



Wealth Creation ... and Preservation

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To help prevent Identity Theft . . .

Please commit the following to memory:

"I'm sorry, but I do not reveal personal information over the phone under any circumstances."

When you have memorized it, please use it frequently. You should use that line with every telephone solicitor, survey, and charitable organization who calls you, and with everyone else who has called you who you cannot identify with certainty.

We now live in a time when only your *outbound* calls are [relatively] safe, and your financial transactions are not safe at all from prying eyes.

Occasionally someone will say to me, "I don't use internet banking because it's not safe." You might as well, because thieves can access your account on the internet whether you do or not.

I'm just an average American consumer, but in the past twelve months I have received no less than five letters of apology from an organization with which I am involved, telling me that they are sorry but my personal information has been stolen. That list includes the Veterans Administration, one bank where I have a checking account, and three credit card companies.

Please protect yourself from identity theft.

GLOBAL WARMING or Climate Change?

Yes, I suppose you *could* say that I am just foolish enough to tackle a "third rail" politically charged subject like this one. I venture into this arena for several reasons, though none of them are sufficiently good to warrant running the risk of alienating my current and prospective clients:

I. I bring no bias to the discussion. I am not running for public office, I belong to no political party, and I am not a member of any activist, lobbying, environmental, tree-hugging, or similar group in the U.S. or anywhere else. I do believe that each of us

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Charles W. Kraut, MBA

please contact us at our new
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www.wcandp.com

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Save More Money

If I have failed my clients in any one consistent respect over the past quarter century it is that I have not worked hard enough to encourage and motivate you to set aside more money. Instead, I have focused on the day-to-day management of invested funds and the reduction of overall risk in your investment, and have worked hard at it. Having developed a successful method of increasing return while reducing risk, I should have devoted more of my energy to soliciting additional funds from you for investment.

I have always felt that just about everyone can free up some of their income to "save for a rainy day", but over the years I have watched one client after another struggle with various types of debt. When people are struggling to repay debt I have generally been reluctant to encourage them to invest. After all, most credit cards charge at least 14%, and I can't promise that kind of return (or any other, for that matter) from their investments.

Perhaps what I should have done - and should do now - is to promote the concept of living within one's means. Few of us do, particularly when we consider how important it will be to provide for ourselves when we retire. You don't invest money in the hope of getting a great return; you invest because you are deferring gratification on a portion of your income. Money not spent now can be spent some time down the road when it is needed - if you have no inflation, that is.

The reasons to save are as numerous as ever. I hope to share them with you in the future.

has a responsibility to preserve and protect our world, to improve rather than deplete its ability to sustain human (and all other forms of) life. After all, it's the only one we have.

2. I have devoted a fair amount of study to this matter, and believe I have something to contribute. Though my notions are not original, I believe the way in which I present them may well be.

3. I believe that the American people are not getting a true picture, and certainly not a complete one.

4. Some of those who have a political agenda are proposing "solutions" which, if implemented, run the risk of needlessly bankrupting the entire world and causing war and conflict all over the globe. Others choose to ignore the problem entirely or pretend it does not exist. Until now there has been little but complacency [and ignorance] in between these extremes.

5. There are now [finally!] good answers to the right questions, but the right questions are seldom being asked. Both the right questions and the right answers are often suppressed in this debate. Just as the U.S. desperately needs an effective energy policy, we also need a comprehensive policy that will effectively address the real problems and work to resolve them. Aside from Al Gore, there seem to be few with the political will to address either problem.

6. Making the wrong choices is going to cost us a lot of money. Failure to properly evaluate the data free of bias, and to make appropriate decisions at the highest levels, will waste trillions of dollars and provide no benefit. It may even be counterproductive.

In this discussion it is vitally important to distinguish between man-made events which in some peoples' opinion are "destroying the environment" and events that are entirely out of our control that may well be changing the environment. We also need to separate out those man-made events that end up destroying productive land and degrading the aesthetics of our environment.

For example, in the portion of Virginia in which we now reside there is an all-too-common campaign in progress to take productive agricultural land - or land that could, if utilized, be productive for agriculture - and convert it into cities and residential subdivisions. This is a 20th century phenomenon in the West which could easily fizzle out as energy costs rise and private transportation

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must be supplemented by public transportation. The trend will doubtless continue in the Third World, India and China due to "population pressures". China is building cities for 25,000,000 people on formerly "empty" land, and is completing these cities at the rate of about two a year.

There is also the loss of environmental aesthetic that comes about due to poor local planning, bribery, corruption, and greed. It is a proven fact that paving the planet severely diminishes the ability of the earth to absorb moisture, with the effect that excess rainwater - and in some cases what used to be normal is now excessive because it has no place to go - becomes a danger, particularly for those living downstream. If you exacerbate the situation with climatic changes such as those we are currently experiencing, where rain comes in infrequent, torrential downpours instead of the former light, soaking rains over longer periods, you begin to see flooding and all the related damage that stems from it. We now have a very real, manmade problem in conjunction with one that may or may not be manmade, and the results are devastating.

There is even a political agenda that claims that war and disasters *stimulate* the economy and are therefore beneficial. This argument is completely false. Rebuilding a structure that has been destroyed in war or disaster may temporarily increase the velocity of money, but doing so depletes valuable resources and diminishes the wealth of the structure's owner. In fact, this argument is so completely illogical I am surprised that well-known politicians and economists proclaim it.

In all of my reading and study on the subject several things have become obvious to me regarding changes in world climate. I can't speak for the entire world because I have not even been to Antarctica, Australia, Africa or South America, but I have visited more than 30 countries and 49 of the 50 United States. If that gives me some useful insights, that's good.

One observation goes back to my childhood. I have seen mountains in many places, and everywhere I have gone I have seen glaciers in retreat. This includes Alaska, Switzerland, Italy, Germany, France, New Zealand, and the "lower 48". In other words, glaciers are melting in the Northern, Southern, Eastern and Western hemispheres. Does this indicate global warming, or climate change, or something else? Keep in mind that despite two related incidents in recent months, the breakoff of huge ice shelves in both the Arctic and Antarctica, the net amount of ice in Antarctica is *increasing* by hundreds of millions of tons each year.

(Note: Since I have so little space in *Wealth Creation and Preservation* I prefer not to occupy that valuable space with footnotes and references. If you would like them, I can provide them. All of my sources are available on the Internet and in your local library.)

Scientific studies have demonstrated clearly that for the relatively brief period for which data is available, the amount of carbon dioxide in our atmosphere has increased - but only slightly as a percentage of the total amount of atmospheric gas. It has increased significantly relative to its former levels. There are two important questions regarding this increase; first, what has caused it? It is all too easy to claim that the Industrial Revolution and the use of fossil fuels is the culprit, but one active volcano like Mt. St Helens can put more CO₂ into the air in a month than the entire world does in a year. Second, does this very minor increase in carbon dioxide have *any* effect on world climate and weather?

When asking this question it makes sense to compare the date with those regarding the proliferation of CHFCs and the probably link to the hole in the ozone layer. We may be looking at two very different situations. I believe that CHFCs may well have contributed to the increasing size of the hole in the ozone layer, or at least I have reason to believe that the decision to ban CHFCs was based on better science than we have been seeing out of the global warming debate. As more and better data become available, a very disturbing picture is emerging.

S-I-R

Savings

ING Direct continues to pay 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.



Big News

It is official. We are now living in Lexington, Virginia. My email address remains the same for now, and you can see what has changed on the front cover.

Please let me know if your information has changed, and particularly your email address. It is expensive to print and mail out *Wealth Creation and Preservation*, and I would like to reduce that cost if possible. Besides, if I don't have your email address you are missing out on all the irregular messages I send out.

For instance, I recently told my readers that silver had handed us a buying opportunity in the \$12.20 level, and that that opportunity might just return in the next few weeks. Someday the massive short position will end, and there is almost no limit to how far silver can rise. You should own some, even though physical possession is expensive and can be time-consuming.

As I write this last message on 26 July 2007 the Dow has fallen over 2 1/4% today, dropping 311 points to 13,473.57. I sent an email weeks ago about how, now that the S&P had exceeded its previous all-time high, we were now back in "musical chairs" mode, where the market could do whatever it wanted. As predicted, volatility has increased, and it is time to "circle the wagons" if you haven't done so already. It's time to reduce risk and exposure. I have taken steps to do so on behalf of those clients whose accounts I manage; you need to do the same.

Please follow the recommendations on pages 7 and 8, and feel free to call me if you have any questions.

Now think about how weather patterns have changed where you live. If the trend has been for warmer weather, what effect has that had on you? Many areas are seeing warm-weather flora and fauna move north into formerly cooler regions, along with molds, pollen and allergens. Is rainfall less frequent and more violent today than it was thirty years ago? Are heat waves more severe and longer-lasting? What about drought, or flooding, or brush fires, or inadequate snowmelt to feed streams and rivers throughout the summer and into fall? Have the forests begun to change their nature as warmer-climate trees take over from those that can survive brutal winters? When you go to the mountains year after year, have you noticed that the treelines are slowly moving up the mountainside?

Do things grow better because there is more sunlight and more CO₂? According to the USDA, the answer is yes, and we ought to be grateful that crop yields have increased as a result. However, more CO₂ also means more weeds and undesirable plant life.

It is very important to separate the statistical data from the evidence before our eyes, because hard data is needed to accurately determine trends. However, we do know from our own experience whether things are changing, and we can sense the trend. There are many factors that contribute to these changes, if changes they truly are, and none of us is qualified to gather, interpret and analyze all the data by ourselves.

We are just now discovering how Greenland got its name, because for centuries it was a land of snow and ice with very short growing seasons in various parts of the country. Recently it has come to the attention of scientists and other that Greenland is experiencing a tremendous "thaw", a very significant climate change that could, if prolonged, greatly increase the capability of that country to sustain life.

Finally, think about the human impact upon our environment. The Colorado River is a great example. Before the West was developed to its current extent, and back in the 1960s, the Colorado flowed into the Gulf of California. Now, because so much of its flow has been diverted and dammed for human use, water from the Colorado doesn't even cross the border into Mexico. Every drop is used by humans, is wasted, or evaporates along the way.

Similarly, workers under the direction of Stalin diverted the sources of the Aral Sea for the growth of cotton. They got lots of cotton, but the Aral Sea has lost as much as 90% of its water and a huge wasteland has formed around it.

I grew up in New York, and even where we lived 300 yards from Long Island Sound we used to get at least six to eight feet of snow each winter. My wife's family in the Black Forest had winters where they had to dig tunnels through the snow from their front door to the street. All that has changed gradually over the past half century to the point where snow is often no more than a minor inconvenience.

I recently got an updated copy of the climate zone map for the USA, and was amazed to find that the little pocket of land we lived in in New Hampshire is now in the same climate zone (Zone 4) as the area we are living in now in western Virginia. If this keeps up they will may be planting citrus trees in Maine fifty years from now.

Some of this information is experiential and by no means conclusive in and of itself. However, two facts are inescapable. First, winters have become milder and summers hotter across most of the U.S.A. Second, we seem to be experiencing more powerful weather and climate events. The drought in Florida and Hurricane Katrina are a couple of examples; the flooding of the Mississippi and other major rivers in recent years is another.

The big question is this; do we simply have global warming or climate change because of man's impact on the planet, or are we seeing climate change which is

largely or entirely natural in origin? Having cited the bit about CHFCs and the ozone layer, I no longer believe that we can answer either half of the question in the affirmative by itself. My study indicates that we are experiencing both global warming and climate change due to man's impact and natural causes.

This is uncomfortable. We all look for quick and easy solutions to our problems, but this problem still defies definition. Until we understand all of the factors affecting climate change we cannot attack the root problem. In fact, until we identify and quantify all of those factors we will not know whether there is anything we could or even should do to effect changes. Nature is never static or fixed; nature is change. The world's climate is in a constant state of change, some of it short-term, some of it long-term, and some of it involving periods of time which we will never be able to accurately comprehend.

Those who would take action now - or those who promote awareness and action now - cannot possibly know what they are talking about if the statements in the previous paragraph are correct. Some things are perfectly clear; urban sprawl and paving "everything" are bad for the environment and man's ability to feed himself, but there seems to be no political will to alter the pace of growth. In fact, recent administrations have focused on the need to "keep the economy moving", as if America's self-indulgence were all that mattered in the world. Why is there no political will? You might ask those who hire lobbyists and provide politicians with all sorts of perks to get legislation passed that will enable them to continue to build and develop. There is no spirit of compromise in what we do, and little solid research into improving the ways we do things so that we might spare the environment.

However, we are rapidly approaching the day when we will be able to declare with much greater certainty how man and nature have unwittingly conspired together to permanently alter this planet's ability to sustain human life. We must eliminate misconceptions and bad data and focus on what is happening and why. Only then can we begin to address the question of what, if anything, we can do about it.

For example, it's not melting sea ice that will raise sea levels worldwide; ice contracts when it melts. It's glaciers and land-based ice sheets that are melting much more quickly that will raise sea levels perhaps several inches this century. This event alone will drive more than a hundred million people from their homes, and it has already begun.

It is true that there is an almost perfect correlation between sunspot activity and warming and cooling trends in the brief period of time we have been able to make accurate measurements. What is also important is that solar activity is *increasing* and, with it, the earth's temperature. It also now appears to be true

I'm going to miss New Hampshire

We are now settled into our new home in Lexington, Virginia. We are literally "in the boonies" out here, though VMI and Washington & Lee Universities are a short walk from the house and the new Virginia Horse Center just three miles away. We are a short distance from Monticello and from Appomattox Court House; Stonewall Jackson is buried less than half a mile from us.

In New Hampshire, however, we had access to all the movers and shakers. I am still amazed at how often politicians and candidates show up and are available to "meet the people" up here. Even in years without an election they are always here, as witness the picture to the left of two former U.S. Presidents at the UNH graduation ceremony a few weeks ago. No, I didn't take this picture, but I was this close to them as they walked past me in the processional.

Living in New Hampshire has afforded me numerous opportunities to hear these people "up close and personal", something I wish all Americans could do. I will certainly miss that environment.

"Stocks at a Discount"

NOTE: I own some of the stocks mentioned below, and I actively trade most of them. Prices quoted are as of the July 26th close. Please use a trailing stop (TrSt) with these stocks whenever possible.

Buy (Closed-end Funds):

There are no buys among the closed-end funds at present because of the deteriorating situation in the subprime lending market. Please observe the recommended trailing stops on positions you currently own.

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

“Stocks at a Discount”

(Continued)

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 \$11.50 or better. (TrSt \$.50)
4. 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 \$6.66. **Hold.** (Raise your TrSt to \$6.51).
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 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)
4. 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.
5. We did buy Colonial Intermarket Income Trust (CMK) below \$8.10, and may get stopped out in the near future.

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.

that human activity - particularly the increase in CO₂ levels and the distribution of "aerosols" - are causing global temperatures to increase at what may now have become an increasing rate.

If you read nothing else on the subject - and I suppose we will be inundated with information from now on - I recommend you read the article *The Physical Science behind Climate Change* in the August 2007 issue of *Scientific American* magazine. It changed my mind about this problem because it reports on the latest data and analysis performed by hundreds of scientists around the world.

I hope you will get involved in the process of identifying and eliminating the causes of global warming and climate change. Even in our own neighborhoods there is much we can do. As a species we need to resume and update the discussion begun by Robert Malthus in the early 19th Century about the limits to growth and the ways in which we can make this world a better place for all of us. According to Ray Kurzweil, reversing the increase in CO₂ in the atmosphere will be easy once nanotechnology really gets going. That would enable us to solve what appears to be the greatest cause of global warming. What if he is wrong, or the technology comes too late, or if the "cure" turns out to be worse than the cause?

Those wonderful, high-efficiency mini-fluorescent light bulbs

Now here's a "crackpot" item if ever I saw one. The whole world is going to these compact, curled-up fluorescent light bulbs that replace regular incandescent bulbs, aren't they? You get solicitations from your utility company about them, you see them on TV, and they are prominently displayed in every grocery store, hardware store, and WalMart. Both Los Angeles County and the entire island continent of Australia have banned incandescent bulbs, phasing them out over the next several years.

It's a truly wonderful thing; these new mini-fluorescent bulbs consume approximately 1/4 the electricity of an incandescent bulb of corresponding brightness. Though they are much more expensive to buy, they more than make up for their initial cost because they last much longer than incandescent bulbs and save you money on your electric bill each month.

What a wonderful idea, and what a marvelous technological achievement! Unfortunately, the color temperature of these new bulbs is generally unacceptable, but the engineers are trying to find a way to make that adjustment.

Now, however, someone has carelessly pointed out that these new mini-fluorescent bulbs, like all fluorescent bulbs, contain mercury, that highly toxic element found in contaminated seafood. One woman recently discovered that the cost of cleaning up the hazardous waste in her daughter's bedroom from a broken mini-fluorescent bulb was going to run around \$2,000. Why? Mercury contamination, of course. You run the same risk if you break a mercury thermometer. I have no idea why the cost of cleanup is so high; I'm just passing along what was reported.

There are only about five milligrams of mercury powder (mercury is ordinarily a liquid at room temperature, so I don't know what they do to make it a solid), but environmentally safe dispersal of five milligrams requires some 17,000 cubic feet of earth. Now *there's* an interesting statistic, one that is probably a hodgepodge drawn from two unrelated tables in the OSHA handbook. That's the kind of statistic that, true or not, can be used to bludgeon the unsuspecting.

Two facts remain from this item, however: first, mini-fluorescent light bulbs do contain mercury, which is highly toxic and an environmental hazard. Second, disposal and storage of hazardous wastes is more than just problematic. Will you agree that if you dispose of thousands of these bulbs in a trash bin, some of them are going to break and release their mercury powder? If that is the case, how many will break when the mass of bulbs is compacted by a machine? Since this poses an obvious health and environmental hazard, will we have to segregate

gate all our burnt-out mini-fluorescent bulbs from the regular trash and call for a decontamination squad to remove them? (The image in *Monsters, Inc.* comes to mind.) Perish the thought, but what are the real costs of cleanup should we ever break one? Finally, what happens to all those mini-fluorescent bulbs we have already thrown away, many of which have undoubtedly broken on their way to the landfill?

The facts stated above are as true as I can determine. Your comments and suggestions would be appreciated.

Recommended Investment Allocations

The "A" Strategy - An income-producing and low-risk strategy using bond funds and money market funds. All 'A' Strategy money should now be moved into U.S. Government Bond Funds. Money in the Fidelity New Markets Income Fund may remain there for now, but we are "pending out".

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. We have, however, made significant changes in July 2007, as you will see below.

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

- ★ 40% Government Bond Fund
- ★ 25% Janus International Growth Fund
- ★ 20% Van Eck Hard Assets Fund
- ★ 15% Money Market Fund

American Century Funds

- ★ 30% Government Bond Fund
- ★ 15% Utilities Fund
- ★ 20% International Growth Fund
- ★ 25% American Century Gold Fund
- ★ 10% Capital Preservation Fund (Money Market)

MFS Funds

- ★ 25% MFS Global Equity Fund
- ★ 50% MFS Government Income Fund
- ★ 15% MFS Utilities Fund
- ★ 10% Money Market Fund

John Hancock Funds

- ★ 15% Health Sciences Fund
- ★ 25% International Fund
- ★ 50% Government Income Fund
- ★ 10% Money Market Fund

FranklinTempleton Funds

- ★ 25% Franklin Gold Fund
- ★ 40% Franklin US Government Securities Fund

"Stocks at a Discount"

(Continued)

We also own several speculative stocks, some 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.), CCGY, AGT)

Other stocks:

(AAV, SIL)

Closed Positions:

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

We were stopped out of Taseko Mines (TGB) at a nice profit.

We were stopped out of China Clean Energy (CCGY), probably with minor losses.

We were stopped out of Ethanex (EHNX) for the second time at a loss. The stock may rebound as expected, but I am staying away for now.

We were stopped out of the Prudential High Yield Plus Fund (HYP) for a break-even including dividends. I'm sorry to see it go, but we must abide by the rules.

We were stopped out of DHF, Dreyfus High Yield Strategies, but just barely. It sells at more than a 9.1% discount and pays a yield of over 8%, according to ETF Connect.com. We will continue to watch this fund.

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.

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. It is possible that an opportunity is shaping up now as silver retreats to the \$12.00 level for the second time in weeks.

Travel Schedule

I will visit Texas, Colorado, New Mexico and California in late August and early September. Please call for an appointment if you would like to visit with me.



- ★ 20% Franklin Templeton World Fund
- ★ 15% Franklin Money Fund

Fidelity Funds

- ★ 30% Fidelity Government Income Fund
- ★ 20% Fidelity New Markets Income Fund (this may be closed soon)
- ★ 15% Fidelity Select Utilities Growth Portfolio
- ★ 20% Fidelity Select Gold Fund
- ★ 15% Fidelity Money Market Fund

ProFunds (added 1Q 2006)

- ★ 100% ProFunds Money Market Fund (this may change shortly; stay tuned)

Allianz and other Equity Index Annuities (EIAs)

- ★ 50% S&P 500 / 50% Interest-bearing or
- ★ 75% S&P 500 / 25% Interest-bearing

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

Type 2 accounts - 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 Government Bond Fund or Money Market Fund and more into equity funds, preferably commodity funds and value funds.

Allianz and other Equity Index Annuities - Type 2 accounts:

- ★ 100% S&P 500 or
- ★ 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)

In the last issue I talked about the DJIA completing an A-B-C- correction in order to provide us with a buying opportunity. It didn't happen; instead, the DJIA soared to new all-time highs, topping out at 14,021.95 on 17 July. Since then it has plummeted to today's (26 July) low of 13,335.30. Predictably, the Refined Elliott Trader (RET) Software has "changed its mind" too, particularly in light of today's activity.

It now looks like the DJIA will continue its decline at least through the end of the summer (sell in May and go away, they always say). That's good advice, and we are keeping only minimal positions in the stock markets. We are, however, heavily invested in the S&P500 in our Equity Index Annuities because we have no risk there.

Below you see the Euro chart, and it is pretty clear even with that small detail that the Euro is at a new all-time high. Don't expect it to

stay there for long, however; it may drop back to \$1.305 before resuming its long-term uptrend.

Last, look at the Canadian Dollar, at \$.95 almost at parity with the U.S. Dollar for the first time in many years. One good reason why: Canada has lots of mineral wealth tucked away in its vast northern reaches, and the Canadians are profiting handsomely from it.



The "Behind the Charts" Market Update

Data as of 27 July 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). 13,265.47. My comments on this and on the S&P 500 are found on the previous page. The Dow can fall significantly farther before rallying again - perhaps in the fall.

S&P 500 (S&P). 1,458.95. The S&P is well off its 2007 and all-time high of 1555.90. I predicted a new all-time high, and we got it. I then predicted volatility, and we are certainly getting that. Whether the S&P will resume their climb remains to be seen.

NASDAQ 100 (NASDAQ). \$NDX, 1,956.19. The NASDAQ is harder to predict and has been more volatile. The NASDAQ had been on a rising trend since late 2002 until it got clobbered beginning on 20 Jul 2007. I continue to avoid the NASDAQ both in mutual funds and in our EIAs.

Bond Markets

US Treasury Bonds. 109 25/32, Continuation contract. Bonds peaked in early March and fell until 13 June 2007. Bond prices have rallied since then, but they are still below where they were in March 2007. Money Market Funds are as good a deal as long-term bonds right now.

High Yield or "junk" Bonds. We are completely out of High Yield bonds as of 26 July. The long rally did not end well, and with the implosion of the subprime market I expect more selling after what may be a brief rally.

Commodities

Oil \$77.00/barrel, Continuation contract.

The wild ride continues. Oil closed at \$77.00 a barrel today, and it seems apparent that it will test the previous high of \$78.40 hit a year ago. I still have not bailed 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. Once oil tops its previous high we should see some consolidation followed by a change in trend. The RET software seems to suggest this, but it also suggests the possibility of \$100 per barrel oil no later than 2Q 2008. Hmm. . . .

Real Estate

I moved out of our Real Estate positions November 2005. The commercial real estate industry may be leveling off, but the housing market is in for tough times; the homebuilders' stocks have all collapsed in the past nine months. I am completely out of real estate at this point, and grateful to be out.

Gold and silver. Gold \$661.00, Silver \$12.74.

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 has indicated the decline we have seen in both in recent weeks. 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 \$1.3670, Continuation contract.

The Euro hit a new all-time high of \$1.3877 on 24 July. 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 decline in the Euro before the next leg up. Look for the Euro to retreat as low as \$1.305 before moving up again.

A "Commercial Message"

IdentityTheft SHIELD

a service of Kroll Background America

Identity theft has become a major threat for anyone who has a Social Security number - and that includes just about all of us. I sent this announcement with the last issue of *Wealth Creation and Preservation*, and it generated a much greater response than I had anticipated. I recently received some true accounts regarding "new" ways of stealing your identity, and I thought I would pass them on to you along with another application for Identity Theft Shield. For those of you who have already signed up for the product, feel free to pass this application on to someone else. For those of you who were confused by the application itself, I have checked a couple of appropriate boxes for you. The cost is \$12.95 per month plus a one-time \$10.00 setup fee. This is a service you shouldn't be without - and which you hope you will never need, except for free access to your credit report.

Your homeowner's insurance provider may have contacted you regarding a reimbursement program if your identity is stolen. Such insurance may reimburse a portion of the huge expense you can incur by trying to reclaim your identity. It cannot, however, reimburse you for the countless hours you may spend in frustrating and often fruitless effort trying to prove who you are and regain control over your finances and your life.

IdentityTheft SHIELD is not just an insurance plan that reimburses you with cash for some of your losses. Instead, IdentityTheft SHIELD is offered by Kroll Background America through Pre-Paid Legal Services, Inc.. Kroll is the premier company in the industry dealing with security issues like identity theft. If you have Identity Theft SHIELD insurance and your identity is stolen, **Kroll will determine the nature and extent of the problem and take the necessary steps to restore your name and credit for you.**

I have used Pre-Paid Legal Services, Inc. for over twenty years, and I will send you information about their program with the 3rd Quarter 2007 issue of *Wealth Creation and Preservation* - or sooner, if you would like to hear more now. Identity Theft SHIELD has just recently become available in New Hampshire, and I am adding it to my regular Pre-Paid Legal Insurance coverage. With all the theft and fraud taking place every day, I don't know how the average American can afford to be without this coverage. Our household averages 10-20 attempts to steal our identity every day of the year, and that's fairly typical these days.

Please read the enclosed brochure and call me if you have any questions. The coverage is very inexpensive at only \$12.95 per month. If purchased with a Pre-Paid Legal Insurance plan, the cost of IdentityTheft SHIELD drops to only \$9.95 per month. By comparison, just one incident of identity theft could cost you thousands of dollars and hundreds of hours of your time.

I have enclosed an application for your use. IdentityTheft SHIELD is available in most states now, though I am not licensed to offer it in each state where it is available.

Charles W. Kraut

SCENE 1:

This is a new one. People sure stay busy trying to cheat us, don't they?

A friend went to the local gym and placed his belongings in the locker. After the workout and a shower, he came out, saw the locker open, and thought to himself, "Funny, I thought I locked the locker. Hmm." He dressed and just flipped the wallet to make sure all was in order. Everything looked okay - all cards were in place.

A few weeks later his credit card bill came - a whooping bill of \$14,000! He called the credit card company and started yelling at them, saying that he did not make the transactions. Customer care personnel verified that there was no mistake in the system and asked if his card had been stolen.

"No," he said, but then took out his wallet, pulled out the credit card, and yep - you guessed it - a switch had been made. An expired similar credit card from the same bank was in the wallet. The thief broke into his locker at the gym and switched cards.

Verdict: The credit card issuer said since he did not report the card missing earlier, he would have to pay the amount owed to them. How much did he have to pay for items he did not buy?

\$9,000! Why were there no calls made to verify the amount swiped? **Small amounts rarely trigger a "warning bell" with some credit card companies.** It just so happens that all the small amounts added up to one big one!

SCENE 2:

A man at a local restaurant paid for his meal with his credit card. The bill for the meal came, he signed it, and the waitress folded the receipt and passed the credit card along. Usually, he would just take it and place it in his wallet or pocket. Funny enough, though, he actually took a look at the card and, lo and behold, it was the expired card of another person. He called the waitress and she looked perplexed.

She took it back, apologized, and hurried back to the counter under the watchful eye of the man. All the waitress did while walking to the counter was wave the wrong expired card to the counter cashier, and the counter cashier immediately looked down and took out the real card. No exchange of words — nothing! She took it and came back to the man with an apology.

Verdict: **Make sure the credit cards in your wallet are yours.** Check the name on the card every time you sign for something and/or the card is taken away for even a short period of time. Many people just take back the credit card without even looking at it, "assuming" that it has to be theirs.

FOR YOUR OWN SAKE, DEVELOP THE HABIT OF CHECKING YOUR CREDIT CARD EACH TIME IT IS RETURNED TO YOU AFTER A TRANSACTION!

SCENE 3:

Yesterday I went into a pizza restaurant to pick up an order that I had called in. I paid by using my Visa Check Card which, of course, is linked directly to my checking account.

The young man behind the counter took my card, swiped it, then laid it on the counter as he waited for the approval, which is pretty standard procedure. While he waited, he picked up his cell phone and started dialing. I noticed the phone because it is the same model I have, but nothing seemed out of the ordinary.

Then I heard a click that sounded like my phone sounds when I take a picture..

He then gave me back my card but kept the phone in his hand as if he was still pressing buttons.

Meanwhile, I'm thinking: I wonder what he is taking a picture of, oblivious to what was really going on. It then dawned on me: the only thing there was my credit card, so now I'm paying close attention to what he is doing.

He set his phone on the counter, leaving it open. About five seconds later, I heard the chime that tells you that the picture has been saved.

Now I'm standing there struggling with the fact that this boy just took a picture of my credit card. Yes, he played it off well, because had we not had the same kind of phone, I probably would never have known what happened.

Needless to say, I immediately canceled that card as I was walking out of the pizza parlor.

All I am saying is, **be aware of your surroundings at all times.** Whenever you are using your credit card take caution and don't be careless. Notice who is standing near you and what they are doing when you use your card. Be aware of phones, because many have a camera phone these days.

When you are in a restaurant and the waiter/waitress brings your card and receipt for you to sign, make sure you scratch the number off. Some restaurants are using only the last four digits, but a lot of them are still putting the whole thing on there.

I have already been a victim of credit card fraud and, believe me, it is not fun. The truth is that **they can get you even when you are careful, but don't make it easy for them.**

Please feel free to pass this page on to others.