Wealth Creation

. . . and Preservation

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A "Commercial Message"

Over the years I have spent far more time and effort serving my clients than I have promoting myself. I am grateful for loyal clients who appreciate my efforts and who refer their friends to me, for referrals remain my only source of new business.

I have missed out on an important opportunity to benefit both my clients and myself. There are certain products and services I have used for decades which I obviously find to be very valuable. Though I could enhance my income by offering them to my clients and the general public I have refrained from doing so because I was focused on providing investment management and advice. I have decided to change that stance because some of these products and services can be very beneficial to you, and the need for them only increases each day.

Starting with this issue of *Wealth Creation and Preservation* I will enclose a piece of literature about one of these products or services, along with the reasons why I use it.

With this issue you will find a small brochure describing an inexpensive service that doesn't just help prevent identity theft; if your identity is stolen this company will take all the necessary action to restore it. Your only cost for this service is a small monthly premium. For more information please contact me.

What does it cost to avoid RISK?

As I continue to work on my book I have come to the point where I must define the cost of sharing or eliminating risk. Let me try to quickly explain what I mean by that, for it is not a topic you are likely to read about anywhere else.

All investments carry a degree of risk. In these pages we have talked at length over the years about how **the potential for loss of principal is a characteristic of all investments**. If we are going to put our hard-earned money at risk, we want to achieve a meaningful return on our investments while assuming an appropriate amount of risk.

Here is a "spectrum" of risks sequenced from the greatest risk to the smallest risk, all other things being equal. Most of my readers will be unfamiliar with at least some of the investments described below.

① Fully-leveraged commodities futures. In these investments you may be borrowing more than 90% of the amount you are purchasing. A "leveraged" investment of that type can go against you 10 times as fast as an unleveraged investment.

Charles W. Kraut, MBA

www.wcandp.com

In this issue:

Tax Freedom Day

You will be thrilled to know that Tax Freedom Day arrives two days later this year than last year. April 30, 2007 is the day on which the average American will have earned enough money to pay their federal, state and local tax obligations for the year, according to the Tax Foundation. In other words, most Americans will give one third of their earnings this year to the government, a figure I believe is much too high.

None of my clients live in Connecticut. If they did, I would advise them to move to a different state. Connecticut residents don't reach Tax Freedom Day until May 20, 2007.

Putting this in perspective, if you earn $60,000 in 2007 you will send $20,000 to one level of government or another. When you think about all the wonderful things you are buying with that money (the war in Iraq, a bloated and wasteful government, and so on) you have to wonder where we went wrong.

But wait! Tax Freedom Day on April 30th is the good news. If you had to pay the bill for the entire war in Iraq and all the other off-budget items, as well as our immense trade deficit, Tax Freedom Day might come as late as June or July, by my estimation.

In 1900 Tax Freedom Day came on January 22nd. Only when FDR introduced the New Deal did the date move into mid-February.

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② Fully leveraged "naked" commodity options. For example, selling a Silver $15 call option could provide you with a maximum gain of about $1,000, but your risk would be unlimited. If Silver went to $100 an ounce, you would lose $425,000.

③ Fully leveraged residential real estate. If you were to borrow, as you can today, 103% of your purchase price, if housing prices fell in your neighborhood for any reason you could lose your home very quickly. At this time you can still obtain 100% financing on a negative amortization loan, which means that your loan amount increases month after month after month. In my quarter-century in this business I have seen few better ways to commit "financial suicide." In fact, this problem is becoming so severe that Congress is debating ways in which you will get to bail out those foolish enough to take on these mortgages. Stay tuned.

④ Stocks described as " speculative", "small-cap", "pink sheet", "emerging market", and so on. Many of these can be purchased using margin, which means that you are borrowing up to half the purchase price. That, of course, can double your risk.

⑤ Stock mutual funds, Exchange-traded funds (ETFs), and large-cap stocks for which you have paid the full purchase price.

⑥ "Junk" bonds purchased individually.

⑦ "Long" call and put options.

⑧ Government-guaranteed bonds, such as US Treasury Bonds, as well as "junk" bond mutual funds and ETFs.

⑨ Fixed annuities, Equity Index Annuities, and Certificates of Deposit.

⑩ Money market funds.

This is not a comprehensive list by any means, and we could debate the placement of each of the items on the list relative to the others. This is just a ranking by risk level of some of the better-known investments available today. Let's consider for a moment the relative risks associated with each of these before we move on. I have discussed each of them in previous issues of *Wealth Creation and Preservation*.

When you buy a fully-leveraged futures contract for corn you are paying for only about 5% of your purchase. If corn is currently selling for $3.95 a bushel, you are buying 5000 bushels for a total cost of $19,750. You can do so by meeting the margin requirement of $540. All that corn has to do is to fall $.11

($.11 times 5000 bushels equals $550) and you have lost 100% of your investment. In order to "manage" your risk, you need to be familiar with the seasonality of the agricultural markets, the prospects for the crop you are buying, and the timing of your purchase.

Fully leveraged "naked" commodity options are commonly used by hedge funds, among others. Like leveraged commodities futures, they offer the potential for unlimited risk. In order to manage your risk you need to consider all of the fundamentals pertaining to the particular commodity. You also need to have superb timing.

Investing in residential real estate hasn't required an awful lot of skill until just a couple of years ago. Many of the new millionaires in the United States have gained that status through real estate speculation. Millions of others have profited from selling their home after decades of price appreciation. Only recently have significant risks entered into the market, in part because of foolish and risky governmental policies regarding housing availability and interest rates.

Speculative stocks are just that; speculative. Some of them are not available on "margin", which means that you cannot borrow a portion of the purchase price. That doesn't make them any less risky; it just means that you're not going to be allowed to make twice as big a mistake when you buy them.

Managing risk requires strong fundamental and technical analysis. Contrary to the current advice available almost everywhere, I strongly recommend that you "buy low and sell high".

Mutual funds of any type, along with all the ETFs, offer a risk-reducing feature we haven't seen before in this list; **diversification**. When you purchase a mutual fund or an ETF you are buying a share of a managed pool of stocks, bonds, or some combination of securities or commodities. Your risk is reduced because you aren't buying one single item. Even so, you can manage your risk by performing appropriate technical and fundamental analysis on the fund or its sector.

You probably are familiar with the rest of the choices on this list. The most important point that I'm making here is that with few exceptions **as the risk declines so does the potential for gain**. At this moment Money Market funds, which have very little perceived risk are paying yields comparable or even superior to those offered by Certificates of Deposit and fixed annuities. I'm not talking about the money market account your bank or credit union offers; I'm talking about a money market fund offered by a family of mutual funds like Fidelity or American Century.

The reason why I do so much work with Equity Index annuities (EIAs) is that in some ways they are an exception to the rule. EIAs (and Total Return Fixed annuities or TRFAs) are completely guaranteed as to principal and interest. They are specifically designed to enable you to make more money than you might in a standard fixed annuity. To provide that safety of principle that is not available from any stock or mutual fund, the trade-off is that you have to give up some of the potential for gain. That trade-off appears in your annuity as a "cap" or in the averaging method used to compute your gain.

Here's the point: **avoiding risk has a price**. That price is usually represented by decreased potential for gain. The intelligent management of risk requires more decisions today than ever before, due to the much wider variety of financial products and services available.

S-I-R

Savings

ING Direct is currently paying an FDIC-insured **4.50%** 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.*

Everbank (www.everbank.com) offers an FDIC-insured checking account which pays a minimum of **3.1%** with no fees. Their Money Market Account pays 4.01%. Please see their website for further information.

Investment

My recommendations for investment and retirement money have changed slightly. Check the *Recommended Investment Allocations* section. You should still have about 12-16% of your total net worth in precious metals mutual funds and in other forms of gold and silver.

Your Investment program can also include the "*Stocks at a Discount*" *Program* and *The Silver "Insurance" Program*.

Retirement

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

The balance - up to 50% or more, 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 timed*.

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Big News

It is official. Charles W. Kraut, MBA will be leaving the beautiful, frozen North on or about June 15, 2007. My wife Gertrud has accepted a very nice offer from Southern Virginia University (SVU) in the little town of Buena Vista. Buena Vista is adjacent to famous Lexington, home of Virginia Military Institute and Washington and Lee University, as well as Stonewall Jackson. The area is growing rapidly, in part because of a new Horse Center in Lexington that has stables for 1,000 horses and major events every week. Many people who would otherwise have retired to Florida are reconsidering and moving to the Shenandoah Valley, as are many Floridians who are fed up with hurricanes and alligators.

The primary negatives for us are that land and building costs are higher than we would like (or expect), and that the closest "large" airport is Richmond, about 2½ hours away. Roanoke Airport is only 45 minutes away, but they have no nonstops to Dallas, Boston or LAX. We will be three hours from Dulles Airport and 3½ from Washington, D.C. I will continue my schedule of longer, less frequent trips to see my clients.

We have already purchased a 5-acre parcel of farmland with a wonderful view of the Blue Ridge Mountains, and will be building a home on it if we can make all the necessary arrangements. We will be five miles from SVU and four miles from downtown Lexington. Our home, of course, will be passive solar with some active solar features including a photovoltaic array and solar hot water heating.

It is always difficult to leave friends behind, and I will be happy to return to New England from time to time to work with my clients here. With the Internet and all the other technology available today it is easier than ever to serve my clients, who now reside in more than twenty states.

There has never been a greater need for competent, analytical, professional financial advisors. Unfortunately, they remain few in number and very hard to find. It is not enough for your financial advisor to be familiar with all the different financial vehicles and products available to you. It is not even enough for him to do that and have the ability to guide you in your decision-making process. He is also required to have his "ear to the ground", listening to the markets and being able to anticipate where they're going if he is to be of benefit to you. Finally, he also needs to have the freedom to implement those financial choices which are most appropriate for you. I try to do and to be all of those things, but the task becomes more difficult every single day.

Update on Natural Resources

I thought I should share three pieces of news and commentary regarding the natural resources on which every human life depends. In my article on Peak Oil a few months ago I said that we are very close to the date when the amount of oil consumed on a daily basis will equal, and then exceed, the amount of oil produced. I was listening to Bloomberg this morning when they ran a story about an oil drilling company. For the past 10 years or so drilling rig lease rates have set one new all-time high after another, and there was a time when certain types of rigs were not available at any price.

This story is about a drilling rig leasing company whose earnings had "fallen out of bed" because they have a substantial number of idle rigs. Many of the sources I read have been hinting that the day was coming when there wouldn't be much point in drilling for oil because there wasn't any oil left to find. That day may be closer than we care to think.

Actually, the situation in which we find ourselves today may be even worse than that. America has made rich and powerful enemies all over the world; unfortunately, many of them are countries rich in natural resources that we desperately need. In most of these cases we have made these countries rich by purchasing vast amounts of oil and gas from them, and we have helped them to hate us because of our overly aggressive foreign policy.

In other cases, government policy, shortsightedness, environmentalism, and other factors have all contributed to excluding from our use vast sources of crude oil and natural gas. Cuba is about to become a very wealthy nation due to the pigheadedness of the United States Congress. Because of the embargo dating back to 1963 Congress refuses to allow American oil companies to explore for oil off the shores of Cuba, which would give us a local and reliable source for many years to come. On the other hand, it was the absence of action on the part of our government that enabled China to purchase much of the oil and natural gas that Canada will produce for decades to come.

It seems very strange to me that the oil and gas which are the lifeblood of our economy have never been in such short supply relative to demand, and have never been in such fragile supply due to political instability around the world, and yet our government doesn't even have a meaningful energy policy.

The second item comes from the Russian news source *Kommersant*:

"Kommersant has learned that last week some of the world's leading natural gas exporters reached a final agreement on the creation of a so-called 'gas OPEC.' The consortium of gas-rich countries, which at the moment includes Russia, Iran, Qatar, Venezuela, and Algeria, is due to be formally organized in the Qatari capital of Doha on April 9. The appearance of such a powerful player in the energy arena will undoubtedly meet with an extremely negative reaction from the United States and the European Union." -- March 19, 2007

These countries control 70% of the world's natural gas. Do you think they will be interested in hiking the price?

The third item was something that I just read in an article by Doug Casey. I have met and talked with Doug on a few occasions over the years, and have read several of his books and newsletters. He takes a different view on some things than I do, and in particular he tends to take a longer-term view of things, but he also tends to be right about many things. Here's what he had to say in an article entitled "It's the end of the world as we know it":

"The long and short is that there are hardly any gold mines of size scheduled to come on stream.... and we're not talking about just over the next year or two but ever. Most people in the know see annual gold production falling from here on.

"For proof, there was news recently out of South Africa, the world's most prolific gold producer. Despite the loud incentive of higher gold prices, South African gold production in 2006 dropped to the lowest level since 1922."

The oil and gas problem may seem completely different from the gold problem except for the fact that both are in short supply. Oil and gas are the drivers of everyone's economy, and without them virtually no economic activity can take place. Gold, on the other hand, is primarily used as a store of value and for jewelry, and you might think that we can get along just fine without it. We can't. I still maintain that the day is coming, and coming rather soon, when the once-mighty US dollar will lose the little remaining value it still has. Sometime before that day the world will recognize gold once again. I agree with Doug that when that day comes gold can easily add decimal places to its value, instead of just higher numbers.

Oil and gas simply cannot be replaced. We have been hearing about new technologies for decades, and few if any of them have shown any commercial viability. I believe that two things should have happened about 40 years ago and absolutely must happen immediately, though we are far too late to reap any real benefits. Those two things are:

1. All of the consuming nations of the world must meet, devise, and implement under strict control an agreement for the exploitation of the remaining natural resources available to us. What it will really come down to is rationing, and many hard decisions will have to be made. For example, we have a very good idea about how much oil and gas remains that can be commercially produced, and how much energy and other resources it will take to produce them. Combining that information with economic, political, and census data we will be able to come up with a "carbon footprint" number, which is the amount of remaining hydrocarbons available to every person currently on earth and all those who will be born over the next number of years until the resources run out.

Since the United States consumes almost half of all the energy utilized throughout the world, Americans would be forced to reduce their energy consumption by somewhere in the neighborhood of 75 to 90%. Just implementing that change would place the United States and much of the world into a permanent depression. Of course, this is an impossible task and will not happen, but that doesn't make it any less essential.

"Stocks at a Discount"

NOTE: I already own most of the stocks mentioned below, and I actively trade all of them. Prices quoted are as of the March 29th close. Please use a trailing stop (TrSt) with these stocks whenever possible.

Buy (Closed-end Funds):

1. Buy SBW, Western Asset Worldwide Income Fund. Try to buy it below $13.60. (TrSt $.30). It has been there several times since my previous recommendation.

2. I don't expect it to happen, but if you could buy Colonial Intermarket Income Trust (CMK) below $8.10, do so. (TrSt $.30)

3. Buy DHF, Dreyfus High Yield Strategies, at $4.25 or less. (TrSt $.25) DHF is currently selling at a 9.1% discount and pays a yield of 7.97%, according to ETF Connect.com.

4. Buy the Prudential High Yield Plus Fund (HYP) at $3.60 or less. (TrSt $.20) This fund sells at an 8.79% discount and is currently yielding 8.2%.

5. Buy the Western Asset Claymore US Treasury Inflation Protected Securities (WIA) at $11.64 or better. TIPS have had a bad three years in a row and are quite inexpensive now. WIA sells at about an 8% discount and yields about 5.4%.

Buy (Aggressive / Penny / "Story" Stocks):

1. Buy Itronics (ITRO) at $.013 or less. (No TrSt) We were in and out of this stock as much as six times in six weeks, and are waiting for it to fall back once more.

2. Buy Apex Silver (SIL) again below its previous low of $12.46 if it falls that far. (TrSt $.35)

3. (NEW) Buy the Japan Small Capitalization Fund (JOF) at $12.50 or better.

"Stocks at a Discount"

(Continued)

4. If you bought Ethanex under $1.90 as I recommended and used a $.30 Trailing Stop you probably got out at a loss of about $.30 per share. Buy Ethanex (EHNX) once again at $1.10 or better. (TrSt $.30) I expect the stock to rebound to at least $1.55.

5. Taseko Mines Ltd (TGB) still looks good, though I would have preferred to buy it at or below $2.00. If you own it, put on a TrSt of $.35. Buy below $2.05.

6. Buy China Clean Energy (CCGY) if it falls to $2.00 or less. (TrSt $.35)

7. Buy Apollo Gold Corporation (AGT) at $.50 or better. (No TrSt)

Current Positions:

1. We continue to hold MFS Government Markets Income Trust (MGF) at $6.28 or less. It pays a nice dividend, and the biggest bond manager in the world says Treasuries might get into a rally. Current price is $6.44. **Hold**. (Raise your TrSt to $6.41).

2. We bought XsunX (XSNX) several times, and are currently holding only a "half position" (about 1,000-1,500 shares) Current price: $.42. Hold only 1,000 shares or less.

3. We bought ACM Managed Dollar Income (ADF) at $7.40 or better. You were probably stopped out recently at around $7.85 for a nice profit. **Sell it now**; current price is $8.15.

4. We bought WorldWater & Power Corp. (WWAT) at $.21 or less. It is currently trading at $.59 after hitting $.695 a week or so ago. You may sell it now, sell half your position, or hold all your shares. (No TrSt)

6. We bought Itronics (ITRO) at $.019 or better. We bought and sold it profitably several times, and are trying to buy more at $.013 or better. You might want to own at least 30,000 shares.

2. The entire world must devote significantly more resources to the development of alternative energy sources. It is unacceptable to set a date on which the entire world will shut down for lack of energy. Those companies that have deliberately suppressed new technologies so that they might increase their own profits must be brought to justice and those technologies released. That such technologies exist is no longer questioned due to evidence that has come to light in recent years.

Shame on You, Sarbanes-Oxley!

The following paragraphs are taken from a piece by Mark Skousen, whom I have met several times and who has been writing *Forecasts & Strategies* for many years. I agree with his position as stated below.

"By 'Protecting' US investors, you've driven trillions in investment capital overseas!

"They said it was the price we had to pay to clean up Wall Street image following the scandals of Enron and WorldCom. 'It' is the dreaded Sarbanes-Oxley law passed in 2002 to prevent fraud and increase transparency and compliance of publicly traded companies. And while those in Congress who voted for it said it might create some short-term setbacks, they believed Wall Street and the financial world would eventually be all the better for it.

"*But now the truth is coming out, and from all appearances, the cure may be worse than the disease!* "Sarbox" (as it is called) is a costly monster that is driving public companies and IPOs to foreign stock markets.

"Which of course brings opportunities for *overseas investments*. But before we get into investing abroad, let us take a look at some of the staggering facts about Sarbox.

"Just one provision of the law (the infamous section 404) cost the average company $4.36 million last year. Total compliance came to $6.1 billion to public companies overall. As a result of Sarbox, the four largest accounting firms have raised their fees and 78% to 134%.

"Professor Ivy Zhang at the University of Rochester calculates that Sarbox has resulted in a cumulative loss of $1.4 trillion in shareholder value since going into effect, an average loss of $460 for every person in America.

"Recently, the Wall Street Journal issued several negative reports on Sarbox:

- Initial public offerings (IPOs) have had to postpone going public due to increased compliance costs.
- Many public companies are now going overseas, especially outsourcing to India to reduce the costs of compliance.
- And most importantly, the *Wall Street Journal* reported a dramatic fall-off in the number of foreign companies listing their shares in New York.

"In fact, according to Citigroup, in 2000 - back before Sarbox - nine out of every 10 dollars raised by foreign companies through new stock offerings were done in New York rather than London or Luxembourg - the two other main choices. Today, after Sarbox, nine out of 10 dollars are raised overseas through new company listings in London or Luxembourg.

"The cause of the sharp drop - off in foreign listings in New York? "The US requirements are far more rigorous," said Gagan Banga, Executive Director of Indiabulls Financial Services, who decided to list in London instead.

"Foreigners blame the US on two counts:

- Excessive accounting and disclosure rules of Sarbox
- Underperformance of the US market.

"I think these two go hand in hand. The fact is that Sarbox is unnecessary. The private market was already cleaning up the accounting scandals without government help: nude financial magazines exposed to the frauds, accounting firms were establishing more rigorous standards, and the Ivy League business schools (including Columbia, where I taught) were busy expanding courses in business ethics.

"What should investors do? Consider overseas investments!

"It's pointless to write your congressman and complain leave it up to the lobbyists. The best bet is to invest overseas. Foreign markets will continue to outperform US markets due to the cost advantage of going abroad and their economies are growing faster than ours."

Recommended Investment Allocations

The "A" Strategy - income-producing and low -risk using bond funds and money market funds. All 'A' Strategy money should still be in High Yield Bond Funds and the Fidelity New Markets Income Fund.

Type I accounts - moderate risk, seeking growth using combinations of all available funds. The recommendations I made in the 4th Quarter 2006 issue of *Wealth Creation and Preservation* turned out to be very profitable. There are very few changes in this issue.

Nationwide Best of America, Vision, Exclusive, Variable Life, etc.

- 40% Fidelity High Income Fund
- 35% Janus International Growth Fund
- 25% Van Eck Hard Assets Fund

American Century Funds

- 30% High Yield Bond Fund
- 20% Utilities Fund
- 25% International Growth Fund
- 25% American Century Gold Fund

MFS Funds

- 30% MFS Global Equity Fund
- 50% MFS High Income Fund
- 20% MFS Utilities Fund

John Hancock Funds

"Stocks at a Discount"

(Continued)

We currently own several closed-end bond funds, which we purchased at a discount to their NAV and which are producing a yield significantly better than that available from CDs. We also own several speculative stocks, most of which are doing reasonably well. Here is the short list. Those recommended for purchase now are shown in parentheses.

Closed-end funds:

MGF, (ADF, CMK, WIA, DHF, HYP)

Speculative stocks:

XSNX, (ITRO, EHNX, TGB), CCGY, AGT)

Other stocks:

(AAV, SIL)

Closed Positions:

We were stopped out of Advantage Energy (AAV) for a loss.

Canadian Stocks

Now that the Canadian Stock Dividend Program has been torpedoed by the Canadian government I have had a chance to re-evaluate the program. I have decided to continue to use the program, through which we bought PGH, AAV, PVX and several other energy trusts, but only in an IRA. The additional income tax paperwork is confusing and time-consuming for those who own Canadian trusts in a regular brokerage account.

Your ideas

If you come across a stock idea you believe might be appropriate for the "Stocks at a Discount" program, please contact me. Your recommendations may be income-producing stocks, closed-end funds or ETFs, or speculative "penny" stocks. I will look into each suggestion.

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Silver "Insurance" Program Update

Both the One Contract and Aggressive SIP programs are 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.

The charts have changed once again, as charts always do. With the Refined Elliott Trader (RET) software the user should always look for confirmation of a trend on at least three levels, daily, hourly, and 10 minutes. Silver's charts change constantly, and in recent months have offered little or no useful information.

We will enter new positions in the Silver "Insurance" Program, but I can't tell you exactly when. The chart pictures will have to improve significantly.

Travel Schedule

I am still trying to complete my book on personal money management and send it to a publisher. Thank you to those who volunteered to read and critique it for me. I am also busy with our move to Virginia. My next major trip will probably be in the early Fall, and I will visit Texas, Colorado and California.

Please call for an appointment if you would like to visit with me.

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- 15% Health Sciences Fund
- 25% International Fund
- 60% High Yield Bond Fund

FranklinTempleton Funds

- 25% Franklin Gold Fund
- 40% Franklin AGE High Income Fund
- 25% Franklin Templeton World Fund
- 10% Franklin Large Cap Value Fund

Fidelity Funds

- 30% Fidelity High Income Fund
- 20% Fidelity New Markets Income Fund
- 15% Fidelity Select Utilities Growth Portfolio
- 20% Fidelity Select Gold Fund
- 15% Fidelity Diversified International Fund

ProFunds (added 1Q 2006)

- 50% ProFunds Access High Yield Bond Fund
- 10% ProFunds Large-Cap Value
- 5% ProFunds Precious Metals UltraSector Fund
- 4% ProFunds Inverse Precious Metals Fund

Allianz and other Equity Index Annuities (EIAs)

- 50% S&P 500 / 50% Interest-bearing <u>or</u>
- 75% S&P 500 / 25% Interest-bearing

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

<u>Type 2 accounts</u> - higher risk, seeking growth using combinations of all available funds. Type 2 accounts should continue to mimic Type 1 accounts in terms of the funds you will use, but you should put less into the High Yield Bond Fund or High Income Fund and more into equity funds.

Allianz and other Equity Index Annuities - Type 2 accounts:

- 100% S&P 500 <u>or</u>
- 75% S&P 500 / 25% Interest-bearing account

It is my privilege to serve you.

Charles W. Kraut

The Chart(s)

The Dow Jones Industrial Average (DJIA)

A few weeks ago I sent out an e-mail message discussing what I thought was going to happen to the stock market is represented by the Dow Jones industrial average and the S&P 500. we had just seen a significant break in the Dow which is represented on this chart by a long red bar on February 27th. I mentioned that this decline should end when we had seen waves A-B-C form. Now, about one month later, it looks like my prediction was correct. However, so far the decline has subdivided twice, so that to get to "A" we saw an a-b-c decline, after which we saw another a-b-c, a retracement, to get to "B".

We are now at a point where many fundamental analysts and even some technical analysts become confused. Wall Street and the media, always cheerleaders for the markets, are telling us that the decline is over and that if we hadn't "bought on the dips" we shouldn't waste another moment and we should buy now. Elliott Wave theory has a different opinion. if this is indeed a classic A-B-C correction, and I have seen thousands of them, we need to see wave "C" form before this decline is over. Wave "C" must take the market below "A". In this case "A" is at 11,939.61, and as I write this the DJIA is at 12,500. In other words, wave "C" must take the Dow down about 600 points or about 5% of its current value.

Once the Dow has fallen below 11,900 we will look for a place to "buy on the dips", and not a moment earlier. The reason why we can't just buy at any price below 11,900 is that what currently looks like an A-B-C decline could turn into a five wave decline, which would represent a significant change in trend.

Robert Prechter and the Elliott Wave International people have been calling for a significant decline for several years, but it has not happened except for what we saw in 2000 to 2002. My reading of the Elliottician *Refined Elliott Trader* charts clearly indicates that we have one more leg up on the Dow and the S&P 500 before what Robert Prechter has feared comes to pass. I continue to maintain that the S&P 500 must make a new all-time high before this lengthy bull market comes to an end. The Dow Jones industrial average recently hit several new all-time highs, but that is not enough.

A break like this one which began in late February can always make people fearful, especially after a long and smooth uptrend like the one we have just seen. If, as I have just predicted, wave C begins in earnest, even more fear will be the result. Markets trade on fear and greed and little else. We are now in a time when most of the pundits that I listen to are telling us to "buy high and sell higher". In a normal world, that is almost always the recipe for disaster. due to extensive government manipulation of the markets over the past 20 years and the massive infusions of money into our economy by the Federal Reserve we have not really had "a normal world". I am quite sure that in the not too distant future we will once again have a normal world, and it won't be nearly as pretty as the one we have now.

I hope this little "lesson" has given you some idea of how I occupy my time. Elliott Wave Analysis like this is the heart of my research. I recently spent over $1200 to purchase the latest upgrade to the refined Elliott trader software. As I have seen over the past quarter-century, trends and chart patterns look different over time because the way people trade the markets changes. This latest update to the RDT software incorporates many of those changes and should enable me to make my analysis even more accurate.

The "Behind the Charts" Market Update

Data as of 3 April 2007

The Elliottician software is proving itself to be quite reliable in predicting certain markets at certain times. Fortunately, unlike most analytical methods, this software tells you when it may not be quite as accurate.

Remember the Elliott wave fundamentals:

- All trends, whether up or down, have five waves. Waves 1, 3,and 5 are in the direction of the primary trend; waves 2 and 4 move against the trend and are corrective.
- Wave 3 is usually the longest and strongest of the five waves. Wave 4 cannot enter the territory of Wave 1. When five waves are complete a three-wave retracement, A-B-C, will follow.
- All waves subdivide into lower level waves. Primary waves 1, 3, and 5 will each subdivide into five lower level waves, and waves 2 and 4 will subdivide into A-B-C, and so on.

U.S. Stock Markets

Dow Jones Industrial Average (DJIA). 12,505.42. My comments on this and on the S&P 500 are found on the previous page.

S&P 500 (S&P). **1,437.96**. The S&P is still 7.4% below its peak in 2000 of 1,552.87. I still believe we will see new all-time highs, most likely in 2007.

NASDAQ 100 (NASDAQ). **$NDX, 1,800.67**. The NASDAQ is harder to predict and has been more volatile. The NASDAQ has been on a gently rising trend since late 2002. I continue to avoid the NASDAQ both in mutual funds and in our EIAs.

Bond Markets

US Treasury Bonds. **111 6/32, Continuation contract**. Bonds peaked in early March and have been falling ever since. Bond prices have moved lower and yields have moved higher, as I had expected. Money Market Funds are a better deal than long-term bonds right now.

High Yield or "junk" Bonds. We are still in High Yield bonds and are doing all right with them. I have closed out most of our foreign "junk" bond closed-end funds and ETFs with profits.

Commodities

Oil $64.47/barrel, Continuation contract.

The wild ride continues. Oil did close below $56.00 a barrel, as I suggested in the previous issue, but I did not bail out of the energy funds We may already have had our "energy shock" for this year, but there is a good chance another is coming..

Real Estate

I moved out of our Real Estate positions November 2005. The $DWRT, a commercial property real estate index I watch, is at all-time highs. The housing market is in for tough times; the homebuilders' stocks have all collapsed in the past six months. It still looks like commercial real estate is unaffected by any problems with residential real estate. I am [still] rethinking my opinion about the REITS, though most do not pay a very good dividend any more. We took a position in the ProFunds Real Estate Fund recently and closed it out profitable in a few weeks.

Gold and silver. Gold $669.80, Silver $13.43.

Gold hit $732.00 on May 12th and Silver hit $15.20 on May 11, 2006, both of them multi-year highs and much higher than in January 2006. Gold hasn't been this expensive since 1981, the year after it hit $850.00. The software is still giving uncertain readings on the metals, though it appears that both may resume their decline after the current rally ends. I am watching for bargains on ebay - and finding them in MS-64 $20 Saint Gaudens gold coins.

Fundamentally, 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 $1.3371, Continuation contract.

The Euro is rising toward its previous all-time high of $1.3678. Most people continue to call for the dollar to decline and the Euro to rise; the RET software now indicates the possibility of a strong increase. I think the rally will end before we reach $1.37, but my opinions don't really matter.

Oil, gold, silver, and the Euro are all up from January 1, 2007. The DJIA is down slightly, but the S&P 500 and NASDAQ both have gains for the year so far. Treasury bonds are down slightly and "junk" bonds are up - both contrary to expert opinions expressed by people who manage billions.