



# Wealth Creation . . . and Preservation

*Independent, unbiased advice to help Americans prosper*

2nd Quarter 2008

Volume 15, Number 2

\$25.00 per copy

## Moneywise, the book

Most Americans literally don't have a clue about how to take care of their personal finances. We don't have the time or the inclination to get involved with something as difficult as tax returns and as changeable as the weather. Those who seek the help of "professionals", and those who peruse the vast resources of the media and the Internet, often find themselves overwhelmed by a flood of generally useless information.

I believe that most of those who entrust some or all of their money to a financial professional are served very poorly. People in my business are required to do two things; make a profit for their employer and keep themselves out of trouble. You, the customer, are nothing more than the source of your representative's income.

Over the past four years or so I have put together much that I have learned in this business, and the result is my first book. It is 98% complete, and I have already been informed by that I have no hope of finding a regular publisher for it. I may self-publish the book in the near future and do everything I can to promote it. This book, which is currently titled *Moneywise*, is different in many ways from any other book on personal finance. This book will help to cut through the jargon and the misinformation, and enable the average American to do better financially.

*Moneywise* will be followed by my second book, "What will you do when the money's no good?"

# Improving the State of the Art

The most important work I do for my clients is to actively manage their investments. *Manage* is a very poor way to describe what I do. I don't just oversee or supervise your money: I have to find places to put it and literally fight for every penny of dividends, interest and profits. The competition is fierce, for there are millions of traders, brokers, market makers, specialists, speculators, and investors who are all trying to come out on top.

There are thousands of money managers in this country, but few of them actually work with their investors. Most of them work with a stockbroker or registered investment adviser representative who in turn works with you.

My job is to make my clients' money perform as well as or better than that managed by my peers, and to do it by taking on less risk than they do. Annuities and Certificates of Deposit require no management, but

## In this issue:

Charles W. Kraut, MBA  
Please contact us at our new  
website:

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

*Improving the State of the Art*

*Savings - Investment - Retirement (S-I-R)*

*Be Prepared*

*Recommended Investment Allocations*

*Supplement Updates: The Silver "Insurance" Program and*

*Stocks at a Discount*

Cover Story

Page 3

Page 5

Page 6

Pages 5,6 7 and 8

## from *The Daily Reckoning*

"It is all a "fairy tale," said Bill Clinton. Of course it's a fairy tale. The whole campaign is a fairy tale – lies told by delusional desperadoes...earnestly reported by hacks...and taken up by a public eager for make-believe.

"American politics, like the empire itself, suffers from some wasting disease. But even from its hospital bed, it still puts on a good show. The whole baroque fandango is one part Dada theatre, one part religious revival...and one part low-budget circus. Nothing that is said is reliable; most is absurd or incomprehensible...and there are clowns everywhere. The important thing from the spectator's point of view is to suspend disbelief...and enjoy it.  
. . .

"Google "presidential candidates" and "change" and you get 4,560,000 examples. Barack Obama promises "change you can believe in." The democrats suggest that you can "vote for change" by choosing one of them. John Edwards website says, "if you're ready to change our country, please join us."

"Change is the only thing that all of the candidates agree on – they're all opposed to it; each one pledges to do his level best to stop it. If there is going to be any change at all, it is going to be over their dead bodies. Which would probably be the best way. Voltaire once remarked that the best form of government was democracy, "with an occasional assassination." But it would be a waste of time. For not only are the candidates all opposed to change; it's the last thing voters want, too."



stocks, commodities, mutual funds, ETFs, and options do. My low-risk approach requires that I find inexpensive investments with very good potential for growth. My methods have worked well for many years, but there is always room for improvement.

Every money manager develops his or her own method for managing money. Everyone thinks his system is the best, but the performance numbers tell the real story. Methods come and go as new analytical tools are developed and others become obsolete. My method has been refined and improved dozens of times over the years. I believe that my current method is state-of-the-art. It may not make as much money as others, but my method strives to take profits out of the markets with minimal risk. I began managing money in 1992; since then I have only had one losing year, and that was 1994. In 1994 my average client lost a little over 1%. Very few money managers can boast a better record than that regardless of the amount of risk they take on.

As I describe it in my new book, my method is one that almost anyone can use on their own. It takes some common sense and a little thought, as well as some Internet and computer resources. My method is the only one I have ever seen that utilizes both Fundamental Analysis and Technical Analysis. Many years of experience have taught me that both, properly understood, can provide great insights into where stocks and markets are headed next.

Because I utilize both methods of analysis I have an additional set of screens to help eliminate ideas that are not appropriate at this particular time. There are stocks with great fundamentals but a poor technical picture, and there are stocks with a terrific chart but poor fundamentals. There are literally tens of thousands of choices; the best tools sift through the mass of data and come up with the "gems". With the tools currently available anyone can perform both types of analysis on thousands of stocks or commodities in a matter of minutes - and most of it runs automatically without your intervention.

My method incorporates a third level of analysis in addition to fundamental and technical. I use a "top-down" approach to figure out which markets are going to be "hot" next. Sometimes I get into things a little early with this approach, but I would rather get in too early than too late, especially if I am buying things that are less expensive than they once were. This method got me into the precious metals and energy before anyone was talking about them, and we booked substantial profits in both sectors while most people were struggling with the difficult stock markets of 2000 through today.

In the first quarter of this year I implemented a new and important procedure in my money management, one designed to make more money for my clients. I have gained more confidence in the RET software now that it has been significantly improved. For years I have wanted to move beyond a strategy of buying

Charles W. Kraut, MBA is a private individual licensed for the sale of insurance products and, in certain states, as a Registered Investment Adviser (RIA). *Wealth Creation and Preservation* is published as a means of disseminating information compiled from numerous sources in such a way as to reflect the conclusions drawn by Charles Kraut in his analytical work. *Wealth Creation* is a copyrighted publication. Those wishing to copy this publication or otherwise disseminate it to others are asked to contact Charles Kraut first for permission.

None of the information or opinions printed in *Wealth Creation* should be construed as an investment recommendation either for the sale or purchase of any security, savings account, insurance product, or hard asset. Recommendations are made only in consultation with Charles Kraut. The opinions expressed in *Wealth Creation* are solely those of Charles Kraut.

Insurance and investment products are not insured by the FDIC or any other government agency. You may receive more or less than you paid when you redeem your investment or insurance contract. Always consult the investment prospectus before investing.

Past performance is no guarantee of future results. Charles W. Kraut makes no guarantees whatsoever regarding the performance, return, or dividends of any savings, insurance or investment program. Guarantees which are made, if any, are offered by the product provider and are stated as such in the product literature.

and selling stocks primarily on their fundamentals with a little technical analysis thrown in. Now I can.

The Refined Elliott Trader (RET) software is designed to make it possible for traders to better predict an investment's future direction. It is designed for traders, people who will sift through a long list of stocks or commodities looking for those that fit a specific pattern. Such an approach tends to ignore fundamental analysis, and I would never be comfortable doing that for my clients. However, such an approach is useful when trying to decide upon various choices within a predetermined category, and that is what you are just beginning to see in your Fidelity and Ameritrade and E\*Trade accounts.

The idea is to make more money for you with less risk, and this enhancement should help. I have created a list of stocks, mutual funds and ETFs my clients currently own or are being considered for purchase. I run the RET software and let it evaluate the entire list looking for specific patterns. When it finds a ZigZag pattern I check for various confirmations. If those efforts agree, I take action.

### ROY, for example

For example, International Royalty Company (ROY) just paid its very first dividend, one of what I believe will be many. All other things being equal, the stock is a "keeper". However, the RET software indicated that ROY is in a downward zigzag pattern, as you can see from the chart above, and will probably fall all the way to \$4.44 per share. It is currently about \$4.94.



The chart is produced by the Refined Elliott Trader software using its new "heat map" approach. The jagged line in red and green is the price action of ROY over about a five-month period. The RET software analyzes that price action looking for Elliott patterns, particularly zigzag patterns. The odd-shaped figure in olive

## S-I-R

### Savings

ING Direct is currently paying an FDIC-insured 2.96% 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 1.99% with no fees. Their Money Market Account pays 2.97% APY. Please see their website for further information.

### Investment

My recommendations for investment and retirement money have changed once more. Check the *Recommended Investment Allocations* section. You should now increase your holdings in precious metals. 20-25% of your net worth should now be in a combination of precious metals and foreign currencies, especially silver, Australian dollars and Canadian dollars.

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 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 managed and timed.



## Speaking of the time value of money . . .

Silver is currently around \$18.30 per ounce. Pre-1965 silver dimes, quarters and half dollars are 90% silver, the rest being copper and other metals to add hardness and durability. At \$18.30 per ounce the old silver coins are worth about 13 times their face value.

That sounds pretty impressive until you think about the number of years it took to get from \$1 to \$13. Let's say that in 1964 you had set aside a mayonnaise jar full of pre-1965 quarters and dimes for which you had paid face value. That's what you got them for back then; they were common pocket change. Now you wish to sell them, and you want to know how your investment has performed over the years.

You will sell your coins for about 13 times face value, which means you are trading real money for paper money, but that's another topic. This is 2008; you have stored these coins away since 1964, a total of about 43 years.

A gain of 1200% over 43 years translates to about 6.46% per year. That number sounds pretty low, but then you have to realize that throughout those 43 years the Consumer Price Index (CPI) rate of inflation exceeded 6.46% only twice, in 1979 and 1980.

If you look at the Inflation Calculator on the BLS website ([www.bls.gov](http://www.bls.gov)) you will see that it takes \$6.89 today to buy what cost \$1.00 back in 1964. That works out to about 4.6% CPI inflation per year since 1964.

In other words, if you had put away those coins in 1964 you would have beaten the rate of inflation by about 89% ( $13.00$  divided by  $6.89 = 1.89$ ;  $1.89 - 1 = .89$ )

Two other considerations: first, if you sell now you will get paper money in return and be obligated to pay taxes on your gain.

Second, if you had sold your silver in 1980 and waited until the silver market bottomed in 1993 to buy it back (earning 5% each year while you waited), each dollar in old coins you had squirreled away would now be paying you **\$384.67**. Truly, timing is everything.

green is the approximate area where wave C of this Zigzag will end. In the shaded area is the "heat map", indicating that portion of the figure most likely to see the end of the zigzag. The darker the shading, the more likely that ROY will end its trend in that area. There are other things going on in this chart as well, and all of them provide a very useful and valuable analysis and a prediction of the future.

Previously I wouldn't have done anything about ROY at this point. The stock pays a dividend, and once it bottoms it is expected to rise again. Today, however, I can do more than simply watching its price action. I sold about half my clients' positions in ROY, and then went back to each account in which ROY had been sold and issued a Trailing Stop Loss (TSL) order. These types of orders are very useful in a situation like this. This order is designed to get us back in by purchasing ROY shares only if a certain condition is met. That condition is that ROY must rise \$.25 from the price at which the order was entered, at which price the stock will be bought "at the market" for the next available price.

If the stock falls before rising \$.25, the price at which the order will be executed is lowered right along with it. In this instance, if ROY fell straight down to \$4.44 before rebounding, we would buy it at \$4.69 or so ( $\$4.44 + \$.25 = \$4.69$ ). In the meantime we can receive interest on our money.

Worst case, if ROY continues to rise, we will buy back in no higher than about \$.25 above the price at which we sold it. That's nothing more than an opportunity loss, for it would indicate that the RET analysis of ROY may have been incorrect.

I will apply this strategy to all our stock, ETF and closed-end fund positions. I believe it will enhance our returns while limiting our losses.

## Followup on ROY

Since I wrote the previous article our trailing stop loss orders were triggered and we bought back the shares of ROY we had sold at a lower price. I checked the RET software, and it still indicated lower prices for ROY. The stock continued to rise after we were "stopped in", and I got out shortly thereafter with a small profit. We sold at about \$5.38; ROY has since fallen back to \$4.92, and looks like it will continue to fall just as the software predicted.

**You can make money this way.** If, for example, you had purchased silver in 1993 as I recommended, in 2004 your silver would have been worth only a little more than what you paid for it eleven years earlier, and you would have wondered whether I knew what I was talking about. However, if you had had a good money manager/investment adviser, you might have gotten out of silver after it peaked at \$7.40 in 1997. You could have taken a profit of over 75% and put your money at interest until silver bottomed in late 2001 at \$4.02. Silver hasn't "looked back" since then, and at today's prices you would have profits of about 300%. That's what I try to do for my clients.

Creating and preserving wealth has probably never been as difficult as it is today. The stock markets are overpriced, the economy is in a bad way, we are just beginning to experience permanent shortages of major commodities including water and certain essential food crops, we have the problems and concerns associated with global warming, and much more. The Cold War was largely a singular threat to our way of life; what we see today are an endless series of massive problems with no apparent solutions. Creating wealth in such an environment is quite a feat. I believe it can be done, but it requires diligent application of my methods. Most people are seeing whatever wealth they may have created erode

day by day as inflation destroys their purchasing power. I have an answer for that, but many people are unwilling to take the necessary steps. Instead, they go into denial, or put their trust in someone who does not have the ability to make their money grow.

## Be Prepared

In this issue I return to a favorite theme, one I have endorsed consistently for the entire 28 years I have been in the financial services business. However, I do so now because the need for preparation is now more urgent than ever.

In recent issues of *Wealth Creation and Preservation* I have discussed things like Peak Oil, which refers to the undeniable fact that the world is rapidly running out of crude oil without having found an adequate substitute. I have talked about the movement of much of the 3rd World toward the "1st World", and how that is putting an enormous strain upon many of the world's resources. I have recently discovered that we are already facing the prospect of "Peak Coal", despite all the incorrect media attention about the United States supposedly having enough coal to last 200 years. In addition, global climate change is affecting every point on the globe, and will continue to be a major problem well beyond the end of our lives.

Our world has become very fragile as it attempts to provide life support for over 6 ½ billion people. Here in the United States we are terribly spoiled, for we have enjoyed the best of everything for many years. The poorest Americans have more material goods than the middle class in many other countries.

What does it mean to be prepared? It means that you have reserves you may draw upon in an emergency. Those reserves may include food, cash, clothing, silver coins, energy, and other things considered essential in maintaining our lifestyle.

Your reserves can be modest or they can be substantial. They may help you get by if you need to abandon your home in an emergency (weather event, refinery explosion, earthquake, overturned railroad car full of sulphuric acid, and so on), or they may be intended to keep you comfortable in your existing home. Your resources and/or your options may be limited. If you live in an apartment there is often little you can do to store energy or electricity, for example. (We once had 600 pounds of wheat and food for a year along with 2,000 books, a large upright piano and a 5-manual theater organ in our 1-bedroom apartment in California, but that's another story.)

For example, we are attempting to build a home of our own here in Virginia. We didn't know it at the time, but our little corner of the world seems to be in some sort of weather "pocket"; we tend to miss the tornadoes, hurricanes, blizzards, earthquakes, and other such phenomena that frequently afflict areas close by. That gives us what could be a significant advantage if we need to grow our own food. We are in a rural area, and our neighbors are farmers. We have enough land to grow food for fifty people.

Our home will be *passive solar* and *active solar*. That means that the house will be highly energy-efficient, and designed to keep out the hot summer sun and permit the warming winter sun to enter and reduce our energy bills. The active portion will be a photovoltaic array on the roof that will produce electricity almost every day of the year. When the power fails, our batteries will store much of what we need until grid power is restored. When the batteries are drained the generator will kick in and recharge the batteries and run the household. We will also install a solar hot water heater.

We will catch rainwater that falls onto the roof and store it in an underground 4,000 gallon cistern. An equally large tank will hold well water in storage

## "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 April 22nd. Please use a trailing stop (TrSt) with these stocks whenever possible.

Most of the closed-end funds we own seem to have turned the corner and begun moving up again. Since we have not seen the end of the turmoil in the mortgage market and in the financial sector of the economy I am holding off on making new purchases. Instead, I am currently recommending additional purchases of energy trusts where we can purchase them at reasonable prices. The energy trusts (including AAV, ERF and PWE) generally yield more than the high-yield closed end funds and ETFs (including BHY, EMD, ERC, VVR, SBW, JCE, JGT, CMK, and MGB).

Note that I mention **covered call options** in this issue for the first time. If I am not managing your account you should learn about options and utilize them yourself. If I am managing your [Fidelity] account you should have an Options Agreement in place. Fidelity must accept the Agreement before you are allowed to trade options.

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

1. Buy Western Asset Global Partners Income Fund (GDF) at \$10.70 or better. This is a Mark Skousen recommendation; remember that Mark believes in holding things for the long term and is not a technical analyst. GDF is a particularly volatile closed-end fund, and has given us nice profits up till now. If you were stopped out of GDF previously, consider purchasing it again now at a lower price. (TrSt \$.30)

2. Buy MFS InterMarket Income Trust (CMK) at \$8.05 or better. (TrSt \$.25)

3. Buy Enerplus (ERF) at \$45.50 or less. My clients currently own 3,500 shares at an average price of \$43.22,

## “Stocks at a Discount”

(Continued)

so we have a nice profit here. Sell the ERFJJ or ERFJI covered calls for additional income.

4. Buy Advantage Energy Fund (AAV) below \$12.00 per share. I rather doubt it will get below \$12.00 in the near future. Sell the AAVKV covered calls. (TrSt \$.45)

5. Buy Penn West Energy (PWE) at \$30.30 or less, and sell the PWEIG call option.

6. Buy Alexco Resources (AXU) at \$4.00 or better. We recently sold it at \$5.40 and bought it back. AXU has no options.

7. Buy iShares Silver Trust (SLV) at \$150.00 or better and plan on holding it indefinitely.

8. Buy Coeur d'Alene Mining (CDE) at \$3.50 or less and sell the ZYBAU covered call.

9. Buy International Royalty Corp (ROY) at \$4.49 or less. ROY has no options.

### Current Positions:

We currently own mostly commodity stocks including silver (SLV), silver mining (AXU, CDE), other mining companies (LMC, GDX), Energy income trusts (AAV, ERF, PWE), and some energy stocks, (CNQ, HTM, NGLPF, PGTHF, SWFCF, WGPWF, ROY, RTK).

We also own high yield ETFs or closed-end funds (BHY, CMK, EMD, ERC, FAX, GDF, JCE, KGT, MGB, SBW, and VVR) and the foreign currency ETFs FXA and FXC.

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.)

We bought XsunX (XSNX) several times, and are still holding only a “half position” (about 1,000-1,500 shares) Current price: \$.41. Hold only 1,000 shares or less.

against a time when the aquifer is low. There will be two 1,000 gallon propane tanks buried near the house to provide heating and cooking as well as fuel for the generator. There will be two wood stoves, each large enough to heat the entire house, and our land has adequate woodland to keep us supplied.

We plan to build a large greenhouse both to extend the growing season and to keep the deer out of our vegetables.

In addition to all this we will maintain a supply of foods we use regularly, and which are stored in a cool area of the basement. Once our fruit trees begin to bear we will, if we can find the time, do some home canning. We may have a beehive to provide pollination, though my efforts along those lines have been less than successful in the past.

Why do all these things? We feel it is important. We try to be good stewards of the only planet we can call home. We have owned three homes previously, and left each house and yard in much better condition than we found it.

We aren't just trying to keep ourselves comfortable during bad times; we fully expect to be of service to others who may not be as well prepared, and who will be in need.

What can you do? Most of my readers are not now in a position where they could do even a fraction of what I have described. We have chosen this type of life, though the maintenance of our property takes away time that could otherwise be used to generate income. We would do these things whether we thought a crisis was coming or not, for it gives us a feeling of closeness to the land and the idea that we are helping our environment.

In your situation, you should consider the possibilities of events in your area that could affect adversely you if you were not adequately prepared. Just doing some of the basics will help to change the way you look at things. You will begin to think about how you may protect yourself and those you love in time of disaster, need, or crisis.

For more information please contact me or visit [www.providentliving.org](http://www.providentliving.org). That website will give you some very good ideas about what you can do to be better prepared.

## Natural Resources Funds versus Gold Funds

If you look carefully at your mutual funds statements (Fidelity and FranklinTempleton in particular) you will see that you have money in a Natural Resources Fund but not necessarily in a Gold Fund. We used to own Gold and Precious Metals funds, but own far less of them today.

Almost a year ago I ran the following chart, which has been updated to a recent date. It compares the Fidelity Select Natural Resources Fund (FNARX, in red) with the Fidelity Select Gold Fund (FSAGX, in black). The difference just jumps right off the page.

Over the past five years the Fidelity Select Natural Resources Fund has grown by 290%; by comparison, the Fidelity Select Gold Fund has grown about 112%. Even though the precious metals have moved up in a big way, the other natural resources including energy, copper, coal and timber have done better. Notice too that in just the past few weeks the FNARX has soared to a new all-time high, while the FSAGX has barely begun to recover from a decline.

You may also have noticed that you own one or more energy income funds (including AAV, ERF and, more recently, PWE). These funds are more volatile than the closed-end high yield funds we have been using, but as long as the trend is up in crude oil and natural gas these companies will outperform the reg-





ular high yield funds. Note that you probably have more money in AAV, ERF or PWE than you do in SLV, AXU, CFW, and the other mining companies focused on silver, gold, and other metals. One of the reasons for this is that energy pays better dividends than the precious metals do.

## Recommended Investment Allocations

NOTE: I have eliminated all of the mutual fund families I track except for Franklin Templeton and Fidelity. Very few of my clients have any money in MFS, John Hancock, American Century and others, and this frees up a little space for analysis and commentary.

**The "A" Strategy** - An income-producing and low-risk strategy using bond funds and money market funds. 'A' Strategy money should now be divided between Money Market Funds and High Yield Bond Funds. The high-yielding closed-end funds and ETFs are a better choice than the mutual funds, and the energy trusts may be an even better choice.

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

### Franklin Templeton Funds

- ★ 15% Franklin Gold Fund
- ★ 25% Franklin Natural Resources Fund
- ★ 40% Franklin AGE High Income Fund
- ★ 20% Franklin Money Fund

Fidelity Funds Brokerage accounts: ETFs, stocks, mutual funds and options. A \* means that a stock has options. Stocks in **boldface** are owned by many of my clients with Fidelity or other brokerage accounts. Check the "Stocks at a Discount" column for information about each of these recommendations. All of them can be researched on the Internet at [www.moneycentral.com](http://www.moneycentral.com) and many other websites.

- ★ "Stocks at a Discount" High-yielding ETFs: GDF, VVR, CMK, JCE, JGT, BHY, EMD, SBW, and MGB

## "Stocks at a Discount"

(Continued)

Itronics (ITRO) gave us nice profits in the 1st quarter. We bought and sold it profitably at least once, and recently bought more at \$.0072 or better. You might want to own at least 40,000 shares. ITRO is currently \$.006 and continues to trade very heavily.

### Closed-end funds:

CMK, WIA, (GDF, VVR)

### Speculative stocks:

CCGY, BCTE, (CFW), SCLL.

### Closed Positions:

If you bought Octillion Corp. (OCTL) at \$1.40 or better you should now sell position. OCTL just jumped up to \$2.18, but I don't expect it to continue long at those lofty levels.

We took profits on AXU, GDF, SLV, UGTH, WWAT and a couple of others, and got back into most or all of them. We also sold MGF and CLCT and have not gotten back in.

### Other Information

UGTH is now HTM; it is mostly a change of symbol.

BCTE spun off Sterling Oil & Gas Co. Owners of BCTE received 33 shares of Sterling for every 100 shares of BCTE they owned.

### Please contact me

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



## Silver "Insurance" Program Update

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

The folks at [www.elliottician.com](http://www.elliottician.com) who created the Refined Elliott Trader (RET) software recently saw something I had already discovered. They put out a newsletter recommending the purchase of Silver because it appeared to be forming the third [upward] leg of a regular Zigzag. I had sent an email to many people urging them to buy silver just because this might be the beginning of the "big event" we have awaited for so long.

Unfortunately, Zigzags are funny things. Depending upon how they are constructed they can quickly turn into Zigzags pointing in the opposite direction, and that seems to have been the case here. The RET software currently indicates that silver could fall as low as \$15.00.

I had hoped to be in the Program by now with one contract, but I am glad it didn't happen. Please be patient; I believe an opportunity will present itself in the next six weeks or so. I do not believe silver can fall below \$15.00 regardless of the tremendous manipulation going on today. The options remain very expensive.

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

## Travel Schedule

I will let you know when I plan on traveling to your area again. I expect to make one trip to Dallas this summer and another to California in the fall. On one of those trips I will probably go via Colorado and New Mexico.

- ★ "Stocks at a Discount" penny stocks: AENS, BCTE, ITRO, SCLL, ETRUF, PEGX, SWFCF, HTM, WWAT, XSNX
- ★ High-yielding energy-related stocks and ETFs: AAV\*, PWE\*, ERF\*
- ★ "Commodity" stocks: AXU, RTK, CFW\*.
- ★ "Commodity" ETFs: SLV, GLD, PBW\*, PHO\*
- ★ Other stocks - RET recommended: none

Fidelity Funds non-brokerage accounts: limited to the Fidelity Funds only

- ★ 40% Fidelity Government Income Fund
- ★ 15% Fidelity Select Utilities Growth Portfolio
- ★ 25% Fidelity Select Natural Resources Fund
- ★ 10% Fidelity Select Gold Fund
- ★ 10% Fidelity Money Market Fund

Allianz and other Equity Index Annuities (EIAs)

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

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

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

Allianz and other Equity Index Annuities - Type 2 accounts:

- ★ 50% S&P 500 / 50% NASDAQ 100

---

## Volatility and market manipulation

---

In the 1st Quarter 2008 issue of *Wealth Creation and Preservation* I focused on market volatility. We have seen tremendous volatility since that issue appeared, and much of it is driven by attempts to manipulate the markets. Some people will tell you that no one can manipulate a market, at least not in the way the Hunt brothers manipulated silver in 1979. Actually, what they did is now easier and much more convenient to do using derivatives and leverage. It's also legal. I will share some examples in the next issue. For now, you should understand that my job of making your money grow is made more difficult because of the wide swings in prices caused by these manipulators.

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

It is my privilege to serve you.

*Charles W. Kraut*



# The Chart(s)

## Wheat (W #F)

To the right is what may be a classic example of market manipulation through legal and possibly illegal means. This is a Weekly chart: each vertical bar represents one week's trading.

Wheat began to move up in April 2007, but the rise went "exponential" a few months later. What is equally astonishing is the speed with which wheat fell. In neither the rise nor the fall did wheat's fundamentals justify this move.



## Silver (YI #F)

The silver chart is also a weekly chart. Silver got very expensive a few weeks ago, and in the not-too-distant future it will become even more expensive. Note that the stochastics (lower portion of the chart) are in "oversold" territory. If silver is in a downward ZigZag it can fall as far as about \$13.00 per ounce from its current price of about \$17.00. If silver is in an upward ZigZag it will soon move into the \$23-\$25 range.

Either way, silver is in short supply and getting shorter by the day.

Buy silver!



## Euros (EC #F)

I haven't owned Euros recently because they were due to turn and head south for several weeks. The downturn, as indicated in this Weekly chart, may be beginning. The RET software seems to indicate that all signs point to a cheaper Euro. Considering that it has almost doubled against the dollar in a very short time, the Euro deserves a break. When it has declined sufficiently I will get back in.



# The "Behind the Charts" Market Update

Data as of 24 Apr 2008

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.

## U.S. Stock Markets

**Dow Jones Industrial Average (DJIA).** 12,873.79. We have gotten the rebound I mentioned in the previous issue, and now the question is whether we have found a bottom. The RET software is offering no hints at this moment, and my general inclination is that the market will resume its downward trend. I could be wrong.

**S&P 500 (\$SP).** 1,394.36. The S&P fell a long way from its new all-time high of 1,576.09 on 11 Oct 2007. That October date marked a classic double top, one a technician could certainly call the end of a long trend. The S&P has recovered from its recent lows, but the future is uncertain.

**NASDAQ 100 (NASDAQ).** \$NDX, 1934.58. The NASDAQ is rebounding nicely from its March low. I expect the NASDAQ to outperform the S&P in 2008 regardless of whether the market ends the year up or down.

## Bond Markets

**US Treasury Bonds.** 115 27/32, continuation contract. Bonds are so high now and interest rates so low that it seems foolish to own bonds. Once the Federal Reserve wakes up and realizes that we have an inflation problem interest rates on Treasuries will rise rapidly, and their value will fall.

**High Yield or "junk" Bonds.** We are completely out of High Yield bond funds as of 26 July, but we still hold some of the ETFs or "closed-end" funds I describe in "Stocks at a Discount." We purchased them at a significant discount after their price had fallen dramatically.

## Commodities

**Oil** \$115.66/barrel, continuation contract.

The wild ride continues. Oil recently set several all-time highs, touching \$120 a barrel for a few seconds. We may have passed Peak Oil already; T. Boone Pickens seems to think so, as do many others who know much more about it than I do. If so, expect oil to rise to as high as \$200 a barrel in 2008-2009 even without another oil "shock".

I moved my clients out of the gold and energy funds into the natural resource funds, and as mentioned elsewhere in this issue it appears to have been a good decision.

## Real Estate

I moved out of our Real Estate positions in November 2005. The commercial real estate industry is now showing signs of distress, though nothing like what we are seeing in residential housing.

**Gold and silver.** Gold \$889.20, Silver \$16.68 per ounce.

Gold hit a new all-time high of \$1,033.70 on 17 Mar 08, and silver hit \$21.38 the same day. Adjusted for inflation gold still hasn't begun to approach its 1979 prices. The RET software is now indicating a decline in silver and is not telling us much about gold. See the Silver "Insurance" Program" column on Page 8.

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 U.S. Mint apparently had to stop selling 2008 Silver Eagles because it couldn't get the silver to make them.

**The Euro** \$1.5618, continuation contract.

The Euro hit a new all-time high of \$1.5984 on 22 Apr 08. It has fallen off somewhat since then, and at the moment the trend is down, possibly because this high was a double top.

## What to do now

1. Buy Australian Dollars, Canadian Dollars and Silver. You can do all three in your Fidelity brokerage account, but you should also own "junk" US pre-1965 coins including dimes, quarters and half dollars. You can buy them from Dallas Gold & Silver Exchange or you can buy them on eBay. I have no inventory to sell at this point. You should consider selling your certified gold coins if you will replace them with junk silver coins. It is probably true that there is much more gold in the world than silver, and silver is likely to rise in value even if gold falls.

2. Make your home as energy efficient as possible.

3. Store food and water. Prices are only going to go up even though wheat has given back every penny of its recent spectacular rise from \$7.55 a bushel; in November 2007 to \$13.18 on 13 Mar 2008. That's one of the things I was referring to when I talked about market manipulation in this issue. (See Page 8)

We will see the commodity markets correct, and some already have begun to do so. In many instances those declines will be temporary. There is a growing awareness that this world is running out of essentials, and governments and countries are beginning to hoard what they have. Since the United States relies so heavily on imports for just about everything that means that we will have to pay more and more for what we want.

Listen to what isn't being said by the media and the candidates for public office. The most important problems in the history of the world are being almost completely ignored.