Wealth Creation

. . . and Preservation

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BULLETIN: As I write this the U.S. dollar index has, as I predicted, sunk to its lowest level since the dollar index was created around 40 years ago. I believe it will continue to "slip and slide" as its value falls to zero. The once-mighty United States Dollar has already lost 97% of its value since 1913.

Prepaid Legal Services

Accompanying this issue is some information about Prepaid Legal Services, the original "half" of the Identity Theft Shield product I have discussed in recent issues of *Wealth Creation & Preservation*. Prepaid Legal insurance is to lawyers what health insurance is to doctors and hospitals. It is a service whose value grows every day.

Prepaid Legal Services (NYSE: PPD) has been around for 35 years. I have been using my membership since 1986, and though I have generally been pleased with the service over the years I am delighted that the product has been improved dramatically during that time. Today in 48 states and most of Canada as a Prepaid Legal member you may contact a lawyer and consult with him or her on an unlimited number of issues. If it is deemed appropriate for the attorney to write a letter or make a phone call, he will do it. You also have a large Trial Defense fund available to you and representation for traffic court, IRS audits, and much more. Your Prepaid Legal attorney will review contracts of up to ten pages each for you, and will create your will and living will as part of your membership. In some cases spouses can also get their will done at no extra charge.

Have you ever said to yourself "I wish I could talk this over with a competent attorney?" Now you can - and the cost is far less than you might expect.

Please review the enclosed information.

Doing the Right Things for the Right Reasons (or not)

The world has changed since the previous issue of *Wealth Creation and Preservation*. That's not unusual; it happens every time. What *is* unusual is the way it has changed, and the pace at which it is changing. Keeping up with what's going on in the world is hard enough; constantly improving your financial situation is even more difficult.

In this issue I am going to briefly discuss just one event that has already begun to affect you, and that will have a much greater impact in the months and years to come.

Charles W. Kraut, MBA

Please contact us at our new website

www.wcandp.com

In this issue:

from *The Economist*

"Another benefit of a recession is that it purges the excesses of the previous boom, leaving the economy in a healthier state. The Fed's massive easing after the dotcom bubble burst delayed this cleansing process and simply replaced one bubble with another, leaving America's imbalances (inadequate saving, excessive debt and a huge current-account deficit) in place. A recession now would reduce America's trade gap as consumers would at last be forced to trim their spending. Delaying the correction of past excesses by pumping in more money and encouraging more borrowing is likely to make the eventual correction more painful. The policy dilemma facing the Fed may not be a choice of recession or no recession. **It may be a choice between a mild recession now and a nastier one later.** . . .

"Of course, even if a recession were in America's long-term economic interest, it would be political suicide. A central banker who mentioned the idea might soon be out of a job. But that should not stop undiplomatic economists asking whether a recession once in a while might actually be a good thing."

- August 25, 2007 p. 68 (emphasis added)

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Following that discussion I will talk about some important changes I am making in the conduct of my business, and how I believe those changes will help you and me to be more profitable.

This is a very important issue; I encourage you to read it right away, think about it, and call me if you have questions or ideas or would like to discuss my plans.

The "big change"

Most of my readers know that I favor a Constitutional government, exactly as the Founders designed it to be, with a small central government in [Washington] and strong state governments that worked in harmony to make the United States the world's model of how to run a country. I believe that government has the obligation to minimize its impact upon its citizens, and that it is called upon to do the right things at the right times. You may rightly ask, "What are the right things?" My answer is that of the Founders; to do that which is called for by an educated, informed majority. Unfortunately, that concept went out the window many years ago in Washington. Here's a fine example:

In recent weeks the Federal Reserve has cut two different key interest rates. The Fed has also taken other action in making additional money and credit available. These actions were taken despite economic circumstances that would dictate almost the opposite action. The reason why these changes have been made is that **the Federal Reserve has now clearly demonstrated once and for all that it will provide a "safety net" under the markets in order to prevent them from declining** and thus ushering in a serious economic contraction.

The Fed took similar actions in 2001 after 9/11; in 1987 after the stock market plummeted; after the 1998 collapse of LongTerm Capital Management; after the Enron debacle; during the year 2000 NASDAQ meltdown; and at other times in recent memory.

Why did they intervene in the markets? The answer is simple. The interventions were done in a [successful] attempt to "steady the ark", to prevent the business cycle from taking its natural course. If the Fed had not intervened it is entirely possible that we would have experienced at least one if not several economic downturns ranging from brief and mild to severe and lengthy.

Who benefitted from these interventions? In the short term, those who foolishly speculated, those who "stretched" the laws regarding investing, and those who gambled that the Fed would act all benefitted handsomely. These interventions served as massive bailouts similar to the bailout of the Savings and Loan industry back in the '80s. People who *should* have suffered serious losses because they had made bad investments were made whole. As usual, you and I get to pay the bill for the foolishness and greed of others.

In the intermediate term, it can be successfully argued that many of us benefitted. The markets didn't plummet (the stock market did lose almost half its value in 2000, but recovered to new all-time highs by 2007), recessions were averted, interest rates remained low (good for borrowers; bad for savers), unemployment remained low, and so on. What's not to like in that scenario?

It is in the long term that the real harm was done. I believe that it is impossible to repeal the "boom and bust" business cycle, but today I am in the minority. Most people believe it can be done, and they want government to try. I believe that we can only postpone the resumption of the "bust" part of the cycle, and that when we do so the postponed decline is greatly exacerbated. I also believe that there is a price to be paid for every intervention, a price based upon the means utilized. Most people either disagree with that or just don't think about it.

How are these interventions performed by the Fed? Every intervention involves tampering with the money supply, and much of it involves placing billions of new dollars into circulation, dollars with no offsetting liability. Remember, money is a commodity, and like all other commodities its price is subject to the laws of supply and demand.

The Federal Reserve has been waging war on the dollar for decades, creating money far in excess of the sums required by an expanding economy. Doing so is inflationary by definition, because having more dollars in circulation causes everyone to increase the prices they charge.

There is an amount of currency appropriate to any economic environment. If the Fed were to do its job properly they would find those amounts and make appropriate adjustments. Only in that way will the value of the dollar be preserved. Instead, the world is awash in dollars, so much that foreigners (including the Chinese) now hold enough of them to buy very large chunks of the United States.

What a perfect recipe for disaster! We are exporting jobs overseas by the millions to countries with cheaper labor rates, and we are allowing foreigners to purchase the backbone of America - its industrial might - and thus put ourselves in literal bondage to those who are not necessarily concerned with our values or our Constitution. That, however, is a topic for another day.

If the Fed had done its job properly the dollar would still be worth approximately $1.00 in 1913 dollars. They have not, and instead our dollar is now worth about 3 to 4 cents in 1913 dollars. It will not take too much more to completely collapse the dollar. Yes, the dollar is falling against the Euro, but the Euro and many currencies are still trending in cycles with the dollar. The **Euro** is now at an all-time high against the dollar. The **Canadian dollar** has risen from a price of about $.62 in 2002 to its current price of $.987, a gain of almost 60% against the dollar in five years.

This is why I insist that the performance of your money - your savings, investments, and retirement - must at least keep up with inflation, taxes, and the declining dollar - and I believe that will total to at least 8.4% in 2007. In other words, if you do not earn an average of 8.4% or more on all of your money this year you will be losing purchasing power that may never be regained.

How can we make 8.4% (or more) this year?

Fortunately, many of my clients are positioned to make the necessary 8.4% because of our Equity Index Annuities (EIAs). Some of them have caps so that you cannot earn more than 8% per year; others, like Keyport, are complete duds at making money; but some, like the Allianz *MasterDex* series and *InCommandDex*, allow you to profit significantly when markets rise. On the downside, you have no risk; the worst you can do in any contract year it to make nothing.

I have been using EIAs successfully for about five years. They have enabled me to place significant chunks of client money into the "stock market" and not have to

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Savings

ING Direct is currently paying an FDIC-insured **4.30%** 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 <u>checking account</u> which pays a minimum of 3.00% with no fees. Their Money Market Account pays 5.01% APY. 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 now increase your holdings in precious metals, particularly silver coins and 1-ounce Eagles. **20-25% of your net worth should now be in a combination of precious metals and foreign currencies.**

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. *<u>All investments should be professionally timed</u>*.

from "Running on Empty", by Peter G. Peterson

". . . a growing number of Republican leaders argued that deficit finance was nearly always a permissible strategy, though much of this bold talk could be excused as the bluster of a party that didn't have to lead the country. Then, with the Republican takeover of the White House in 2001, the party's tax cut agenda ascended to a new level of irresponsibility. For the first time ever a Republican leadership in complete control of our national government would embark on a policy of massive than endless debt creation.

"The numbers are simply breathtaking. When President George W. Bush entered office, the 10 year budget balance was officially projected to be a *surplus* of $5.6 trillion-an unexpected blessing, which the new team firmly promised would be used 'as a means for shoring up the economic and fiscal environment that our children and grandchildren would inherit.' In February of 2001 the new administration's first budget outlined a plan to use at least $2.0 trillion of the surplus to pay down the federal debt. Much of the rest would go for other future-oriented purposes, such as a 'contingency reserve,' reform of Medicare, and (possibly) a pre--funding of the future costs of Social Security. Amid heady talk White House officials publicly worried about how the Federal Reserve would function once the public no longer owned treasury notes or bonds.

"They didn't need to worry long. . . . By August of the congressional budget office (CBO) officially projected the 10-year fiscal balance at a *deficit* of $1.4 trillion. . .

"So there you have it: in just three years US voters witnessed a negative swing of over $10 trillion in the 10 year federal deficit outlook. . . "

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worry about the volatility of the markets because the risk is essentially zero. This has removed a huge burden from me, and freed me to spend more time managing accounts at Fidelity and ProFunds that represent only a fraction of a client's investment or retirement assets. For most clients Fidelity and ProFunds are their only access to the precious metals, energy, and other commodities, all of which have been doing very well in recent years.

What to do about the Fed

Why do I believe it is so important for the Fed to allow the business cycle to run its natural course? Do I think events like the Great Depression ought to come along every once in a while so that millions may suffer?

I have been studying the Constitution for many years. I consider myself one of its proponents. The framers of the Constitution may have considered a national bank (Hamilton certainly did), but it did not make it into the Constitution and failed two attempts by Congress to create one. The Federal Reserve is a "super-national" bank in that it not only acts as a clearing bank for certain types of institutional transactions, it also determines monetary policy and creates money - largely without oversight by any of the three branches of government. The Federal Reserve was created in 1913 as legislation supported by the Democratic Party and decried by the Republicans. Congressman Charles Lindbergh, Sr. was the most vocal opponent of the bill. On the day before the Federal Reserve Act was passed he told Congress:

"The worst legislative crime of the ages is perpetrated by this banking bill…The banks have been granted the special privilege of distributing the money, and they charge as much as they wish…This is the strangest, most dangerous advantage ever placed in the hands of a special privilege class by any Government that ever existed. The system is private...There should be no legal tender other than that issued by the government…The People are the Government. Therefore the Government should, as the Constitution provides, regulate the value of money." (Congressional Record, 12/22/1913)

Lindbergh was right, but the bill became law anyway. Its passage was a giant step for America, one leading us off the path of capitalism and free enterprise and down the path of socialism - or, at least, the path to a controlled economy.

The Federal Reserve wields tremendous power, not necessarily in the tasks legislated for it, but in the roles it has created for itself in the past 94 years. **Because the Federal Reserve exists the financial markets are no longer free**.

What can we do about the Fed? We have become utterly dependent upon it to take care of us when we have acted foolishly or when disaster strikes - and neither role is appropriate for any government. Constitutional government should provide for the common defense, promote the general welfare, and secure the blessings of liberty for all of its citizens. The creation of the Federal Reserve was, in my opinion, a clear violation of that narrowly-drawn list.

Our country in its current condition probably could not function without the Fed, for who else is there to take away our pain and secure the profits of the wealthy? As citizens we would need to be much better informed if we wanted to invest absent the Fed, for real investments would carry real risks, as they ought to. Without the Fed mortgage rates would be much higher and the economy would swing more widely as the cycle progressed.

Of course, without the Fed the dollar might still be worth a dollar instead of just three or four cents. It might not be headed to zero, as have all other currencies that are shorn of their precious metals backing. It's that price inflation brought on by too many dollars that requires our investments to make more than they ought to so that we lose as little purchasing power as possible.

This may be an antiquated argument, but it is a sound one. Perhaps gold should not be the world's monetary standard, but there is no good substitute for it. No other substance on earth is so scarce, so attractive, and so useless except for jewelry. Any other substance has significant economic uses, any of which can influence its price. It's like the old argument against capitalism;

> Capitalism is the most terrible, destructive, and exploitative economic system known to man - unless you look at any of the alternatives.

With the Federal Reserve actively intervening in the financial market I can't really say what form of government we have today. I sincerely believe it is not a Constitutional form of government, but it is not just the Fed that has brought about that change.

To me, the Federal Reserve is a symbol of what America has become; a nation of "haves" and "have nots", with the "haves" greedily bending the rules to amass ever more wealth for themselves with little regard for the law, the Constitution, the environment, or our dwindling natural resources. I wish I could articulate this better, for I believe it lies at the heart of every problem we face as a nation. By extension, as American "culture" is exported throughout the world people everywhere see what we have and how we go about getting it, and they want the same things we do.

I believe that America was once great because America was good; I would like very much to see us return to that moral and ethical high ground.

Revising my business model

In recent months I have had ample cause to re-evaluate the way I run my business. I have always operated in such a way as to provide the maximum possible benefit to my clients, even if it meant operating in a way that did not compensate me as well as others in my field were compensated. I have also taken on the significant and heavy burden of providing an accurate accounting of all the investments you have with me. Following are my responsibilities as a sole proprietor of Charles W. Kraut, MBA:

1. Obtain all appropriate **licenses** in all jurisdictions in which I operate.

2. Perform all necessary **compliance** functions to ensure that all my business practices are in accord with the highest ethical and professional standards.

3. Undergo ongoing **education** to keep my knowledge and skills current.

4. Perform **economic research** to identify appropriate and timely investment and insurance vehicles and products for my clients.

5. Perform **market research** and analysis to properly "time" the markets and my clients' investments.

6. Keep **contact** with all clients through quarterly newsletters, correspondence, telephone conversations, email, and personal visits when possible.

7. Handle all the **paperwork** for my clients' investments and insurance purchases and redemptions.

8. **Post** all transactions and produce accurate **reports**.

9. Provide appropriate, complete and timely **advice** regarding investments, insurance, and other aspects of personal finance.

10. Constantly search for better and more cost-effective ways to make money for my clients.

11. Perform periodic **reviews** of each client's financial situation and identify ways to improve it.

Recommended Reading

I frequently run across books I feel are worth your time. Almost all of them are nonfiction and pertain in some way to my business.

Running on Empty, by Peter G. Peterson (quoted in this issue)

A Magnificent Catastrophe; the Tumultuous Election of 1800, America's First Presidential Campaign, by Edward J. Larson

The World Without Us, by Alan Weisman

Cotton: the Biography of a Revolutionary Fiber, by Stephen Yafa

"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 October 3rd. Please use a trailing stop (TrSt) with these stocks whenever possible.

Buy (Closed-end Funds):

Now that the subprime mortgage mess has begun to implode all of the closed-end funds we utilize have dropped significantly in value. that provides some good bargains for us. Keep in mind, however, that these funds were significantly less expensive on one hair-raising day, 16 August 2007.

1. Buy Western Asset Global Partners Income Fund (GDF) at $11.30 or better. This is a Mark Skousen recommendation, and I have been trading it for my clients for several days. Current yield: 8.21%. Discount to Net Asset Value (NAV): 10.8%. (TrSt $.25)

2. Buy MFS InterMarket Income Trust (CMK) at $8.15 or better. Yield: 13.79%; Discount 10.6%. (TrSt $.25)

3. Buy BlackRock High Yield Trust (BHY) at $7.25 or better. Yield: 8.40%; Discount 7.72%. (TrSt $.20)

“Stocks at a Discount”

(Continued)

4. Buy Van Kampen American Capital Senior Income Trust (VVR) at $7.93 or better. This is another Mark Skousen recommendation, and one that fell with the others in August. Yield: 9.0%; Discount: 0.50%

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

1. Buy Pacific Energy Resources (PEGX) at $2.50 or better. (No TrSt)

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

3. Buy the Japan Small Capitalization Fund (JOF) at $10.50 or better. (TrSt $.50) If you were stopped out, consider buying back in.

4. Buy Octillion Corp. (OCTL) at $3.15 or better (it is currently $3.60, but I expect it to dip in the near future.)

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 $6.83. **Hold**. (Raise your TrSt to $6.65).

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.

4. We bought Itronics (ITRO) at $.019 or better. We bought and sold it profitably several times, and recently bought more at $.013 or better. You might want to own at least 30,000 shares. Don't buy too many, though: Itronics is a company that hasn't figured out that it's bankrupt. I'm just hoping someone will buy them out, for they have great products and more on the way. ITRO is currently all the way down to $.0044 and trades <u>very</u> heavily.

12. **Find** and solicit new clients.

13. Prepare **tax returns** for all clients who ask.

14. Repeat the first thirteen steps.

I used to have a staff of two or three full-time people to do some of the things listed above, but I found that people were expensive, and they seldom shared your values and enthusiasm for the business. Since 1999 all of the tasks above have fallen solely to me.

If you read the list above and thought to yourself that it might be difficult to make a living doing all those things that offer no compensation, you would be correct.

For several months now I have been trying to find ways to make my business more successful and less labor intensive. I haven't made all the decisions, but here are some changes I am implementing effective 31 Dec 2007:

1. I will no longer manage "orphan" accounts. Most of my clients have most of their money in the same mutual funds and annuities in other companies that they may have had when I first met them. It is unfair to both of us to expect me to properly manage a family of funds for only one client. It is difficult enough to manage the $1.1 million my clients have at Fidelity right now, or the $800,000 at ProFunds. Where it is appropriate I am asking that you close your "orphan" account and merge it into or create a new one I can manage. This will make my life a little easier and probably improve the performance of those accounts.

2. I wrote several weeks ago about my concerns regarding Fidelity Funds and ProFunds. **I am beginning to move all my clients' ProFunds money into Fidelity and Everbank accounts.** That means much more work for me, but greater safety for you. I will have fewer accounts to manage, and that is the tradeoff. Fidelity has its trading restrictions, to be sure, but I plan to circumvent some of them by purchasing ETFs in the place of mutual funds. It will cost nothing (except possibly a termination fee from your ProFunds IRA) to make the switch. Both ProFunds and Fidelity are no-load families of funds, which means that you never pay a commission unless you trade stocks in your Fidelity account.

3. I will de-emphasize financial planning to spend more time on money management. If you have a Prepaid Legal membership you have get your wills, living wills and power of attorney documents for free, as well as better advice than I can give concerning your estate plan.

4. I will make tax preparation a larger part of my business, and encourage you to allow me to do your tax return each year.

5. The hardest step for me to take is to announce that I must begin charging some sort of fee to manage Fidelity funds accounts. I have always charged a fee to manage ProFunds accounts, but I have seldom done so with Fidelity accounts. Some of my clients are going to feel that I'm breaking a promise, and they are right. My only choices are to be compensated for my work or to close my business.

6. I will solicit your help and your input more frequently. Specifically, it will be important for you to forward to me copies of statements that I don't get from your other investments that you want me to monitor for you. Everbank is one that simply will not allow me into their Advisor program, and therefore I will have no idea where your Everbank money is at any time unless you copy me on the statements.

The extra help and input you provide will directly impact your own "bottom line." If I can spend less time doing paperwork, I will have more time for investment research. The better my research is, the better your investment returns should be.

Just about everything else will remain pretty much the same. I will still publish *Wealth Creation and Preservation* four times a year; I will continue to travel to visit with clients and prospective clients, but my trips will be longer and less frequent; and **I will still be at the other end of the phone line whatever you call and have a question**.

Everbank news

I recently got some good news from Everbank. I have been recommending that you move some of your money to Everbank and purchase one or more foreign-currency certificates of deposit. One of my concerns about Everbank was that they use a third-party trustee for their IRA accounts, and that trustee charges larger fees than we have seen in many years. I recently learned that EverBank has eliminated the fee to open an IRA, which leaves "only" the annual fee of $45 and the closing fee of $75. There are no fees to open regular (non-IRA) Everbank accounts. I also learned that you can have more than one foreign-currency CD in an Everbank IRA, contrary to what I had been told previously.

Sun Life *Keyport* recommendations

I have begun sending out forms to enable my Keyport clients to either take advantage of the free withdrawal provision or surrender their contracts, whichever is in their best interest. I have completed my research into Keyport and found it to be a decidedly inferior product. Fortunately, it seems to have a very liberal withdrawal policy, and I recommend that you take your money and put it somewhere else - like EverBank, or Fidelity, for example.

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 1 accounts - Moderate risk, seeking growth using combinations of all available funds. Note that there are significant changes below. I am moving money into the markets, and especially into overseas markets where it may benefit from the declining dollar.

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

- 25% Government Bond Fund
- 25% Janus International Growth Fund
- 20% Van Eck Hard Assets Fund
- 10% Van Eck Emerging Markets Fund
- 10% Fidelity Overseas Fund
- 10% Money Market Fund

American Century Funds (no changes)

- 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

"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, (CMK, WIA, GDF, VVR)

Speculative stocks:

XSNX, (ITRO,), CCGY, AGT)

Closed Positions:

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.

We were stopped out of Colonial Intermarket Income Trust (CMK) below $8.10, as expected. It is now called the MFS InterMarket Income Trust, and I recommend it for purchase once again (see above).

Sell these now

We bought WorldWater & Power Corp. (WWAT) at $.21 or less. It is currently trading at $2.06. You may sell it now, sell half your position, or hold all your shares. It recently hit $2.50, which would have been a great place to sell all your shares. (No TrSt)

In the news

I sent an email a few days ago discussing how Strata Oil and Gas (SOIGF) had risen 169.35% in one day. Some of you still own the stock; it's a hold at current levels, because you may not have a profit in it at present.

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 Refined Elliott Trader (RET) software still offers little information as to silver's future direction. Just a glance at the charts indicates that silver has broken above an important downtrend line. Take a look at the Charts page.

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 that silver has climbed almost to $14.00, but it doesn't seem to be able to hold that level.

Travel Schedule

I had a great trip in September and got to see many of my clients and even a few referrals. I will let you know wen I plan on traveling to your area again.

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- 30% MFS Government Income Fund
- 10% MFS Emerging Markets Equity Fund
- 10% MFS Emerging Markets Debt Fund
- 15% MFS Utilities Fund
- 10% Money Market Fund

John Hancock Funds (I will drop the John Hancock Funds from this list in 2008)

- 15% Health Sciences Fund
- 25% International Core Fund
- 10% Greater China Opportunities Fund
- 10% International Growth Fund
- 30% Government Income Fund
- 10% Money Market Fund

FranklinTempleton Funds

- 25% Franklin Gold Fund
- 10% Templeton BRIC Fund
- 30% Franklin US Government Securities Fund
- 20% Franklin Templeton World Fund
- 15% Franklin Money Fund

Fidelity Funds

- 25% Fidelity Government Income Fund
- 20% Fidelity Overseas Fund
- 10% Fidelity Contrafund
- 15% Fidelity Select Utilities Growth Portfolio
- 20% Fidelity Select Gold Fund
- 10% Fidelity Money Market Fund

ProFunds (NOTE: I no longer recommend the ProFunds family)

- 100% ProFunds Money Market Fund

Allianz and other Equity Index Annuities (EIAs)

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

Allianz and other Equity Index Annuities - Type 2 accounts:

- 50% S&P 500 / 50% NASDAQ100

It is my privilege to serve you.

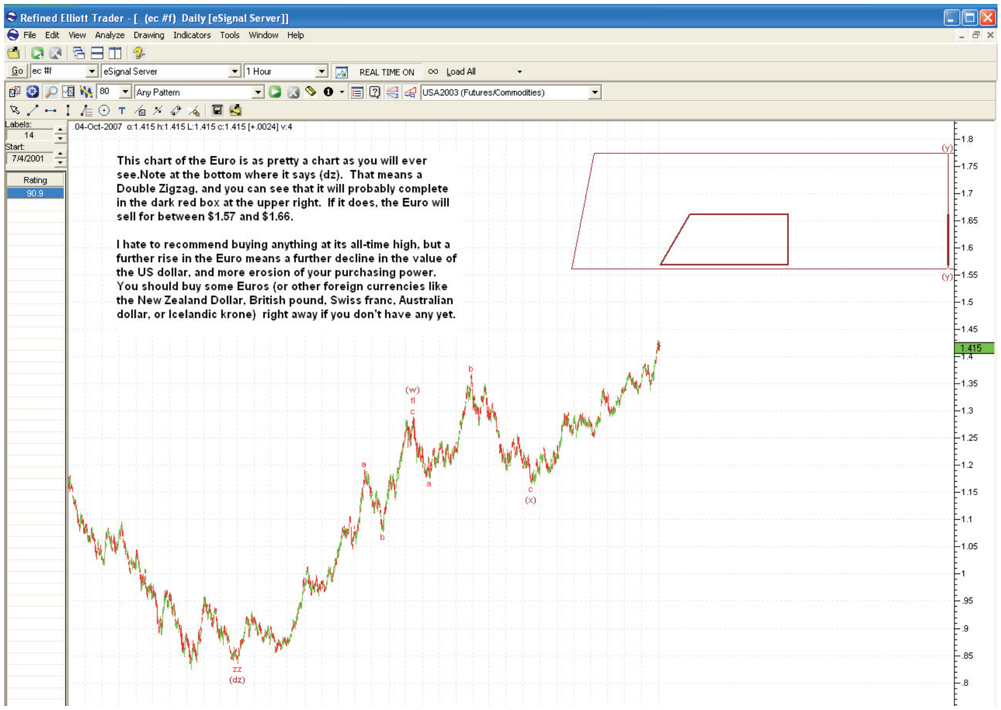
Charles W. Kraut

The Chart(s)

The Euro

To the right is the Euro daily chart, and if the RET software is correct the Euro is headed for more all-time highs, perhaps as high as $1.66 in the current cycle.

Most currencies are doing well against the US dollar. The Canadian dollar has been worth more than 1 US $ in recent days, and is probably headed higher.



Treasury Bonds

The chart to the left is US Treasury bonds. Each bar is one month of trading. Notice the blue line sloping down to the right above the data, and how perfectly the data have remained under that line so far. This could indicate lower prices for bonds, but the RET software is not so sure.

Silver

The chart at the bottom of the page is silver. Each bar is one week of trading. Unlike Treasury bonds, silver has decisively broken above its blue line. At this moment "resistance becomes support"; silver couldn't get above the blue line before, and now it must *stay* above the blue line to confirm a change in trend. The RET software says it has done so.

Buy silver!

The "Behind the Charts" Market Update

Data as of 3 Oct 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). 13,968.05. We are in the days of "musical chairs" once again, and I can't really tell whether the market will rise or fall. I believe that it will move sharply once it "makes up its mind".

S&P 500 (S&P). 1,539.59. The S&P is very close to its July 16th 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. According to tonight's reading of the RET software, the S&P appears to be running out of steam. There is at least a 40-50% chance that this upward trend will coming to an end in the next few weeks.

NASDAQ 100 (NASDAQ). $NDX, 2,103.01. The NASDAQ is harder to predict and has been more volatile. The NASDAQ has surpassed its earlier 2007 high of 19 July, and is in an uptrend. I am now recommending the NASDAQ 100 in our EIAs.

Bond Markets

US Treasury Bonds. 111 27/32, **continuation contract**. Bonds peaked on 10 Sep 07 and fell until 21 Sep. Bond prices have rallied slightly 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 in terms of yield, but I am less concerned about US government bonds than I am about money market funds right now.

High Yield or "junk" Bonds. We are completely out of High Yield bonds as of 26 July except for some of the ETFs or "closed-end" funds I describe in "Stocks at a Discount." With the implosion of the subprime market I still expect more selling in the near future. This is why I closed out positions in the Fidelity High Income Fund and the Fidelity New Markets Income Fund.

Commodities

Oil $79.94/barrel, **continuation contract**.

The wild ride continues. Oil closed at $79.94 a barrel today, and it has tested and surpassed the previous high of $78.40 hit a year ago. In fact, it hit a new all-time high of $83.76 on 28 Sep 07.

I still have not bailed out of the energy funds. The RET software now suggests that we may be near the top for this cycle.

Real Estate

I moved out of our Real Estate positions in 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 twelve months. I am completely out of real estate at this point, and grateful to be out.

According to a report by investment bank Punk Ziegel, there are 17.4 million vacant houses in the country, and only 4.3 million of those are second homes. That means there are more ownerless houses in the United States today as a percentage of total inventory than at any time since records have been kept. We don't invest in residential real estate; we invest in commercial real estate. However, this turndown in housing will probably affect all real estate before this crisis goes away.

Gold and silver. Gold $736.50, Silver $13.50 per ounce.

Gold hit $754.00 on 2 Oct 07 and silver hit $14.00 on 28 Sep 07. That was a 28-year high for gold, but adjusted for inflation is hasn't begun to approach its 1979 prices. The RET software is now indicating a good possibility of continued strength in gold, perhaps rising to $1,000 or more by 2009.

Silver is also showing potential, according to the software. The charts indicate a possibility of silver as high as $17.50 by mid-2008.

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 $1.4126, continuation contract.

The Euro hit a new all-time high of $1.4298 on 28 Sep 07. The Euro did not decline since June, as the software had suggested. The software now indicates that the Euro could hit $1.65 before April 2008. This would be a very significant move

If the RET software is right about gold, silver, and the Euro, you need to [quickly] consider opening an Everbank account and purchasing one or more foreign-currency Certificates of Deposit. Please contact me for details on how to do so. Unfortunately, Everbank will not compensate me for sending business to them.

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 <u>not</u> 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.