



# Wealth Creation ... and Preservation

*Independent, unbiased advice to help Americans prosper*

2nd Quarter 2009

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## The best four weeks for the stock market since 1938

What a difference a month makes - or does it?

	Price, 31 Dec 08	Price, 31 Mar 09	Change, 1Q 2009	Current Price, 3 Apr 09
Dow Jones Industrial Average (DJIA)	8,776	7,609	-13.3%	8,018
S&P 500	903	798	-11.6%	842
Crude Oil	\$44.60	\$49.66	+11.3%	\$52.51
U.S. Dollar	82.15	85.90	+4.6%	84.55
Gold	\$865.00	\$925.00	+6.9%	\$894.60
Silver	\$10.79	\$13.00	+20.5%	\$12.75

The numbers for the S&P and the Dow look bad for the quarter, but on March 6th, 2009 they were much worse. **In the past four weeks the Dow rose 1,548 points or 24% from its Wave I low.** The S&P 500 rose 176 points or 26% from its low. We were able to capture some of those gains as the market moved back up.

The rally should continue for several months, but not because anything has been fixed in this global economic and financial crisis. Unfortunately, by around year-end 2009 or early 2010 the economic statistics should look much worse than they do today.

Please make sure you are prepared for what's coming. There is still time to get ready.

# DESTROYING the DOLLAR

DISCLAIMER: I belong to no political party, favor no candidate, nor espouse any ideology, political or other. I am, however, a firm believer in the Constitution of the United States as it was designed and debated by our Founding Fathers. Of all the governments in the history of the world, a government whose elected and appointed officials firmly adhere to the Constitution itself and to the designs of the Founders is the government most likely to provide its citizens with the blessings of liberty. Unfortunately, *no such government exists today.*

"I wouldn't call it fascism exactly, but a political system nominally controlled by an irresponsible, dumbed down electorate who are manipulated by dishonest, cynical, controlled mass media that dispense the propaganda of a corrupt political establishment can hardly be described as democracy either." —Edward Zehr

As I continue my research for my next book *What Will You Do When the Money's No Good?* I have been looking into some of the historic and recent incidents where a nation's currency was destroyed. The three examples I will cite in the book, chosen from hundreds, are the Roman Empire of the 2nd Century AD, Germany in 1923, and Zimbabwe today. Each experienced either the "slow" destruction of their currency we have seen over the past century or hyperinflation - or both.

We must examine the history because we seem to be doomed to repeat it, and we might as well be as well prepared as possible. In this issue I will not

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current e-mail address.

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from James Davidson's  
*Abundance Letter*

## Obama Is the New Hoover

"Many people have suggested an analogy between Obama and President Franklin D. Roosevelt.

"FDR used his first 100 days to launch the New Deal and was later given credit in the popular imagination for ending the Great Depression. (In fact, the Great Depression bottomed early in Roosevelt's first term but dragged on during the duration of the 1930s.)

"Obama came to office with a depression that was still unfolding. And it is nothing less than fantastical to think that the unwinding of the leverage cycle could have bottomed on March 9, as Jim Cramer would have us believe.

"Obama is more likely to be remembered as a modern day Herbert Hoover. (Hoover, by the way, was a pioneer in the use of Teleprompters – a technology that Obama uses to a greater degree than any previous president.

"The hallmarks of Obama's depression are:

- The pandering to easily beguiled voters with the promise of something for nothing out of an empty pocket.

- The looting of taxpayers to transfer trillions of dollars to big bankers and other administration cronies.

"This cynical looting will protract and deepen the depression."



give you all the depressing details - I will save those for the book, along with ideas about how you may escape the accompanying devastation - but I want to explain one simple point that most people find hard to believe. Here it is:

### Governments *always* benefit when they destroy their currency.

You may not believe that, but the evidence I have seen indicates it is a true statement. Currencies are not destroyed by accident. Their destruction is usually deliberate and carefully planned or it comes about through incompetence and bungling.

How does a government like ours benefit when they destroy the currency? Let me count the ways:

1. Destroying the currency enables the government to maintain an image of power and control it can no longer afford.
2. Destroying the currency enables the government to steal the riches of the world without having to pay for them.
3. Destroying the currency enables leaders to rob their own people and steal their nation's riches.
4. Destroying the currency enables corrupt and conspiring leaders to gain and retain power over their own people and over other nations.

"A democracy cannot exist as a permanent form of government. ...[Eventually], the majority always votes for the candidates promising the most benefits from the public Treasury, with the result that a democracy always collapses over loose fiscal policy" - Andrew Tyler Fraser

5. Destroying the currency makes debts seem to vanish because they can be paid off with worthless paper (Germany, Zimbabwe, *et al.*) or base metal (Rome).

There are other reasons, but these will do for now. Before I explain each point, I need to tell you that almost all leaders tend to be short-sighted and never look beyond their own careers. They also tend to be selfish, and care only for themselves and their cronies. The other point you need to understand is that the destruction of a currency inevitably leads to chaos, famine, dictatorship, war, and other unpleasant consequences. Since the leaders care nothing for the next generation they are simply interested in lining their pockets and holding on to power during their lifetimes, and they want those lifetimes to be as long as possible.

Most of us will find it easy to apply the previous paragraph to many nations and kingdoms throughout history, but we would consider ourselves rather cynical to apply it to the United States. Unfortunately, the history I have dug up over the years clearly indicates that we are following the same old pattern. Once we discovered that we could vote ourselves "benefits from the public Treasury", which got going in earnest under Franklin D. Roosevelt, our republic was finished. If you have read 1984, *Animal Farm*, *Darkness at Noon*, *Lord of the Flies*, *Brave New World*, or any of the host of books written by socialists, communists, and repentant former

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socialists you need only compare those fictional accounts with our history since 1929 to realize that we are on the same path.

Let's look at each of those statements.

## 1. Destroying the currency enables the government to maintain an image of power and control it can no longer afford.

This is a long and complex story, one I cannot do justice to here. Consider that some time after the Civil War and the failure of the "greenback" the United States went on a gold standard. For decades, right up until Franklin D. Roosevelt confiscated most forms of gold in the 1930s, the United States dollar was "good as gold". The United States had significant gold resources, with tons of gold being mined first in California and then Alaska. The Comstock Lode was the largest amount of silver ever found in one location. The United States could afford to have sound money because there was a great deal of gold and silver.

The confiscation of gold did not take America off the gold standard. That was left to Richard Nixon, who "closed the gold window" in 1968, after which time US dollars were no longer redeemable in gold by any foreign government. For a few more years we continue to have silver certificates, a currency that was redeemable in silver. That privilege was taken away from us as well, and by the late 70s all of our currency consisted of Federal Reserve notes. None of our currency had any backing whatsoever.

By the 1970s the Federal Reserve had already made significant progress in the destruction of the dollar, but the process gained significant momentum once we were free of "sound money" and could print up as much "fiat" currency as we wanted to.

Absent a gold standard, or a currency redeemable in gold or even silver, America was free to go on a spending spree the likes of which the world had never seen. Until the Great Depression America had always paid off its federal debt as quickly as possible, perhaps because many in government realized how dangerous debt is. FDR decided that trying to get the economy moving again was far more important than destroying the dollar, so he and Congress threw money at the problem as if they had a key to the Mint - which, of course, they did.

"Henry Morgenthau, FDR's loyal Secretary of the Treasury, was frustrated at the persistence of double-digit unemployment throughout the 1930s. In May 1939 with unemployment at 20%, he exploded at the failed New Deal programs. 'We have tried spending money,' Morgenthau noted. 'We are spending more than we have ever spent before and it does not work . . . We have never made good on our promises . . . I say after eight years of this Administration we have just as much unemployment as when we started . . . and an enormous debt to boot!' " - from a talk given by Burton W. Folsom, Jr.

FDR may not have initiated the Defense Department policy of using overwhelming force to overcome an enemy, but he certainly practiced it. If you have seen the film "The Best Days of their Lives" you may remember scenes in the film of hundreds and thousands of now-surplus aircraft being scrapped. I have read about and seen pictures of similar events following the Korean War and the Vietnam War. We will spend whatever it takes to win a Cold War or a hot one - but these days we do so with a fiat currency.

If we retained the gold backing for our currency, many economists believe that our economy would become terribly restrained and uncompetitive in the global marketplace. I believe that we are using a worthless currency in full knowledge of its worthlessness to continue to project economic, political, and military power across the globe.

## 2. Destroying the currency enables the government to steal the riches of the world without having to pay for them.

There are so many examples I could give to illustrate this point I hardly know where to begin. Let's take just one, our relationship with China.

## S-I-R

### Savings

ING Direct is currently paying an FDIC-insured 1.5% for those of you with Internet access. Otherwise, look for the best interest rates you can find at your local bank and Credit Union. *To open an ING Direct account, please e-mail me and I will send you a coupon good for \$25.00 cash.*

I am no longer recommending Everbank. I don't care for their service or their products, except perhaps for their Gold and Silver CDs.

### Investment

My recommendations for investment and retirement money have changed once more. 10-15% of your net worth should now be in a combination of precious metals, especially silver. I have significantly reduced our holdings of Canadian dollars and Australian dollars, and will not begin buying them back until the dollar index is 90 or higher.

Your Investment program can also include the "Stocks at a Discount" Program.

### Retirement

A significant portion of your retirement money should be invested in places where it is guaranteed by top-quality companies. This means Equity Index Annuities (EIAs) and other types of annuities.

The balance - up to 50% , depending upon your circumstances - should be diversified into investments which have the potential to beat inflation, taxes, and the declining dollar. This would include the precious metals and energy funds, domestic and foreign stock mutual funds, foreign currencies, the precious metals themselves, and a few others. All investments should be professionally managed and timed.



## Received via email and worthwhile reading . . .

"An economics professor at a local college made a statement that he had never failed a single student before but had once failed an entire class.

"That class had insisted that socialism worked and that no one would be poor and no one would be rich, a great equalizer.

"The professor then said, 'OK, we will have an experiment in this class on socialism. All grades would be averaged and everyone would receive the same grade so no one would fail and no one would receive an A.'

"After the first test, the grades were averaged and everyone got a B.

"The students who studied hard were upset and the students who studied little were happy.

"As the second test rolled around, the students who studied little had studied even less and the ones who studied hard decided they wanted a free ride too so they studied little.

"The second test average was a D! No one was happy.

"When the 3rd test rolled around, the average was an F.

"The scores never increased as bickering, blame and name-calling all resulted in hard feelings and no one would study for the benefit of anyone else.

"All failed, to their great surprise, and the professor told them that socialism would also ultimately fail because when the reward is great, the effort to succeed is great but when government takes all the reward away, no one will try or want to succeed.

"Could not be any simpler than that... "



China became a major trading partner after we went off the gold standard. The US dollar had become the world's reserve currency, and country after country took their currencies off the gold standard until none, including Switzerland and Austria, were left.

In this new world of fiat currencies the Chinese could hardly demand payment in gold for their goods and services. If they wanted to grow economically by the time-tested method of industrialization and trade they would have to play the game by our rules. The Chinese devoted significant amounts of their natural resources to the creation of products that would be sold to Americans. Once they had depleted their resources to the point where they can hardly provide for their own people, they began using Australia as a primary source of raw materials.

During these decades right up to today Americans have benefitted handsomely from this exchange. We receive container ships filled with high quality Chinese goods made for the American market. We don't have to worry about depleting our own raw materials, for those are provided for us by the Australians. We don't have to worry about "smokestack industries" polluting our wonderful clean air; the Chinese are doing that to themselves, and laying waste their countryside for our benefit. The environmental damage done to China in the name of capitalism may exceed that done to Russia under communism. They do all these things for us, and we compensate them with worthless paper dollars. Is this a great country or what?

### 3. Destroying the currency enables leaders to rob their own people and steal their nation's riches.

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I have said previously the United States is the world's best hope for a middle class. Our middle class is rapidly falling into the lower class as our country and our world are becoming increasingly polarized between the haves and have-nots. In the US our leaders, many of whom are already wealthy before they seek public office, increase their wealth during and after their years of "public service". Many scandals have surfaced over the years (and possibly many more have not) pertaining to politicians who have enriched themselves by the acceptance of gifts from lobbyists and other "interested parties". The US is not a perfect example of what I'm trying to illustrate here, however, so let's move elsewhere for a moment.

Let's take the current and very prominent example of Robert Mugabe of Zimbabwe. He has been that country's ruler since 1980, and has used his time well by lining his pockets at the expense of his entire nation. He and his cronies have made themselves enormously wealthy as they have exploited their country's natural resources, while at the same time allowing the quality of life for their constituents to plummet.

Don't think for a minute that Mugabe keeps all of his money in Zimbabwean dollars; he doesn't. His wealth is in foreign currencies, gold, silver, diamonds, and controlling interests in his country's resource companies.

Zimbabwe experienced inflation running at 231,000,000% per year in 2008. The currency has been destroyed. Its destruction has brought misery, poverty, and despair to the entire population. (Please go to [www.sokwanele.com](http://www.sokwanele.com) for more information about Zimbabwe.)

### 4. Destroying the currency enables corrupt and conspiring leaders to gain and retain power over their own people and over other nations.

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There are many examples of countries changing their form of government subsequent to an economic crisis in which their currency was damaged or destroyed. In most of these cases there were other contributing factors which allowed the new government to take power, but usually the loss of value of the currency was an important aspect. Unfortunately, in most instances of which I am aware the people of those countries suffered so much from the destruction of their currency that they willingly put a tyrant in office. They wanted someone to save them and set things right, and were willing to sacrifice much of their freedom to get their lives back to normal. One of the famous statements made about Mussolini, for example, was that he made the trains run on time. That seems to be human nature, and it seems

to be very much in effect United States. Americans have consistently voted for leaders who would seize and wield ever more power over them in exchange for our "mess of pottage" - our handouts from government, those "transfer payments" that take money out of the pockets of people who work hard to make a living, and gives it to those who don't want to work.

Adolf Hitler came to power in Germany in part because of Germany's hyperinflation in 1923. There is a long list of dictators who were able to seize power when the economy was in crisis. When I was in high school I was taught that we lived in an enlightened age where all the world's problems would be solved by technology, and people would have much more time to devote to their families, to their education, and to serving their fellow men. The reality is very different; today's tyrants and despots are every bit as bad if not worse than Hitler, Stalin, Mussolini, Idi Amin, Pinochet, and so many others. You don't have to search very deeply to find that each of these tyrants tightly controlled their currency, and either let it fail or destroyed it when it suited their purposes.

### 5. Destroying the currency makes debts seem to vanish because they can be paid off with worthless paper (Germany, Zimbabwe, et al.) or base metal (Rome).

I have been reading Stephen Webb's book *Hyperinflation and Stabilization and Weimar Germany*. This book was written by an economist about Germany's economy in the years around 1923 when hyperinflation hit its peak.

I had hoped to see evidence that the government of Germany had suffered right along with its people through the years of hyperinflation. Instead, my suspicions were confirmed: in just a few short years Germany was able to prevent the collapse of its government and completely pay off a huge reparations bill levied by the Allies after the Armistice. If Germany had been on a gold standard, or if the allies held Germany to pay off its reparations debts with a sound currency, Germany might have collapsed altogether. Instead, by the government's efforts to manipulate the currency which resulted in the hyperinflation Germany was essentially debt-free by 1924. Hitler was able to capitalize on the damage done to the German people to gain power.

The lesson from this is nothing less than chilling. Our Congress seems to have decided, as I reported in *Wealth Creation and Preservation* several years ago, that the US dollar is now nothing more than "funny money", and that the entire world is foolish enough to accept our dollars no matter how many of them we print. We now have decades of history of spending beyond our means and creating obligations via our "social safety net" that we can never repay. Even before the first stimulus package in 2008 we had no hope of ever meeting our obligations if our currency remained sound and viable. On the other hand, if we let it slide into oblivion . . . .

Printing money on demand is a major mistake by our government. We will not escape the damage this action will cause. There is one reason why the whole thing hasn't blown up in our faces yet. Congress has had one thing in its favor throughout this crisis: the Federal Reserve has dropped interest rates very close to zero, which means that our debt service - the annual cost of interest on our national debt - is extremely low. Here's a quick example:

Acknowledged US national debt	\$9 trillion
Annual Interest at 6%	\$540 billion
Annual Interest at 3%	\$270 billion

Note that by merely dropping the interest rate it pays on Treasury Bonds from 6% to 3% our government saves \$270 billion per year. That's not exactly "chump change"; in fact, it represents about \$1,000 per year for every man, woman, and child living in the United States.

### The best of all possible worlds?

The United States government has deliberately put itself into what for the moment is an extremely good position. We have sent trillions of worthless paper dollars all over

## The Wealth Creation and Preservation Portfolio

NOTE 1: Since *Wealth Creation and Preservation* appears only four times a year, I urge you to visit my new website to keep up to date with both the *WCandP Portfolio* and my *Current Investment Recommendations*. You will need your email address and password to access the *Current Investment Portfolio* portion of the site.

NOTE 2: Since the information published in these pages is quickly out of date I will be focusing less on current recommendations and more on strategy. My strategy changes frequently as the markets change. Unlike many professional managers, I am in a position to be flexible not in what I buy for my clients but whether I buy.

NOTE 3: I own some of the stocks mentioned below, and I actively trade most of them. Prices quoted are as of January 23rd. **Please use a trailing stop (TrSt)** with these stocks whenever possible.

NOTE 5: Stocks, ETFs and mutual funds mentioned for the first time in this issue are highlighted in **RED**.

Properly placed trailing stops continue to prove more effective than covered calls in this market decline.

**Recommended Buys** (consult your financial advisor for appropriateness to your situation)

1. Buy Atlas Pipeline (APL) at \$4.20 or better and use a \$.75 trailing stop. I expect Atlas and all our energy trusts to lower their dividends now that oil is below \$50 per barrel. (APL's current yield is over 40%.) If you use a trailing stop you cannot use a covered call option; it's your choice. These stocks are now low enough to rebound nicely when oil starts heading up again.

2. Buy the ProShares Ultra Financials ETF (UYG) below \$4.00 and sell the UUFIE (September \$5) covered call. This ETF has fallen 95% from its 2007 peak. It invests in the financial stocks - I think it can at least get to \$5.00 this year (it was \$72 in 2007).

## The Wealth Creation and Preservation Portfolio

(Continued)

3. Buy the Cohen & Steers Premium Income Realty Fund (RPF). It is supposed to pay a huge dividend and is down 91% from its 2007 peak. It is real estate, but at a very depressed price. It is selling at a 16% discount to its Net Asset Value (NAV).

4. Buy Harvest Energy (HTE) at \$4.25 or better. Sell a covered call (\$5 call) or use a \$.30 trailing stop. I think the covered call will work well.

### Current Positions:

We currently own mostly commodity stocks including silver (DBS and SSRI), silver mining (CDE), other mining companies and funds (GDX), energy income trusts (AAV, ERF, PVX, PWE, APL), and some energy stocks, (HTM, NGLPF, SWFCF, WGPWF). Most of them are less expensive than when we purchased them.

We also own high yield ETFs or closed-end funds (FAX, GDF, WIW and NOX.)

We also own several speculative stocks. Here is the short list: SCLL, ITRO, PEGX, CDDRF, IPWG, XSNX, and WWAT. None are recommended for purchase at this time. Some of them have fallen so far there is no point in selling them. This is why we never put a large amount of money into any one of them.

We bought quite a few shares of Quest Capital (QCC) for as much as \$2.00 per share. QCC is now \$.70, a significant decline from our initial purchase price. QCC experienced a bad quarter and has suspended their dividend for a time; I'm not really sure what to do with it right now...

the world, and maintained the fiction that anyone who wants to redeem them will be able to do so for things that have real value. We have borrowed more money than any government or any group of governments in the entire history of the world to sustain our well-fed lifestyle, and we have spent the vast majority of it on things that have no value at all.

We are cautious about monetizing that debt because that might cause the rest of the world realize we are just playing a shell game. By keeping interest rates close to zero that there is relatively little cost to carrying that enormous debt indefinitely.

Viewed cynically, this is the best of all possible worlds, and is without doubt the crowning achievement of our republic. The United States Government has pulled off the greatest scam in history. Americans have benefitted tremendously - but now, things are beginning to fall apart. . . .

Let's take one more look at that acknowledged debt of \$9 trillion and pay interest on it at the rate we were paying in 1979, 13%:

Annual interest at 13%                      **\$1.17 trillion**

That is an *immense* number. It's \$3,900 per person per year for every inhabitant of the United States. It is the cost of the debt *only* if the debt does not increase any further (it will) *and* if interest rates don't go even higher (they will) *and* if the government spends nothing on every other aspect of government - defense, commerce, welfare, Social Security, Medicare, housing, transportation, interior, and on and on - and that's not going to happen.

That's what we will face when deflation is done and inflation comes back. We should pray that the rates never top 13%, though of course they will.

Remember, most Americans pay no income taxes. More than half the American people pay no federal income taxes, and many of them actually get a check from the IRS each year for the Earned Income Credit. That means that your personal taxes must rise by over \$7,000 per year for each member of your family if we are to pay just the interest on the debt. The debt will go on forever, because it would take even more money to pay it off.

I see no alternative to this scenario. The Federal Reserve is out of "bullets". They have made one bad decision after another. The US dollar is relatively strong at the moment only because many other currencies around the world are in even worse shape.

### Update on the Financial Crisis

I am listening to President Obama as I write this. As I predicted, he is claiming credit for getting the country back on its feet as reflected by the recent strength in the stock market. There is no credit to claim, for what we are seeing is nothing more than a "dead cat bounce", an inevitable rebound after months of severe losses.

The President has his history wrong, both short-term and long-term. He blamed Wall Street and banks for creating the credit crisis by loosening the rules on mortgage lending. He failed to mention that the banks and Wall Street were *forced* to do so by one piece of legislation passed by Congress in 1977 and changes to its regulations by President Clinton in 1995. Lenders, especially after 1995, were heavily pressured to lend to normally unqualified buyers.

Longer-term, the President said that nations that failed to act to restore their economies experienced longer downturns and more pain and suffering. He doesn't understand (or doesn't want to admit) that *no* government has ever successfully intervened on behalf of its economy and shortened or ended a downturn. The only time a country has turned around with government help is when the markets have been freed to do what they do best with full accountability and responsibility for their actions. Our markets are now tightly controlled by the government, and the President has in effect nationalized General Motors by making himself Chairman of the Board and firing its CEO.

I should mention that those countries that did restore or create free markets during crises often did so by following the teachings of Milton Friedman. As Naomi Klein reported in *The Shock Doctrine; the Rise of Disaster Capitalism*, promoting Friedman's doctrines often resulted in a "hijacked" economy where much of the country's wealth was sold off to opportunistic "capitalists" (both foreign and domestic) at pennies on the dollar. That's wealth destruction under a different name.

### And the winner is . . .

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I recently read the results of a long-term study on the performance of bonds and stocks. The conventional wisdom has it that stocks have more risk than bonds but the risks are justified because stocks outperform bonds on average throughout history. This study comes to a different conclusion.

If you include the past ten years, during which the stock markets of the world have basically gone nowhere, the results are clear: over the past 35 years **bonds have outperformed stocks** in real terms as well as in risk-weighted terms. This was completely unexpected by most people, but not by me. Since I began managing money in 1994 I have always emphasized bonds over stocks so that my clients took less risk. As it turns out, our results were better than those of just about everyone who was invested in the stock markets over the same period of time.

I recall that a few of my clients were upset with me when I refused to buy stocks in the late 1990s, saying that they were much too risky. Many left and went with aggressive brokers and planners. I have never spoken with one of them since they left who hasn't acknowledged they had been much better off working with me.

The moral of the story is a simple one: **take appropriate risks at appropriate times**. If you do that you will reduce your losses and increase the likelihood of gains.

### Preparedness revisited

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A few days ago I was in my office watching my three computer monitors as I do most of each trading day. Suddenly the power went out. It came back on in less than a minute, but a few minutes later it went out for about 35 minutes. Where we live at the moment we have no backups except the Uninterruptible Power Supply on my computers, and that was not enough. In an instant I was out of business. I had no Internet access and no telephone service except for my cell phone. We had no heat in the house.

I thought about going down to the bank to make a deposit, but realized that without electricity they wouldn't be able to do anything. Same for the Post Office, which is run solely on computers these days. This power outage affected both Lexington, where I work, and Buena Vista, where my wife works. We were both literally in the dark.

The more I thought about it, the more I realized what could happen. Even if my bank's home office in North Carolina still had power, I had no way to access my money or even to make a deposit in Virginia. ATMs were not working and I couldn't write a check or use a credit card. I suppose I could have paid cash at a store, but the clerks would have no way to tally up the sale and compute the appropriate sales tax.

For those minutes I had no health records, for they were unavailable. I assume that hospitals and vital services had standby generators that kicked in immediately, or else lives would have been threatened.

Had the outage lasted a few hours I would have had no tap water, because the town's pumping station had no power. It was possible that cell phone service could have gone down, for sooner or later all those towers must replenish their power supply from somewhere - to say nothing of those phones that run on batteries that must be charged. My wife called me during the power outage, and while she was on the line her phone turned off because the battery was too low.

## The Wealth Creation and Preservation Portfolio

### Current Positions (Continued)

#### Closed-end funds:

GDF, MGB, WIW, NOX

#### High-yield stocks:

QCC (Not any more - see above), **RPF**

#### Speculative stocks:

BCTE, SCLL, ITRO

#### Other Information

If you have lots of energy stocks you might want to own some **DUG**, the ProShares UltraShort Oil & Gas ETF. This fund goes up when the *XOI Oil and Gas Index* falls. Buy it and sell a short-term covered call against it.

#### Please contact me

If you are trading stocks on your own you might want to talk to me before you make a purchase or sale. The markets are so volatile right now it is more difficult than usual to get in and out at good prices. Note that I have not fully detailed all of my recommendations in this issue, and you may have questions about this information.

The stock market will probably bottom sometime in the next few months, but that could happen at levels much lower than where we are now.

This is the bear market I have been predicting for years. It couldn't begin until the S&P had "double-topped". *Don't be too eager to rush in and snap up a bargain which will only become tomorrow's loser.* Use covered calls or trailing stops, and consider using protective puts in non-retirement accounts.



## Silver "Insurance" Program Update

The SIP program is still out of the market. This is a highly speculative program where, when we are in the market, we lose a little money each day (time value) by betting on an event whose likelihood, to my mind, is unquestioned. The analogy to the lottery cannot be overstated, with the sole difference being that this is a real thing, the opportunity to purchase a scarce resource before the rest of the world comprehends its real scarcity.

I had hoped to be in the Program by now with one contract, but I am glad it didn't happen. Please be patient; I believe an opportunity will present itself by the end of the year when silver bottoms or double bottoms. The options remain very expensive.

We will enter new positions in the Silver "Insurance" Program, but I can't tell you exactly when.

[www.wcandp.com](http://www.wcandp.com)

I am very excited about my new website. It is a valuable source of information available to everyone. It extends my ability to assist people by an order of magnitude. I hope you will use it and share it with your friends.

You can use it to purchase my book (when it is available). You can buy silver coins and a subscription to this newsletter. Those who are already clients will soon receive a password that will enable them to access all of the website including the *Subscribers Only* section.

## Travel Schedule

I expect *Moneywise* to be in print by the end of May, and I plan to travel around the country promoting it. I am working with Tate Publishing in Oklahoma to get the book published. This is going to be a busy year.



It was a rather helpless and uncomfortable feeling for those 35 minutes, and a powerful lesson to me about how completely dependent we are on systems that are often fragile, overused, and out of date.

If I ever needed to be convinced of the importance of personal preparedness, that event would have done the job.

## Recommended Investment Allocations

NOTE: There are numerous changes listed below.

**The "A" Strategy** - An income-producing and low-risk strategy using bond funds and money market funds. 'A' Strategy money should now be interested in *U.S. High-grade Corporate Bond Funds*. You may also use the closed ended funds WIW, GDF, TIP, MGF, MGB and MSD (none of which focus primarily on high-grade corporate bonds).

**Type 1 accounts** - Moderate risk, seeking growth and high dividends. Following are two hypothetical Fidelity accounts, one with access to all the mutual funds, stocks, ETFs and options available in a Fidelity Brokerage account (Investment and Retirement accounts including IRAs, SEP-IRAs, and 403(b) and other retirement accounts which have access only to a limited group of the Fidelity Funds.

1. Fidelity Funds Brokerage accounts: ETFs, stocks, mutual funds and options. A \* means that a stock has options. Stocks in **boldface** are owned by many of my clients with Fidelity or other brokerage accounts.

- ★ High-yielding ETFs: GDF, MGF, TIP, **AOD, WIW, NOX**
- ★ High-risk penny stocks: AENS, BCTE, ITRO, SCLL, ETRUF, PEGX, SWFCF, HTM, WWAT, XSNX. All of these stocks have fallen sharply.
- ★ High-yielding energy-related stocks and ETFs: AAV\*, PWE\*, ERF\*, PVX\*, PZE\*, APL\*
- ★ "Commodity" stocks: SSRI
- ★ "Commodity" ETFs: DBS
- ★ Mutual Funds: Fidelity Bond Fund FBNDX, Fidelity High Income Fund SPHIX

2. Fidelity Funds non-brokerage accounts limited to the Fidelity Funds only

- ★ 50% Fidelity Bond Fund FBNDX
- ★ 20% Fidelity Select Gold Fund FSAGX
- ★ 30% Fidelity Inflation-protected Bond Fund FINPX

3. Allianz and other Equity Index Annuities (EIAs)

- ★ 25% S&P 500 / 25% NASDAQ 100 / 50% Interest-bearing

Please call me about other fund families and annuities not listed here.

**Type 2 accounts** - higher risk, seeking growth using combinations of all available funds.

4. Allianz and other Equity Index Annuities - Type 2 accounts:

- ★ 25% S&P 500 / 50% NASDAQ 100 / 25% Interest-bearing

As always, please feel free to call me with your questions and ideas.

I appreciate the opportunity to be of service.

*Charles W. Kraut*



# The Charts

## Standard & Poor's 500 stock index (S&P500)

Please note the numbers 1 through 5 on the right side of the chart. They indicate the first five waves down of the bear market as indicated by the S&P 500. Together they comprise Wave I down of a larger degree wave. (Waves always subdivide into smaller and shorter cycles.)

We are now in Wave 2 up, which will subdivide into Waves A-B-C. When it ends the S&P will probably be around 1150-1200 and optimism will have returned to the markets. That will be the time to sell, for Wave 3 down will be devastating. Wave 3 down will take the S&P as low as 100-300. It could begin as early as 1st Quarter 2010.



## Comparison chart

This chart compares six of the high-yield ETFs we have used in recent years to obtain high interest rates with relatively little risk with each other and the Dow Jones Industrial Average (DJIA). The six are listed at the bottom of the chart; their symbols are WIW, NOX, ESD, the Dow, MSD, GDF, and AOD.

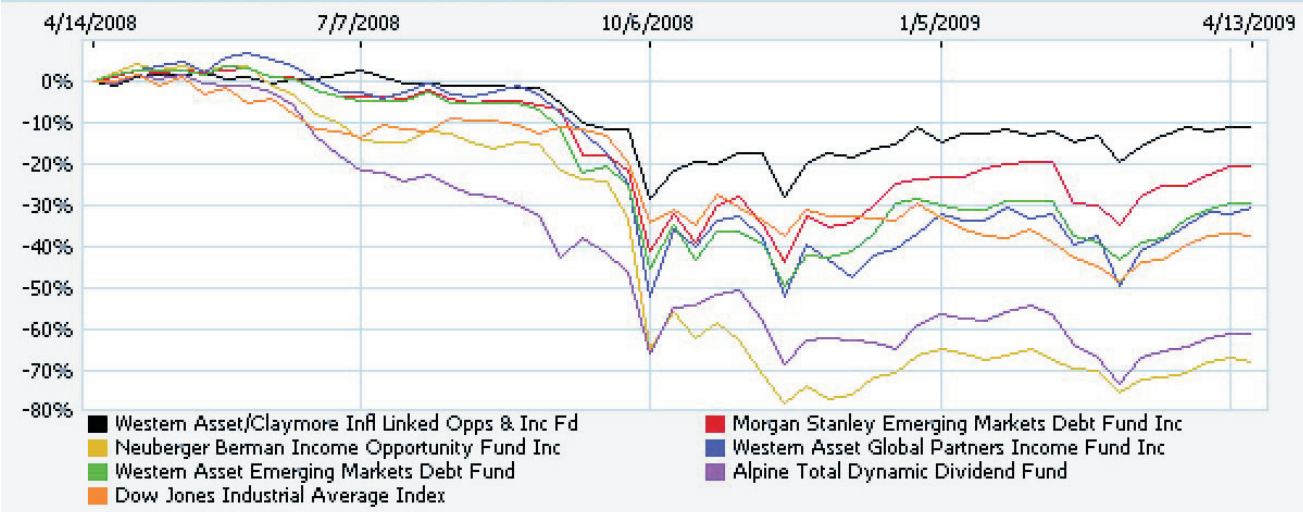
Notice that four of the six ETFs have outperformed the Dow, which is down almost 40% over the past year. Then notice that AOD and NOX (gold and purple lines, respectively) have

significantly underperformed all their peers. Both have fallen more than 60% over the past twelve months. Because they have declined so much, have maintained their dividends, and are selling at a discount to their NAV, these two ETFs NOX and AOD look very attractive at the moment. NOX pays a 17% yield and sells at a 15% discount; AOD pays over 21% but is selling at a 7% premium to its NAV. I never buy ETFs or closed-end funds that are selling at a premium.

I have just added a new income ETF to the list. The Cohen & Steers Premium Income Realty Fund (RPF) is paying almost 19% and is selling at a 16% discount. It fell about 85% over the past twelve months and looks very attractive as long as we remain in Wave 2 up.

Charts provided by eSignal and moneycentral.msn.com

### Price history - WIW (4/14/2008 - 4/13/2009)



# The "Behind the Charts" Market Update

Data as of 14 April 2009

## U.S. Stock Markets

**Dow Jones Industrial Average (DJIA).** 7,920.18. The stock market should rise for the next several weeks at least, and perhaps through December 2009. Longer-term, I expect the stock market to fall for at least two more years.

**S&P 500 (S&P).** 841.50. The S&P looks very much like the Dow. Robert Prechter may be right when he says the market will decline until the year 2016. Let's hope not.

**NASDAQ 100 (NASDAQ).** \$NDX, 1322.31. This too resembles the Dow. Remember that there are three types of markets: those moving up, those moving down, and those that are flat. The NASDAQ is flat at the moment, but it is slightly up for 2009 and has better potential for gain than the DJIA or the S&P 500.

## Bond Markets

**US Treasury Bonds.** 127 21/32, continuation contract. Treasury bonds hit a new all-time high in December 2008 as the flight to quality became a tidal wave. This has been called a "bubble" by some in the media, but I don't think the term applies. Bonds go up when interest rates go down, and vice-versa; we will see Treasury bonds plummet once deflation is gone and inflation has taken its place - or when investors realize that the U.S. dollar is worthless.

**High Yield or "junk" Bonds.** We are back into high yield funds like SPHIX and even FNMIX, and we still hold some of the ETFs or "closed-end" funds I describe in the *WC&P Portfolio*. We purchased them at a significant discount after their price had fallen dramatically; they have rebounded somewhat from their lows.

## Commodities

**Crude Oil,** \$49.08/barrel, continuation contract.

T. Boone Pickens, a man who knows more about energy than anyone I know, says oil will see \$60 before it sees \$40 again. He's probably right. Speculative money flowed out of oil and many other commodities as the worldwide financial crisis grew. We may have seen a bottom, at least for now. Oil is also being affected by reduced demand in the West.

Oil under \$50 is a bad thing. Sure, it's great to pay less when you fill your gas tank or heat your home, but prices under \$50 have caused many development contracts to be shelved or cancelled. This will make the next oil spike sooner and even wilder. I expect to see oil over \$250 per barrel.

We have added to some positions in the energy trusts. Most dividends are down but are still acceptable as we await higher oil prices. AAV eliminated its dividend altogether, and the stock is rising as a result.

**Natural Gas,** \$3.73/mcf, continuation contract.

So much for the "triple bottom" I wrote about in natural gas. It plummeted through that level and has fallen to \$3.73, a price I thought I would never see again. It's not even doing as well as oil at this point, and I can't explain why.

## Real Estate

I moved out of our Real Estate positions in November 2005. The commercial real estate industry is now showing signs of distress, and the residential housing crisis is only worsening. We have begun to buy shares of RPF now that it is down over 85%.

**Gold and silver.** Gold \$893.80, Silver \$12.71 per ounce.

Gold hit a new all-time high of \$1,033.70 on 17 Mar 08, and silver hit \$21.38 the same day. Adjusted for inflation, gold still hasn't begun to approach its 1979 high. Silver and gold are very close to their prices three months ago. We may be setting up for another wave down; it's very hard to say. I am maintaining core positions in SSRI and DBS and adding to my holdings of physical silver. I encourage all my readers to continue buying silver coins and bars and storing them at home, if possible.

Nothing has changed regarding silver. It remains in very short supply, and the regulators seem to be ignoring the massive manipulations going on all around them.

**The Euro** \$1.3285, continuation contract.

The Euro hit a new all-time high of \$1.5984 on 22 Apr 08. It fell off a cliff to \$1.2395, rose to \$1.4615, and seems to have stabilized at its current level. The Euro doesn't interest me right now. Since Europe has so many problems the Euro can fall right alongside the dollar, instead of moving in the opposite direction as it used to. None of the currencies are really beneficial to us at the moment.

## What to do now

1. Buy Silver! This is a good buying opportunity. You can buy silver futures by buying DBS in your Fidelity account, but you should also own "junk" US pre-1965 coins including dimes, quarters and half dollars. You can buy them from Dallas Gold & Silver Exchange, from me at [www.wcandp.com](http://www.wcandp.com), or on eBay. You should consider selling your certified gold coins if you will replace them with junk silver coins. It is probably true that there is much more gold in the world than silver, and silver may increase in value even if gold falls.

2. Make your home as energy efficient as possible. If you can switch your home heating, cooking and hot water to propane and bury a tank in your back yard, consider doing so. Electricity is less expensive than propane in some areas, but not all. Buy the tank and enjoy the discount for buying larger quantities at longer intervals.

3. Store food and water. Prepare for difficult times. Raise cash and keep it in a safe place at home. If you can keep 6-12 months' worth of money (enough to cover your regular fixed expenses) in cash at home, consider doing so.