a Chinese ruler from certain death.

Beijing's Tiananmen Gate stands where the imperial palace used to be. (Photo by Akira Kodaka)

Unfortunately, it does not apply today. The reality of international politics involving China is extremely harsh. China's rapid rise and President Xi Jinping's aggressive foreign policy are partly to blame.

German Chancellor Angela Merkel has called on China to disclose information about the initial stages of the novel coronavirus outbreak. French President Emmanuel Macron has said that it would be "naive" to believe official accounts provided by China.

Lawmakers in the U.S. are seeking compensation from China for the suffering that the virus has caused.

Meanwhile, U.S. President Donald Trump and Macron reportedly agreed during a telephone conference on the need to reform the World Health Organization, which faces continued criticism of being pro-China.

The chorus of criticism has reminded Chinese people of a historical event that took place 120 years ago.

"It is like a modern-day Eight Nation Alliance," one Chinese person said. "They are blaming China for everything. What is the true reason for this encirclement?"

"There must be a huge conspiracy behind the move to demand compensation from China," said another.

The original Eight Nation Alliance was a military coalition of foreign powers that pushed into the Qing dynasty in 1900 to liberate Beijing's foreign legation district, where foreigners and Chinese Christians had sought refuge from anti-Christian, anti-foreign rebels in a fracas that came to be known as the Boxer Rebellion. The "boxers" were Qing dynasty-backed rebels who were practiced in martial arts and thought they were impervious to foreign weapons.

One of the battlefields was the Church of the Saviour. Westerners and local Christians holed up in the sanctuary, waiting for rescue forces, as the angry Boxers attempted to break in.

In the end, the boxers were not invulnerable, and the eight nations -- the U.K., U.S., Germany, France, Italy, Russia, Japan and Austria-Hungary -- defeated the rebellion.

Under the Boxer Protocol, signed in 1901, the Qing government agreed to pay damages to the eight foreign nations plus Belgium, the Netherlands and Spain, who were also involved.

The amount of the damages was 450 million taels of fine silver, several times more than the Qing government's annual budget of the time. The Qing government eventually agreed to pay the huge amount over a 39-year period.

The obligation was passed down to the newly established Republic of China after the 1912 fall of the Qing dynasty. Including interest payments, the amount of the damages nearly doubled, sowing the seeds of a deep resentment that is remembered even by later generations.

Today, amid the coronavirus pandemic, the names of the eight countries show a frightening coincidence. The one-time recipients of fine silver have suffered the most human and economic losses from COVID-19. The European nations of Italy, Spain, France, Germany and the U.K. went into lockdown one after another. The U.S., Japan and more recently Russia have struggled to contain the outbreak.

Australia and New Zealand, who were not part of the Eight Nation Alliance, have joined the new encirclement criticizing China, conservative commentators in Beijing say.

Deflation is coming

Australian Prime Minister Scott Morrison has called for an independent on-site investigation in China by public health experts to see what happened there. According to Australian media, he has conveyed the need for such a probe to foreign leaders such as Trump, Merkel and Macron.

New Zealand has expressed support for Taiwan's participation as an observer at the WHO's annual meeting, which is to begin on Monday. Taiwan succeeded early on at keeping the virus at bay.

Alarmed by Australia's and New Zealand's calls, China has launched an all-out counterattack.

According to an Australian grain producers' group, China is considering an import tariff of as much as 80% on Australian barley. China has also filed a strong protest with New Zealand.

Xi has been busy telephoning other foreign leaders in a bid to break the international coalition against China. But many recipients of these calls lead small countries with limited global influence.

One leader Xi talked to raised international eyebrows. North Korean leader Kim Jong Un congratulated Xi for his "victory in the war against the unprecedented epidemic and strategically and tactically controlling the overall situation," according to Korean Central News Agency. It came just after Kim made his first public appearance after a long interval, ending weeks of speculation about his health.

Meanwhile, China looks confident of winning over at least one Eight Nation Alliance member, Italy.

Italy is the only Group of Seven major industrialized country to have participated in the China-led Belt and Road Initiative. Xi's signature infrastructure-building project is designed to create a massive economic zone from China to Europe.

A woman walks past a placard showing a handshake between China and Italy in Milan. © Reuters

Chinese opinion leaders are confident Italy is not part of the "new" Eight Nation Alliance. They are relieved that China has successfully driven a wedge in the camp of the Free World, which is often critical of China.

Another reliable partner for Beijing is Russia, which is eager to join hands at every opportunity to counter the U.S. During their recent telephone conference, Russian President Vladimir Putin promised Xi to cooperate within the framework of BRICS -- Brazil, Russia, India, China and South Africa -- including on anti-coronavirus measures.

But Russia itself has seen a sharp increase in the number of new infections, and Brazil and India are under states of emergency.

For Chinese people who study history, the parallels between China's current situation and what happened at the dawn of the 20th Century are clear.

The Boxer Protocol was an unequal treaty that recognized the right of foreign powers to station troops in China. Many believe it precipitated the fall of the Qing dynasty.

The memories are bitter.

But China today is the world's second-largest economy, and a global power that is feared by others. It cannot continue to be haunted by the phantom of an Eight Nation Alliance that causes it to lash out at other countries with angry criticism and retaliatory measures for perceived slights.

China needs to imaginatively think about its next bold move. Can it become a country that is open, transparent and cooperative? The world watches closely.

End of article

Deflation is coming

Deflation is coming

According to Justice Clark Litle of TradeSmith Daily, we are going to be engulfed in "Deflation World"

Litle is saying "Deflation World" is coming after COVID-19. For many, if not most, it is going to be a bizarre and disorienting experience.

Litle explains that most investors will fail to understand what is happening, or to process the consequences of what deflation will mean. And many of the "normal" financial relationships investors have come to expect will seem to run backward, like a movie playing in reverse. It is going to get weird.

Deflation will be a bizarre experience in part because investors today, of all ages, have never lived in Deflation World — our term for a world where overall deflation pressures are persistent.

This is because almost everyone alive today has only known "Inflation World" — the opposite of Deflation World — their entire adult lives.

If you were born in 1930, like Warren Buffett or George Soros, you would have experienced deflation as a child — but it would have ended by the time you were a teenager (and you would be almost 90 now).

In terms of real-world experience, the closest thing to deflation today's investors know was the dramatic-but-brief price collapse during the "Great Recession" of 2007-2008.

There were no lessons learned from the Great Recession, however, because the window of deflation was too brief. Global central banks rode to the rescue, expanding their balance sheets by trillions in a giant financial experiment that is still ongoing, and the deep psychological takeaway from 2007-2008 was "double down" and "buy the dip."

The United States has known deflationary periods before, sometimes for decades at a time. In the 19th century, deflation took hold from 1817 to 1860 and 1865 to 1900. The most famous (and brutal) deflationary period took hold in the 1930s.

It is very hard to imagine deflation today because we have more or less had the opposite — the persistent presence of inflation — from 1950 onward.

But deflation has been making its way toward us for a long, long time. It is a natural phenomenon born of truly long-term cycles.

These long-term cycles are based on the natural consequences of debt-and-credit levels waxing, and then waning, in multi-decade trends.

Starting from a low base, debt and credit levels build up for a very long time (multiple decades). Then the debt load becomes too much, and the existing debt has to be worked off. This also takes decades. After the excess debt has been worked off, the cycle starts again.

That is the long-term debt cycle in very condensed form. We are now at the end of a long-term debt cycle that began in the early 1980s, which means debt levels have exploded (and will explode even further in the coming years).

The world's massive debt overhang, born of nearly 40 years of debt and leverage accumulation in a long-term debt cycle, will be a persistent deflationary force.

The global demographic picture, more bearish now than any point in the past 500 years, in terms of the ratio of retirees and savers to workers and spenders, will also be a persistent deflationary force. (Retirees tend to draw down on their savings, spend little, and rely on pensions, in comparison to the younger generations who continue to work, save, and spend.)

Then, too, U.S. corporate profits have been flat for eight years or more.

In the first quarter of 2012, U.S. corporate profits after tax amounted to roughly $1.9 trillion (according to data from the St. Louis Federal Reserve).

In the first quarter of 2019, corporate profits after tax amounted to — $1.9 trillion, the same number.

But hold on, you might ask. If U.S. corporations haven't made any real money since 2012, how is it that stock prices have been going up? And how is it that earnings have improved? How do you have earnings increases without profits?

Easy — you borrow huge sums from the banks at near-zero interest rates and use the borrowed funds to buy back shares. If you have the same-sized earnings on a smaller pool of shares, your earnings look bigger. Corporate share buybacks, executed en masse, are a way to massage the appearance of higher earnings.

It's a giant game of financial engineering. A blue-chip company whose business outlook is going sideways, but has major access to credit via near-zero rates, can borrow like crazy, and use low-cost debt leverage to make its earnings look better (via share buybacks

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that reduce the share count). Investors see earnings per share go up — even if real-world profits are not rising — and they are satisfied.

Then, too, workers haven't been making any real money either. U.S. labor compensation as a share of GDP is near its lowest level ever — less than one percent above its all-time lows in 2010, a period when corporations were able to cut worker pay dramatically via the justification of Great Recession challenges.

So, corporations aren't really making money. Workers aren't really making money, either.

Where is the money going then? It's going into debt, and ongoing costs of servicing the debt — and especially into corporate debt, as corporations have exploded their balance sheets to finance share buybacks, in order to reduce share counts and make their earnings look better.

All of this — the demographics, the flat-lined corporate profits, the exploding corporate debt levels, the looming end of the long-term debt cycle — was already extremely deflationary in its implications.

And all of that was before the pandemic.

Now, in the midst of the pandemic — which is still very much ongoing, with the true impact on earnings not yet felt — we are seeing the 10-year U.S. Treasury yield less than two-tenths of a percentage point above all-time historic lows.

And we continue to see short-term rates scrape along above zero, with the Fed Funds forward curve still forecasting negative rates by Summer 2021.

Again, this is all very deflationary. The bond market is sounding the alarm. And the Federal Reserve cannot "print" us out of this. The deflationary pressures are too vast, and the Fed's "bazooka" is more like a peashooter in comparison to the scope and scale of this problem.

(Then, too, the Federal Reserve can't actually "print" money at all — it is highly constrained by the limitations of the Federal Reserve Act and the Banking Act of 1933 — but that is a topic we'll explore another time.)

Dr. Lacy Hunt, an internationally known economist and money manager considered to be one of the top macroeconomists in the world today, has pointed out that, in the aftermath of major U.S. recessions in the past few decades, the overall level of inflation has tended to drop by 400 basis points (about 4%).

Inflation levels tend to drop after a major recession not because of the recession itself, but because the U.S. government piles on new debt in response to the recession, and rising debt levels are deflationary.

This is because, when a nation's debt load becomes too much, it is like a great weight on the back of the economy, slowing down growth and causing strain as debt service costs go up.

Then, too, the more debt you already have, the more danger there is of a deflation "tipping point" when additional debt is added. The economists Kenneth Rogoff and Carmen Reinhart completed a famous study across multiple countries and timeframes which argued that, when government debt exceeds 90% of GDP, the presence of additional debt can suffocate economic growth.

The U.S. debt-to-GDP ratio was already at 106% in the fourth quarter of 2019. That is well above the Reinhart-Rogoff 90% warning threshold — and that was, again, prior to the pandemic and real-economy crisis and multi-trillion-dollar emergency debt response.

When you add it all up, as we have already noted, Deflation World was on its way before the pandemic, as a result of issues that had been building for many years, if not decades.

And then the pandemic came along, hyper-accelerating new government debt issuance, while ushering in a real-economy crisis that is going to be a wrecking ball for corporate earnings (even if the stock market refuses to acknowledge that just yet).

We are heading for Deflation World with a very, very high degree of probability — and it is going to feel very strange relative to what we were used to.

Take real estate prices, for example. In Deflation World, general real estate prices could actually decline year-on-year, for a very long period of time.

That means a home buyer in 2020 could try to sell that same property in 2030 and receive less than they paid for it.

The possibility of real estate prices seeing net declines for the next five, 10, or even 20 years is one of those concepts that blows people's minds, because it is so foreign to what we know in our bones.

But it is also perfectly in line with what we know about real estate prices generally over the very long term, which is that, in a big-picture sense, real estate returns are in line with overall inflation levels.

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That in turn means that, if real estate outperforms inflation for decades at a time, there will also be periods when real estate does the reverse — via subpar or even negative returns, especially in the presence of deflation.

In Deflation World, many other relationships in finance could be turned on their head. For example:

Debt accumulation to fund leveraged buyouts, the bread and butter of private equity, could be a terrible strategy in a deflationary environment. (Private equity will be in big trouble.)

Price-to-earnings multiples for stocks, and for the stock market as a whole, will spend years in contraction (shrinking) instead of the ongoing expansion we've gotten used to.

Blue-chip companies with heavy debt loads will find the burden of their debt loads increasing, and investors will shun these companies as stock investments, rather than embrace them, as debt-to-equity ratios worsen (via declining multiples and reduced profits).

Instead of "cash is trash," the new mantra will be "cash is king," and not just for crisis periods but on a general basis and over long periods of time — even if that cash is ultimately denominated in something other than U.S. dollars (e.g., Bitcoin via smartphone crypto wallets).

The "financialization" of the U.S. economy, in which financial engineering seemed to take over everything in a frankly disgusting way, will be thrown into reverse, and "de-financialization" will be the new norm for a long time.

There is lots more to consider — we are only scratching the surface here.

The arrival of Deflation World will not rule out "micro pockets" of inflation or even the possibility of "Inflationary Depression," meaning, nasty price spikes will likely still occur around shortages of consumer staples due to broken supply chains (bread, toilet paper, meat and alcohol may hit new highs) .

Nor would central banks give up their heroic attempts to fight deflation, even if Deflation World arrives.

The problem the central banks will discover is that all their tools for fighting deflation will be worthless — except for the really, really "nuclear" style options that involve even more extreme measures than we've seen. And those options, if tried in earnest, would run the risk of destroying the currency.

So according to Litle, this is where we are headed. The evidence is overwhelming and all around us. Get ready, because Deflation World is coming.

D. Miyoshi

The Importance of Strategy in Investing

Like any good football team needs to have a sound strategy to earn points in a game, so too does an investor need an established strategy to generate profits in trading stock.

Have you ever wondered why some investors have great success with their portfolios - meeting or exceeding their financial goals - while so many others struggle, earning low returns or actually losing money over the years?

There is a reason for this.

Investing is essentially the transfer of wealth to those who have a process and can execute it from those who do not or cannot.

According to Alexander Green of *Liberty Through Wealth*, investors fail because they either aren't using a proven strategy or can't adhere to it, instead buying giddily when prices are high and selling despondently when they are low.

Of course, any investment recommendation is meaningless if it's divorced from a battle-tested strategy, including specific buy and sell criteria.

This strategy, in turn, should be based on a proven investment philosophy.

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And that philosophy should reflect a particular sensibility, a way of seeing the world.

If this seems complicated, it really isn't. Let's walk through an example...

On March 23, amid roller-coaster market volatility, Green recommended a new pick to the subscribers of his *Insider Alert* trading service.

This real estate investment trust owns or has an interest in 233 properties comprising 191 million square feet. It is an S&P 100 company with the highest investment-grade credit rating and the lowest cost of capital in the industry.

But that's not why Green recommended it.

Green recommended it, in part, because the chairman, CEO and president purchased 150,000 shares, an investment of $9.12 million. The director and chairman emeritus also purchased 189,000 shares for an investment of $9.93 million.

They exited the position on April 17 for a quick 14.8% gain.

This strategy is called riding the coattails of knowledgeable insiders.

Both academic studies and practical experience show that when a company's shares are under heavy accumulation by its officers and directors, they generally outperform the market by a significant margin.

The strategy requires some due diligence - an investigation of the number of insiders buying, their tenure with the company, the size of their purchases, their past track records and so on - but you get the picture.

These corporate insiders have material, nonpublic information about the future prospects of the business - and that gives them an unfair advantage when they go into the market to trade.

Insiders, of course, are not omniscient.

They could not see the coronavirus coming any more than President Donald Trump or Federal Reserve Chairman Jerome Powell or Surgeon General Jerome Adams could.

Some insiders bought a few months ago and then saw their business outlook change dramatically, in ways they could not possibly have foreseen.

The same cannot be said of insiders who loaded up over the last few weeks.

They were fully aware of the existence of the coronavirus, its impact on the economy and its likely effects on their business.

This insider buying strategy is undergirded by an investment philosophy used by all-time investment greats like Warren Buffett, Peter Lynch and John Templeton.

Which is…..

No one can tell you with any certainty what the economy or the stock market will do from day to day, week to week, month to month or year to year.

People who say they know these things are either fooling you or kidding themselves... or both.

History shows that investment outperformance comes from evaluating businesses, not outguessing the market.

Of course, knowing when to buy or sell a stock can take a lifetime of study, action and reflection. It also requires an optimistic, real-world sensibility.

What is that sensibility?

It's that democracies are superior to autocracies. Limited government is better than interventionist meddling. Capitalist societies are more prosperous than socialist or communist ones. And property rights and freedom are preferable to confiscation and coercion.

It requires an appreciation that human beings, machines and capital markets drive innovation, solve problems, raise living standards and create prosperity.

The sensibility tells you when to invest and where. (In mostly free markets in mostly free countries.)

This philosophy demands that you avoid market timers and other soothsayers and concentrate on identifying undervalued businesses.

The strategy of monitoring insider activity presents attractive investment opportunities.

And this allows you to put together a portfolio of winning recommendations.

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Compare this approach - careful, logical and rational - with that of the typical punter who day-trades or buys hot tips, not knowing what they own, why they own it or whether they should sell.

These folks are like newbies in a poker tournament. No way are they taking the chips home at the end of the night. They're just fattening the pot for the rest of us.

So Green cautions us not to be one of them. Before you invest in any recommendation, make sure it's based on a dedicated system, a proven philosophy and a valid sensibility.

That way only one further step is required: the discipline to follow through.

Here is to your successful trading.

D. Miyoshi

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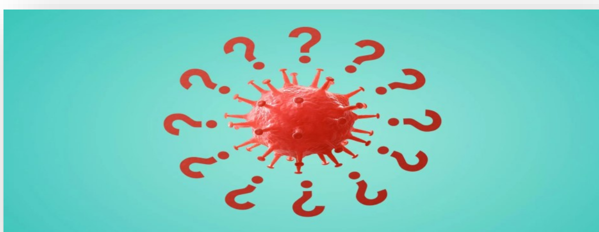

Porter Stansberry is one of the foremost investment consultants in the country. He is the Founder of *Stansberry Research*, a leading U.S. economic and consulting firm. On April 17, he was asked by his friend what he thought of the coronavirus, all of the madness, about the government telling everyone they have to sit in their houses and how long it should go it. I wanted to share with you Stansberry's answer. D. Miyoshi

What do I think about the Coronavirus? You probably won't like it..

We are going through the greatest mass delusion in history. Never in my life have I ever been more ashamed of our elected officials. And never in my wildest dreams did I think our entire country would fall for such complete nonsense on such an enormous scale.

In today's Digest, I'll show you why virtually everything we've done so far has made the impact of this virus worse than it would have been if we had done nothing at all. And I'll also show you how simple doing the right thing could have (and should have) been.

I can also predict what will (eventually) happen next – the only steps that can actually protect those most at risk from this virus.

But before I get to the facts that inform my view...

I would like to review how completely inane and idiotic our political leaders have become in the midst of this health problem.

My favorite example so far? The thousands of outdoor recreational activities that have been closed or forbidden – including those that involve individual pursuits, like surfing. And what did CBS News publish as a headline above the story documenting a surfer being chased down by patrol boats? It read: "Scientist Says Beaches Are Dangerous Right Now."

How does anyone read this stuff and not laugh out loud? It's impossible to watch the video of a surfer being chased down by patrol boats in the name of public health and not think something has gone terribly wrong in America.

But what's the root of the problem today? What's the foundation of all of these bad ideas?

At the heart of every mass delusion, there's a 'big lie'…

The big lie is a falsehood so outrageous and so obviously wrong, in retrospect people can hardly believe that anyone took it seriously.

The most famous example of the "big lie" is the Salem Witch Trials, where four bored teenage girls convinced their pastor they were possessed by the devil and that dozens of people in their community were agents of Satan. The pastor, in turn, convinced most of Massachusetts that the colony was inundated with witches.

Even though it's hard to imagine today, some 200 people were arrested over the next year. One poor man, Giles Corey, was crushed to death under a pile of giant rocks because he wouldn't confess to being a witch.

And what happened to those who did confess? They were forced to name more witches. Then they were hanged. Before anyone came to their senses, 30 people were put to death.

We "modern" Americans look back at these events and wonder how anyone could have taken seriously a bunch of teenagers prattling on about witches and devils.

But don't be too proud... A court in Arkansas sent three teenage boys to prison in 1994 for murders they couldn't have possibly committed, mostly because the jury firmly believed they were devil worshippers and thought they'd used black magic to pull off the crime.

And with COVID-19, Americans have become just as irrational as

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those Salem witch hunters or that Arkansas jury.

What's the big lie today?

The big lie today is that "we" are all in "this" together.

It's utter nonsense... "We" – the people of the world, the people of our country, of my state, of this city (Baltimore), and even the people in my neighborhood – do not share the same values, ideals, or circumstances. We do not have anything like the same immune systems or face the same risks of this virus.

While it might sound friendly to say "we're all in this together" – the reality is that we are not. And enforcing policies that treat all of us the same is the very worst approach we could take to dealing with this health crisis.

Some of us are at much greater risk of serious harm by this virus. Some of us are much more susceptible to infection. Some of us own businesses or work for companies that haven't been impacted at all. Others have seen their livelihoods, their careers, or even their life savings wiped out.

We are NOT in this together. As with everything else in our lives, our abilities and our priorities and the risks we're willing to take all differ. We are individuals – not a monolithic polity. Saying "we're all in this together" sounds like Mao's China, where people abandoned the cities to die from starvation on communal farms. It seems like a disaster in the making... because it is.

Rather than assessing our own risks and our own priorities and then making our own decisions, we have decided to allow the government – really just a handful of governors and the president – to make one decision for all of us. And we're told not following the rules means we're putting other peoples' lives in jeopardy.

It's complete and utter nonsense. What's putting all of us in jeopardy is the idea that Washington D.C. knows best and we could follow directions – because "we're all in this together."

Adolf Hitler, in his book Mein Kampf, explained why such "big lies" are at the foundation of all tyranny. If you want to understand how despots operate, you should consider how one of the worst in history manipulated large groups of people…

In the big lie there is always a certain force of credibility; because the broad masses of a nation are always more easily corrupted in the deeper strata of their emotional nature than consciously or voluntarily; and thus in the primitive simplicity of their minds they more readily fall victims to the big lie than the small lie…

Not only are 'we' not in 'this' together, we shouldn't strive to be either…

The strength and resilience of a free society is NOT based on the idea that we are all the same or should share the same goals – but upon precisely the opposite.

A free society recognizes a fundamental truth of nature: We are not the same. We do not have the same strengths, the same ideas, the same histories, or the same goals. There's no such thing as "The Public Good." There's a myriad of competing interests, as Adam Smith explained in The Wealth of Nations more than 200 years ago.

What we do share, however, is a common philosophy that champions the rights of the individual and limits the power of the State. We do not exist to serve the State. The State exists to serve us. That distinction lies at the very heart of what it means to be an American, and I think our leaders have completely forgotten this fact.

Why is this idea so important, not merely for philosophical reasons, but for the best possible outcomes? Why do free societies produce so much more wealth and happiness than countries led by tyrannical governments?

America has proven, again and again, that the "spontaneous order" of free people and free markets evolve far superior solutions to every human need and want. If you want to botch something up, just ask the government to take over. If you want efficient solutions that work, allow people to compete in a free market.

That's why America has long led the world in the creation of wealth and innovation. That's why we produce the highest-quality creative art, entertainment, design, and technology.

But... what about when we fail?

Look back at all of our country's biggest blunders and you won't find freedom or free markets. You'll find a government that has far overstepped its constitutional limits.

It happens every single time: When we allow our liberty to be taken from us in the name of a political theory, disaster will follow.

Consider the Vietnam War, for example. Did Congress declare war as the Constitution requires? Nope.

Instead, the country was sold on yet another "big lie"... And it was a whopper. We were told that propping up a corrupt dictatorship in a tiny Asian nation was the key to stopping communism from spreading around the world. Meanwhile, without our involvement in that country's internal politics, no one in America would have ever known who Ho Chi Minh was... or cared.

And ironically, all we had to do to stop the spread of communism was simply leave it alone. Empty grocery store shelves and hopeless lives were the only bane needed to wipe out that stain virtually everywhere.

Yes, some folks still seem determined to adopt those ideas and destroy their societies (Venezuela), but we seem to have finally wised up to the fact that the only thing we have to do to make sure it fails

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is simply wait a decade or two. It's certainly nothing worth sending our kids to die over.

And that brings me back to today...

Should we all sit in our home prisons, with our freedom to work, to associate, and to speak taken away from us – all to universally support "flattening" a curve, because "we" are all in "this" together?

Or is this the public health service's Vietnam?

I have a prediction for you... By the time this virus is thoroughly understood, what will become extremely clear is that these shutdown orders did virtually nothing to stop the spread of the disease or to reduce its lethality in the population.

Why do I believe that? Because it's apparent already that at least 5 times more people have been infected than are reflected in the number of "confirmed cases"... and the real number may be much, much greater than that.

In a town in Germany, one of the only places where a reliable statistical sampling has been done, 14% of the population has antibodies for the virus, which means they have already been infected. Germany has a population of 83 million... so that's more than 10 million people who have potentially already had this virus. And that's only in one country.

Germany has also tested twice as many people per capita as we have, so they know far more about the actual spread of the virus and its real lethality.

So... how dangerous is this virus?

The official confirmed infected count in Germany is only 135,000. And almost 4,000 Germans have died because of this virus. That's a 3% "case rate" mortality – that is, out of the population that has been proven to be infected, about 3% have died. That sounds really bad and scary. After all, the average annual flu has a mortality rate of between 0.1% and 0.2%, depending on the year. So, for example, in 2015 to 2016, the Centers for Disease Control and Prevention (CDC) estimates that 30 million people got the flu and around 60,000 people died, or 0.2%.

But, wait... we know for sure that far more people have gotten this coronavirus than have been tested for it. As I just noted, the statistical sampling of antibodies in Germany suggests a much, much lower lethality rate. The real mortality rate is probably somewhere closer to the regular flu.

So what do you want to bet that we eventually figure out that the population-wide mortality rate for this virus is about the same as all of the other coronaviruses?

But what if I'm wrong? I might be. Nobody knows how widespread the virus is already in the U.S. But since we don't know for sure, why in the world are we ordering everyone to stay in their homes? Why don't we find out and then decide?

Knowing the real lethality of the virus (which can only be calculated if you know how many people are infected) informs us how dangerous the virus is for most people.

We already know that this virus isn't a significant killer for people under the age of 50. Virtually no one without serious existing conditions has died from this virus under the age of 50.

And we also know from places that have actual data that this coronavirus is no more dangerous than the other viruses that we know circulate around our country on a regular basis every year.

Knowing how many people are infected is also critical to figuring out which policies are needed to mitigate the impact of the disease on the hospital system.

After all, if tens of millions of people already have the virus, you're not going to stop it by making people stay in their homes... It's already too late. I strongly suspect that was the case here. I suspect we will eventually learn that this virus had been circulating undetected in the U.S. since at least December.

And what is certainly different about this virus, as compared with the regular flu, is that when it emerged, there was zero existing immunity to it... which meant it spread like wildfire.

But the good news is that super-contagious viruses also burn out quicker because herd immunity impacts the growth rate.

So... should we have shut down our entire economy for a month in March, long after the virus had spread to millions? No! What we're doing will not reduce the total infection rate or the mortality rates of this virus.

It's far too late for the strategy we're using...

How do I know? The best evidence of how widespread the virus has become comes from studies of fecal matter in wastewater treatment plants…

A group of researchers from Harvard, MIT, the Brigham and Women's Hospital, and medtech startup company Biobot Analytics has published research submitting that viral loads in the wastewater from an area in Boston suggests at least 2,300 people in the water treatment area are infected with COVID-19, roughly five times more than the official 446 confirmed cases. No one wants to go to a hospital or a doctor's office right now unless they absolutely have to, so it makes sense that the vast majority of these infections go unreported.

And that's not all we know about how fast this virus spreads...

Although nobody in Washington, D.C. wants to mention it, one

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group of people was thoroughly tested. This group offers a striking example of what happens when you lock people into their homes after this virus has been circulating amongst them.

We know exactly how many people on the Diamond Princess cruise ship were infected. We know when the virus appeared on the boat. And we know exactly how many people died.

There is no dispute about these facts, whatsoever.

There were 3,711 people on the boat (passengers and crew). We know that 712 people were infected, despite restricting everyone to their cabins as soon as the infection was discovered. That's an infection rate of almost 20% in a matter of days. This is a very, very contagious virus. Keep in mind, the lockdown on the boat began on February 5, which was only four days after the first case was discovered in Hong Kong. This virus spreads like wildfire.

On the other hand, even in a population that is much, much older than average and that featured substantial population-wide comorbidities like high blood pressure and obesity, only 12 people died. That's 1.7% of the people who got infected. Yes, that's much worse than the average flu – but not if you adjust for the age and relative health of the population.

Researchers who have studied the cruise ship outbreak in detail estimate that this virus will have 0.5% lethality in the general U.S. population – which is, again, comparable to the regular annual flu.

We have already seen that the initial forecasts of more than 2 million deaths are complete nonsense. When the president ordered the economy to shut down, he claimed that if we didn't take this step of cowering in our homes, then millions would die. "People will be dropping dead on the subway," Trump claimed, as though Ebola was on the loose.

All bullshit.

This virus is definitely dangerous to the old and the sick. To everyone else, it's going to be a nonevent... just like any other flu season.

Here's a prediction...

In a "bad year" for the flu, between 50,000 and 100,000 Americans die from the virus. I'm willing to bet that by the end of this year, roughly the same number of people will have died from this virus.

And I'm also willing to bet that there's zero difference in either the total per capita number who become infected and the mortality rate between our country (which ordered a shutdown) and Sweden's, which has refused to order anyone to shut down their business or stay in their homes.

If you accept that the virus had been circulating in our population for months by the time the lockdown orders arrived (which is certainly the case) and if you know it's highly contagious, then ordering everyone into their homes in mid-March was closing the barn door when the horses were already long gone.

What does work to control the spread of a novel virus? Herd immunity. Humans have immune systems. They work great, especially in younger people. We can handle viruses.

What we should do is tell older and sicker people to put on a mask. Wear rubber gloves. Avoid crowds at all costs. Avoid hospitals. Stay home whenever you can.

We should have told everyone else: Go about your lives. Yes, we should also add that some of you – probably about 20% – are going to get this novel coronavirus this year. (Normally about 9% of the population gets the flu every year... so your chances of catching COVID-19 this year are about double what you'd normally face with the regular flu.)

And if you get it, it's probably going to suck. But the younger you are and the healthier you are, the more likely it is that you won't have any symptoms at all.

So, let's not cancel school. Let's let the kids go and get exposed to this virus when they are young, when they can handle it, and when they can quickly develop immunity.

That's the best way to build the herd immunity we need – allow everyone who can manage the virus to get exposed. As quickly as possible. After all, the sooner the herd immunity we need develops naturally, the safer we will all be.

If the media hadn't gotten hold of this story and if our political leaders hadn't panicked…

This year would have just been a really bad flu season – nothing more.

And whether you agree with me or not, one thing is certain... Hiding in our homes will not make us any safer – not for long. As soon as we leave our isolation, the virus will spread again. There's no way to stop a virus that's this contagious and this widespread in a population this large.

It will take at least a year to build a vaccine. And until then, what we desperately need is for people who aren't at risk of dying to expose themselves and build immunity.

And guess what... That's exactly what's going to happen – eventually. The only question is when. It can happen six months' from now if we want to cripple our economy and lose $10 trillion to $20 trillion (plus all of our liberties). Or it can happen in about six weeks if we all just go back to work and deal with it like adults.

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So what should we do?

If you're over 60 or if you're in poor health, by all means, do everything you can to avoid catching the flu this year. The hospital isn't going to be able to help you. You have to make sure you don't get sick!

But if you're in good health, and especially if you're under 50, simply ignore everything and live a normal life. It's no big deal.

Interestingly, if we had respected people's civil liberties, that's almost certainly what would have happened. A lot of people would have gotten sick at first because nobody knew a new virus was circulating. But as soon as people saw what was happening, the old and the sick would have taken much greater precautions. The rest of us would have gotten exposed – probably about 20% of the population in 60 to 90 days. And then it would have burned out as immunity in the population grew – just like the regular flu.

Meanwhile, there are tens of millions more people who have far more to fear from the economic consequences of these policies than they have of the virus.

And guess what?

There's no way to develop immunity from the State...

This situation sets a precedent that will surely be exploited for years to come. The government's getting used to ordering us all around. It isn't going to stop.

Meanwhile, God gave us the ability to reason – to judge for ourselves what risks to take and which to avoid. God also gave all of us the liberty to live our lives as we see fit. Our leaders don't have the right to make these choices for us. When we let them, we doom our country to the worst possible outcomes.

Just imagine what John Hancock, John Henry, or Paul Revere would say to themselves in our current situation. Do you have any idea what our Founding Fathers were up against?

They took on the greatest army in the world with little more than a bunch of starving farmers. They had no navy... against the greatest navy in the world. They didn't even have the support of all Americans. And if they lost... they would all been hanged for treason.

Why take on those terrible odds? For liberty... to establish the greatest society the world had ever seen – a grand experiment to find out how much better our world could become with civil rights for the common man and free markets.

And what do you think these men would say today, watching a governor ordering millions of people to stay locked up in their apartments while their businesses fail? Can you imagine what our founders would say looking at us cowering in our homes like whipped dogs?

I guess we've all forgotten about Valley Forge, where two-thirds of our soldiers died because of the flu! Trust me, they didn't have ventilators either. But did George Washington go home? Hell no.

If our country's willingness to kowtow to the most blatantly unconstitutional orders in the history of our nation doesn't bother you because you still believe in the "common good"... or because you buy into the big lie that we're all in this together... I think you should be ashamed of yourself.

First, because you're naïve to have any faith at all in our leaders' ability or willingness to make good decisions. They don't even know how many people have the virus already and they never bothered to find out!

They've completely ignored the Diamond Princess cruise ship case study, the German data, and the wastewater studies. They're doing the only thing they can with their very limited understanding of this virus: Ordering everyone to stay home. Meanwhile, plenty of hard evidence shows why this strategy won't work and isn't necessary.

But beyond all of the facts and the medicine...

There's another reason I believe every American ought to be ashamed of the way our government has behaved…

We've acted just like the communists in China behaved – ordering everyone around, telling them they can't travel, telling them they can't work.

That ain't what we do here.

By all means, if you want to wear a mask, be my guest. And if you are older or if you have health problems, please, take sensible precautions. But those decisions are rightfully yours to make…

We aren't in this together. You have your health and your priorities... And I've got mine.

I hope you'll join me in calling out anyone who supports these tyrannical and unconstitutional new laws. I believe every American should willingly risk death before surrendering an iota of his liberty.

"Of all tyrannies, a tyranny exercised for the good of its victims may be the most oppressive... those who torment us for our own good will torment us without end, for they do so with the approval of their own conscience." – C. S. Lewis

Making a Fortune in a Crisis

“People are always asking me where is the outlook good, but that's the wrong question... The right question is: Where is the outlook the most miserable?"

- Sir John Templeton

Everyone would like to make a fortune. The main issue is how. The short answer is it ain’t easy.

Sir John Templeton made his reputation as a pioneer in global investing.

After all, he spent a lifetime investing in foreign stock markets far off the radar screen of most U.S. investors.

Templeton bought U.S. stocks even as Hitler's armies rolled into Poland in 1939.

He gobbled up cheap German stocks in 1945 at the close of World War II.

He bet on the rebound of Japanese stocks in the 1950s and 1960s.

Assuming you don’t have 40 years, in the stock market it comes down to two basic ways.

Nicholas Vardy of the Oxford Club explains these two ways that propelled Templeton’s fortune.

By investing in markets where others feared to tread, Templeton became a pioneer in "crisis investing" - a deeply contrarian approach to investing that has made savvy and patient investors great fortunes.

And here are the two ways one can replicate Templeton's success.

Two Models for Crisis Investing

No. 1: Invest when stocks are down 90%.

Vardy earned his investment spurs in emerging markets. He lived through crashes that most U.S. investors can scarcely imagine.

For the U.S., the recent 30% drop in the markets is a historical event.

But for emerging markets, it's a typical pullback.

In 1998, Vardy was running several mutual funds that invested in Russia. Starting in 1996, Russia had experienced a massive stock market boom. Moscow became the go-to place for young people to make their fortunes.

In August 1998, the Russian government defaulted on its debt. Many Russian blue chips collapsed by up to 98%.

The collapse of uber hedge fund Long-Term Capital Management - a massive investor in Russian debt - briefly brought the global financial system to the brink of collapse.

Even George Soros lost more than $2 billion.

Investors left in droves. Russia entered its version of the Great Depression. But those like Bill Browder of Hermitage Capital stuck with Russia - and made hundreds of millions in the next five years.

Let's look at the math of why investing in stocks trading at a massive discount can be so powerful.

Say you buy a $2 stock that the market once valued at $100. You are buying it at a 98% discount.

Suppose things get only slightly better - and the stock moves up to a 90% discount.

If you bought at $2 and the stock is now trading at $10, you've already made five times your money!

Here's the challenge for us today.

Despite the COVID-19 crisis, very few U.S. stocks dropped by 90% or more. And that includes cruise lines, airlines and hotels.

But keep a careful eye out if that changes.

Mo' Money

No. 2: Invest in small, neglected stocks.

Templeton also observed, "If you do the same things as other people, you get the same results."

Investors, analysts and pundits are all focused on the same group of stocks. Yet, to generate different - and better - results, you need to focus on opportunities others ignore.

Investment firm Verdad recently examined which asset class generated the best returns through eight financial crises dating back to the 1970s.

Its conclusion?

The best place to invest during a crisis to maximize your returns is in small cap value stocks.

Verdad found that cheap value stocks outperform expensive growth ones. Low-volume stocks beat high-volume stocks. Companies with positive cash flows trounced those with negative cash flows.

Stocks that met Verdad's criteria outperformed the market by twofold over the 12 months following the crisis... and by threefold over the following 24 months.

These stocks weren't the high-flying stocks of the bull market.

In fact, they were the opposite. Generally, they were stocks in cyclical industries that were often sold off in a panic.

No ETF that Vardy knows of replicates Verdad's strategy.

But the First Trust Dow Jones Select MicroCap Index Fund (NYSE: FDM) is probably the closest. It tracks the performance of the Dow Jones Select Micro-Cap Index, a group of 207 stocks with an average market cap of $389 million.

The Psychological Challenge of Crisis Investing

The lesson here is clear.

If you can keep your head when everyone around you is losing theirs, you can exploit simple, predictable rules to make outsized returns.

Still, crisis investing is hard as heck.

It's easy to say, "Invest when there is blood in the streets."

Crisis investing is less about identifying the opportunities and more about having the psychological stamina to act on them.

On the one hand, all crises are similar.

On the other hand, when you're in the midst of one, it seems uniquely bad.

You must always invest in the face of overwhelming negative sentiment.

So, Vardy (and anyone) can give us the tried-and-true rules of crisis investing that helped make Templeton millions. And if one follows these rules, one can reap big rewards.

The question is, will they? We come back to the short answer it ain't easy.

Here is to our successful investing,

D. Miyoshi

Mo' Money

Apparently, that's what the U.S. Federal Reserve Bank believes we need to make it.

In just two months, the Fed has churned out trillions, equal to the first two hundred-plus years of the USA's national debt — and, of course, new money is new debt because under our currency regime money is loaned into existence. It's not like we're on the gold standard.

The Difference Between Wall Street and Main Street

Disappearing Money

Well, one reason the markets may not keep chugging is that money is disappearing into the ol' black hole of extinction even faster than the Fed can enter keystrokes that magically represent new money.

The reason: if, in fact, money is loaned into existence, it is defaulted out of existence when the loans are not paid back. After all, that's what a loan is: money advanced on a promise to be paid back, generally at interest, interest representing the time-value of money, that is, the duration of the loan.

Do we have any idea how many loans are not being paid back, and may now never be paid back?

Start with houses. 63% of homeowners pay a mortgage (a loan) every month. The national average outstanding mortgage debt is $148,000. Total mortgage debt is $10.3 trillion.

Now cars: There are roughly 260 million passenger vehicles registered in America, with upward of 100 million of them bought on loans that are still active, amounting to $1.2 trillion, enough to buy 53 million Ford Fusions at $23,000 each.

Now credit card debt: total for the US is $3.9 trillion with an average carried balance of $9,333. Meanwhile, 45% of adult Americans have no savings.

"A Billion Here, a Billion There, Pretty Soon, You're Talking Real Money"

As Senator Everett Dirksen (R-Ill) once quipped during a senate budget battle, "A billion here, a billion there, pretty soon, you're talking real money."

Consider that a trillion is a thousand billion (and a billion is a thousand million). In an ordinary reality, a reality-based reality, that is, with reality-based money, that would be a lot of money (and a lot of debt)!

It's hard to project an exact figure, but with over 20% of the U.S. work-force idle, with no income, there's liable to be a lot of debt that's not being paid back, will never be paid back, and a lot of money headed into extinction.

That will translate into a lot of people with no money. Until all that money they owed is finished not being paid back, and the new money that the Fed is busy creating, with no relationship to the production of things of value, overcomes the old money that's finished disappearing.

Then Americans will have plenty of money. The catch is that the money will be worthless. Thus, the two ways of going broke: having no money; or having lots of money that's too worthless to buy anything.

So, it goes. Along with people's hopes and dreams of a decent life.

Will America go broke before it becomes great, again?

D. Miyoshi

The Difference Between Wall Street and Main Street

On May 8, the worst unemployment report in American history screamed across computer and television screens announcing that a breathtaking 20.5 million Americans lost their jobs in April.

The next 60 seconds saw the Dow Jones industrial average jump, building to a 300-point pop at the opening bell that never looked back. It finished the session up 455 points, or 1.9 percent, led by big industrials — Dow Inc., Boeing, Caterpillar — and oil giants ExxonMobil and Chevron. The blue-chip index ended the week 2.5 percent ahead but remains 14.7 percent in the red year to date.

The Standard & Poor's index 500 and Nasdaq composite indexes also took off, with the former climbing 1.7 percent on the day and 3.5 percent on the week, and its tech-heavy cousin adding 1.5 percent during the session and 6 percent during the week.

This situation begs two questions.

How can the market continue to go higher despite the terrible fundamentals? What is the difference between Wall Street and Main Street?

According to Enrique Abeyta, editor of *Empire Elite Growth,* it's common that markets move higher (and often much higher) as fundamentals are terrible. Abeyta explains that professional traders view the stock market as a "discounting" mechanism.

This view states that the markets at all times are pricing in a stream of future outcomes (earnings). When the markets go down, it's because those expectations on profits have gone down (and vice versa).

The Difference Between Wall Street and Main Street

The fact that earnings might be going down may trigger a negative response. But if everyone knows they're going down and expects them to go down, then that response may be muted. Furthermore, if the overwhelming expectation is for negative news and we get even some positive news, then the positive chemical reaction in our brains can be extreme.

And for the next few months, the sequential economic data will get better. Abeyta explains as follows...

Take restaurants, for example. Think of how many of them were open (and their economic activity) in late March (right as we entered into the full lockdown), and then consider how many will be open next month.

This number is going to be higher – probably a lot higher.

Now, this doesn't mean that restaurants are going back to where they were in January or February. It also doesn't mean we won't have a "start-stop" situation depending on the coronavirus mitigation efforts. But ultimately, the activity will be higher.

Some would argue that the market has already gone to levels where the "valuation" has priced this in and that stocks are due for a correction.

But Abeyta doesn’t ascribe to this view...

It's not "valuation" that matters most for stock prices, it's "stimulus." If the incremental news is good, expensive stocks get more expensive. If incremental news is bad, cheap stocks get cheaper.

By definition, the incremental news for the economy is getting better and, for right now, probably a lot better!

And think about "stimulus"... particularly the monetary stimulus that's being pumped into the global economy. "Monetary stimulus" means that global central banks are printing more currency.

Using an incredibly simple model – absent the ability to spend those dollars at a restaurant or a ballgame – they may very well flow into assets... like stocks.

Given the unheard-of magnitude of the amount of monetary liquidity injected into global economies, it's possible we might see a continued rally well beyond anyone's expectations.

The S&P 500 Index is "only" down about 10% year-to-date, and we could see it at new highs by the end of the summer. Abeyta is not saying that this is probable... but it's possible.

And in late April, an article in Bloomberg showed how some of this can happen...

It outlines how private-equity-backed Surgery Partners – which runs a network of outpatient clinics and was struggling financially prior to the coronavirus pandemic – was able to get financing for its bonds done at better rates than it was able to last year.

In 2019, Surgery Partners went to the market to refinance some maturing bonds and was quoted an interest rate of 10%. Those higher-risk bonds were recently trading for $0.55 on the dollar.

But after the U.S. Federal Reserve stepped in last month and said it was willing to buy even risky debt as part of the emergency financing for the economy, not only did Surgery Partners' bonds trade back to par... but the company raised an additional $120 million from investors at a 9% interest rate – a better rate than in 2019.

Of course, Abeyta is not mentioning this to say that Surgery Partners is (or isn't) deserving this loan or interest rate... Investors are obviously making up their own minds on the subject and risking real money on the company.

But considering this with his point about the injection of monetary liquidity, a lot more dollars are floating around to make these kinds of loans. This is the exact kind of environment that can set the market up for new highs.

Abeyta has seen this happen before in his career... back in the late 1990s when he first became a full-time portfolio manager.

In late 1997, Thailand's government was forced to let its currency "unpeg" from the U.S. dollar. This un-pegging caused the Thai baht to collapse. It started a wave of bankruptcies among Thai businesses that borrowed in U.S. dollars, thus injecting a ton of financial volatility into the Asian financial markets.

The situation continued to build through the following year, and the escalating market volatility eventually culminated the collapse of a famous and successful hedge fund called Long-Term Capital Management ("LTCM").

What happened with the fund was complex. Here's a simple

Will China Replace U.S. as #1?

explanation...

LTCM had $25 borrowed for every $1 it had in the bank. Eventually, the people lending the fund the money became concerned that it might not be able to pay everything back and all asked for their money back at once.

This led to forced selling on the behalf of LTCM, and began to drive prices of financial assets lower. The lower the prices went, the more concerned LTCM's lenders became... and they asked for even more of their money back.

This spiraled into a self-fulfilling prophecy and began to affect the holdings of other financial institutions like the large banks and brokerage houses.

The government eventually intervened, and the Fed saw a substantial risk to the whole financial system. If this stress were allowed to spread, then it could eventually bring down the entire global financial system.

Correctly identifying this risk, the Fed stepped in and set up a consortium of financial institutions that took over the assets and liabilities of LTCM. In doing so, it stopped the force selling and asset prices stabilized quickly... but not before causing a huge amount of short-term volatility in the financial markets.

Going into that period, the S&P 500 was performing well. Year-to-date, it was up 22% as of July 20, 1998 and at an all-time high. By early October, it was down as much as 23%.

After the Fed actions, though, the market quickly recovered... and returned to its old highs within four months from July.

In fact, it ended 1998 at another all-time high, or up 29% on the year. And the next year, we had the biggest "melt up" in stocks with the dot-com bubble... The S&P 500 was "only" up 21%, but the Nasdaq was up an incredible 86%.

Of course, there are huge differences to today... but in some ways, the coronavirus is a modern (albeit much bigger) version of the LTCM situation as the fund was collapsing. And looking back at history, big gains could be very possible ahead as we recover from the coronavirus pandemic.

In conclusion, many stock analysts are now predicting that despite our economic woes, the stock market will continue to rise for the remainder of the year or even thereafter. But, an overwhelming majority of these very same stock analysts also believe that the stock market will thereafter turn down and begin one of the deepest economic downturns of all time.

Accordingly, they believe some money can still be made on the upside in stocks but eventually, this will end and we will enter a very dark period in our economic history.

Carpe Diem,

D. Miyoshi

Will China Replace U.S. as #1?

China and the U.S. are locked in a bitter struggle over trade, technological primacy, and geopolitical influence. This titanic struggle has become especially acute in the wake of the coronavirus pandemic and the ensuing economic collapse. From the beginning of this century, Beijing has begun to see itself as ascendant at a time that the United States stature as a world leader is ebbing.

With this backdrop, some clients have asked if I believed China will now replace the U.S. as the #1 superpower in the world.

I am no expert on geopolitical affairs and am not able to competently answer that question. Although I am interested in geopolitics, it’s beyond my pay grade and I will defer to others more capable of answering that question. One such individual is George Friedman, a leading geopolitical intellectual and consultant who I closely follow. On May 5, 2020, Friedman published an article entitled *Power and the Rise and Fall of Nations* in which he broaches that very question. Below I cite a portion of the article that deals with the question will China now overtake the U.S. as the leading world power. I hope you

Will China Replace U.S. as #1?

find it informative. D. Miyoshi

Perception vs. Reality

This is not a new question for me. The United States has long been regarded as the leading power and compared to other rising powers. With some regularity, public opinion, in the United States and elsewhere, came to the conclusion the U.S. was in decline and was being surpassed by a challenger, sometimes economically, sometimes militarily and sometimes covertly.

In the 1950s, there was a McCarthyite element in saying that the U.S. was in decline and the Soviets were overtaking it. When the Soviets launched Sputnik and sent Yuri Gagarin into space, many around the world were convinced of the Soviets' superiority, and many in the United States felt panic over the lack of emphasis on science education. When the United States was defeated in Vietnam, many, including senior American analysts, concluded that the U.S. was in retreat. When Nixon was forced from office, this suspicion became certainty. As for China, the sense that it would surpass the United States economically was broadly accepted by the late 1990s and early 2000s. China's growth rate was high because it was preceded by the Maoist disaster. Extrapolated on this basis, China's gross domestic product was poised to surpass the combined GDP of the rest of the world, starting with the U.S.

For much of the world, the decline of the United States was desired to clear the way for their own emergence. In other cases, it was schadenfreude. In yet other cases, it was the bitterness of once great nations that were replaced by a nation they regarded as clearly unworthy of leadership. The United States was the center of the global system, and the hope that it would fail resulted in regarding every failure as a portent of an American collapse. Similar hopes enfolded Alexandrian Greece, Rome, Britain and the Ottoman Empire. Each misstep or misfortune was seized upon as evidence that their fall was imminent. In due course, all these empires collapsed but not for many centuries. The anticipation did not arise from dispassionate analysis but from hope. How could Rome possibly survive Hannibal or the Soviet Union Hitler's assault?

The public perception of power is rooted in events that might have little to do with power. The reality of power can be simply defined as the ability to compel others to act according to your wishes, even against their own interests. This is a complex equation. On one side is a definition of how nations might compel behavior. On the other side is the evaluation by the object of power as to whether the pain of resistance or the pain of capitulation is greater. These can only be understood in the details: the nations involved, what is being asked of them, the intensity of the pain and so on.

But the general instruments of power can be readily understood. There is military power, which is ultimately the threat or reality of death and physical destruction. There is then economic power, which is the pain that can be inflicted by a wide range of economic actions, such as withholding needed products or manipulating currency. This type of power does not inflict death, but it constrains lives by threatening to inflict poverty or lower standards of living. The third type of power is political. It is the manipulation of the political system or public opinion in a country by the threat or application of military force, the imposition of economic pain, or the creation of a sense of reality that causes the public to react in ways that weaken the nation. Power is not simply the ability to coerce; sometimes it involves the use of incentives. Either can compel changes in action.

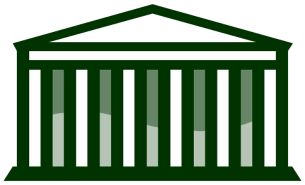
Power does not have to be explicit. The Soviet space program gave the Soviets influence by opening the door to the possibility that Soviet power will at some point in the not-distant-future overawe American power. That perception, which in retrospect was preposterous, was in the short run very real. Nations that had discounted Soviet military power relative to U.S. military power had to reevaluate their position and be open to Soviet wishes. Even if not a direct use of power, the Sputnik-Gagarin event generated a potential shift of power that caused some nations to alter their relationships. Power in all its dimensions is subtler than the direct use of force or economic power.

The fourth type of power is the management of perceptions. The Soviet Union collapsed in 1991. Seventeen years later, in 2008, Russia went to war with Georgia. This conflict did not reverse the catastrophic collapse of the Soviet Union; its causes were still there. But Russia could not afford to be seen as weak. The Georgian war did not significantly shift Russia's relative power, but it shifted the perception of Russian power. Similarly, the intrusion into Syria did little to enhance Russian power, but it generated a perception of greater Russian power. The direct application of power – military power in this case – is not necessary to change perceptions. Since Russia's actions were more propaganda than military achievement, the use of propaganda (now called hybrid warfare for some reason) can in some instances create useful perceptions without the application of real power.

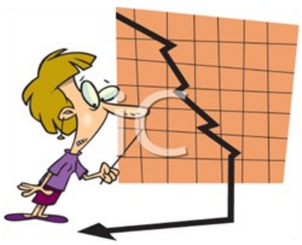
China vs. the U.S.

This brings us back to the beginning, and the idea that China will or is replacing the United States as the leading global power. Militarily, the United States controls the Atlantic and the Pacific oceans. China controls neither. From a military point of view, it can use missiles and trigger a nuclear exchange, but it has a limited navy and a vulnerable missile force. China is, therefore, not even close to being a global power.

Will China Replace U.S. as #1?



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.

Economically, the United States' GDP prior to the coronavirus was $21 trillion. China's was $14 trillion. Both economies have obviously contracted, but there is no evidence that the contractions will materially transform the gap between them. Roughly 19 percent of China's GDP comes from exports, about 5 percent of which are destined for the United States. Roughly 13 percent of the United States' GDP comes from exports, about half of which are destined for North America and only half of one percent of which go to China. China has a much larger population than the U.S., so its per capita income is much lower than the United States'. This means that the impact of an economic contraction on standards of living will be much greater in the U.S., where the cushion is larger, than in China.

In terms of political power, China has maneuvered itself into a dangerous position. It has failed to defuse U.S. suspicions of Chinese behavior and intentions. In addition, it has not managed trade negotiations with the U.S. successfully. This means that China has permitted economic and military tensions with its single-most important customer to increase. At a time of economic contraction when U.S. imports will decline, China faces disproportionate threats because of its dependence on exporting.

China's strong suit is dependence on a supply chain that relies on cheap labor. But the coronavirus has demonstrated to the businesses that created the supply chain that excessive dependence on any one country, as is the case for the U.S. pharmaceutical industry, can destroy a company. The crisis has turned this into a weakness, rather than a strength, as American businesses shift their supply chains away from China. In some cases, this is not a complex or costly thing to do.

China focuses on perception to compensate for weakness. Strange ideas like building an overland transportation system to Europe (i.e., the Belt and Road Initiative) are aimed at demonstrating a nation's capability. Showering loans on countries does the same, even when the loans don't fully materialize. At relatively low cost, China positions itself as a financial power. Similarly, U.S. military movements in the South China Sea are meant not to exercise U.S. power but to create the perception of robust naval power.

Wishful Thinking

China is economically and militarily much weaker than the United States. But its manipulation of the perception of its power is skillful, sufficiently so that the Turks and the Europeans tend to see the coronavirus as a transit to Chinese power. It is said that perception is reality. It really isn't. At a certain point, the pretense of power leads an adversary to believe in that power, and that can lead to an economic, political or military conflict that the perceived power can't win. Perception warfare is good for buying time. But carried out too long, the perception warrior is believed, feared and engaged.

Now that we are in the midst of the coronavirus crisis, the U.S. has flooded the country with stimulus money, and that will have consequences. So will the contraction of the Chinse economy, along with political concern internally over the trustworthiness of the Chinese government when it really matters. While it will take several years for both countries to recover, the idea that the crisis has opened the door to Chinese domination is strange, or perhaps wishful thinking. The pain is real, but the order of things is robust.

End of article by George Friedman

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