Wealth Creation
. . . and Preservation

Independent, unbiased advice to help Americans prosper

3rd Quarter 2008 | Volume 15, Number 3 | $25.00 per copy

"What will you do when the Money's no good?", the book

I haven't finished editing *Moneywise*, my first book, nor has it been accepted by a publisher - yet. I have begun work on the second book, which is if anything even more timely because it deals with the greatest threat to your financial well-being you will ever experience.

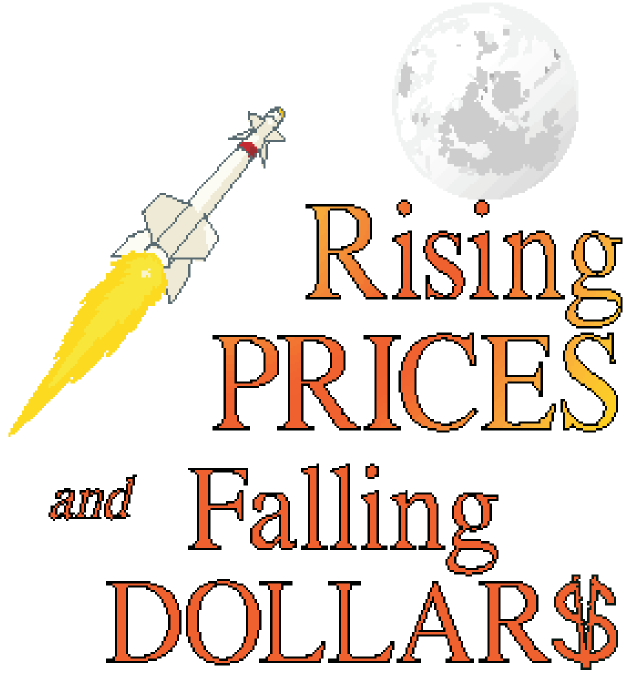
In this issue I deal with just one aspect of the dollar's decline, the problem of inflation. Nothing I or any financial professional does for you will mean anything unless you 1) avoid losses and 2) make your money grow fast enough to keep ahead of inflation, taxes and the declining dollar.

Inflation hurts all of us because it diminishes the value of our money. It is a constant drain as we are faced with ever-higher prices unmatched by ever-higher income.

Inflation is a thief. It robs you of the fruits of your labors as it slowly, inexorably impoverishes you.

Some inflation can be controlled by governments; some cannot. We are currently faced with both types. The things we buy are becoming more expensive both because the money is worth less and because there are fewer goods available to an ever-increasing global population.

I believe we can overcome the government-sponsored inflation and make significant inroads into the other type, but only if we try. The solutions currently being proposed are laughable at best.



It took a long time, but we are finally beginning to feel the pinch as prices rise in the latest round of inflation. Gasoline prices have reversed and headed lower, but many other prices continue to move higher in every sector except possibly one: your home. We may be heading into inflation, but we have sown the seeds of a major wave of inflation in the near future.

Where does inflation come from? I'm glad you asked. It is important that we understand that there are at least two types of inflation. At one of them is the natural consequence when a government devalues its currency. Throughout human history, kings, and purse, presidents, dictators, and despots have all thought themselves smarter than those whom they ruled, and in one time or another decided to remove the gold

Charles W. Kraut, MBA

Please contact us at our new website:

www.wcandp.com

In this issue:

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."

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or silver from their currencies and replace it with something significantly less valuable, such as lead or paper. History indicates clearly that the rules are often just as intelligent as rulers, and every currency so debased as eventually either gone to zero or been replaced or both.

Welcome to the third round of currency destruction in United States history. shortly after the American Revolution, and was caused because the government could not pay its debts. took place during and after the American Civil War, when the "greenback" came into existence as a replacement currency.

If you have lived long enough you so long ago the initial nail being driven into the dollar's coffin We used to have silver certificates for our one dollar bills, but today all of our currency simply says Federal Reserve note. There is nothing of any value behind our Federal Reserve notes, and that's the way our government wants it to be. A government that cannot afford to pay off its obligations can make the easy choice to insulate the currency and watch the debts automatically diminish.

The Federal Reserve was created in 1913with the single mission of preserving the value of the United States dollar. As such, the Fed has been one of the most spectacular failures in history. If you study the history you may come to understand, as I do, that the real purpose for the creation of the federal reserve was not to stabilize the currency but to enable a certain few to wield enormous power. In that respect, the Federal Reserve has been wildly successful.

What about the other type of inflation?

In theory, absent manipulation of the currency by any party, periods of *inflation* are offset by periods of *deflation* as the currency adjusts itself to different economic circumstances. and damaging period of inflation in our lifetimes has been the period of the late 70s and early 80s, when the rate of price inflation was running as high as 20% per year. And most of that installation was the second type of inflation, the one based upon scarcity rather than a debased currency. Back then Americans seem to have some understanding, and when people "in the know" said the oil is going to spike up to $80 per barrel, we could see that rippling through the entire economy and took appropriate action. Prices up of almost everything rose quickly, and wages also rose, but not as quickly.

Today history is repeating itself. Oil is bumping up against a new all-time highs, having risen 40% in 2008 so far, and the impact of higher oil prices is being felt throughout the economy. There is however, one tremendous difference between the late 70s and today; in the late 70s all that had happened was for the Saud's to "open the oil spigot" and the price of oil would quickly decline, which it did. Americans were once again free to waste money and energy. Instead of a corresponding period of deflation, however, prices never really went down except for the per barrel price of oil and, for a time, the price of gasoline at the pump. In the rate of consumer price inflation declined, but it never went negative. Prices have risen ever since.

During that earlier inflationary period, the Federal Reserve did its job properly, and raised interest rates significantly in an attempt to slow the economy. It worked.

Fast forward to 2008, when George Bush leaves the White House to head out to Saudi Arabia and plead with the Arabs to "open the oil spigot" once again and save America from too-expensive oil. The Saudis finally agreed to minor increases in daily production, but this time they really cannot afford to do so. There are two things that no one knows about Arabian oil; first, how much is left, and second, how much of what is left is recoverable. My research indicates that both numbers are far less than what we want to believe.

The reality today is that since 1980 the world has used a large percentage of the available oil, and now that demand is higher than ever before production is beginning to decline. That's the second type of inflation, but it doesn't apply only to oil. We are clearly running out of oil, natural gas, freshwater, of the metals and other substances essential to maintaining our economy and our way of life.

And the laws of supply and demand, therefore, apply to both forms of inflation. If you run your printing presses night and day to create more currency, each new unit of currency you print will devalue every other unit of currency in existence. If 2 billion people who had not been born in 1980 now wants in their own cars and TVs and the things that we have so long and enjoyed, if the raw materials to produce those consumer goods are dwindling their prices will skyrocket.

As an aside, when they make the same analogy about the stock market. I have heard it said dozens of times but stocks always average ex-percent gain's per year over the long-term. Very few people ever talk about the fact that stocks are just like currency; they are created at the whim of a company or corporation, and are backed only, in the final analysis, by the full faith and credit of the issuing entity. And there can be too many shares of stock available for purchase just as there can be too many dollars. I believe that both stocks and dollars are insignificant oversupply.

Consequences of Scarcity

SUVs are a wonderful currents illustration of supply and demand. Now the gasoline is around four dollars per gallon many people have figured out that they don't want to spend $100 to fill the tank each time. They are looking for a less expensive alternative. In other words, the demand for SUVs has declined significantly, though the supply has remained about the same. The result? Talk to any dealer about a new or used SUV and see what kind of a discount you can get. Prices are plummeting, and as long as gasoline is expensive demand for SUVs will remain low.

On the other hand, look at oil. Our world has the capacity to produce approximately 85 million barrels of oil per day. In recent months,

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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.*

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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) 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.**

daily worldwide demand for oil has moved up beyond 86 million barrels per day. Demand now exceeds supply for the first time in history. Prices rise as a natural consequence.

So much for Economics 101. There is something else you need to know about the types of inflation we are experiencing today. First, our government has no interest in strengthening the dollar now or in the future. That's my opinion, based upon a great deal of evidence and observation. Our government currently has what may be as much as $69 trillion in unfunded liabilities. That is a staggering amount of money, far beyond the ability of our government to extract from us through taxes. We have literally made indentured servants of our children and grandchildren to support our lifestyle, and the bill is coming due.

In other words, don't expect the dollar to reverse its 95-year trend. I predict that the dollar will either go to zero or go to a point almost indistinguishable from zero. Since foreigners own trillions of dollars, they will find that rather upsetting, which is why it is being done slowly and gradually.

Second, there are now over 6 billion people on this planet. The world's population is increasing daily, but for various reasons the Earth's carrying capacity is diminishing. *Jared Diamond* has written extensively on this issue. Demand for everything is rising, and the supply of many things is diminishing. Unfortunately, most of the "substitutions", the alternative technologies that are absolutely essential, have been "unavoidably delayed". *Ray Kurzweil* thinks they will arrive in plenty of time; he is in the minority.

What can you do?

There are several things you need to begin doing today.

① Cut back on your discretionary spending.

② Start saving and invest your money where it at least has a chance to keep ahead of inflation.

③ Increase your income.

④ Decrease your "carbon footprint."

⑤ Consume less.

⑥ Get involved in awareness programs, especially those having conservation and the intelligent use of the resources available to us.

This is not the late 70s. We are in a whole new world, with conditions unlike any we have ever seen. It is up to you to make and carry out appropriate plans to help get you and your family get through what is coming. I can help, but the responsibility is yours.

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

"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.

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 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 pollenation, 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.

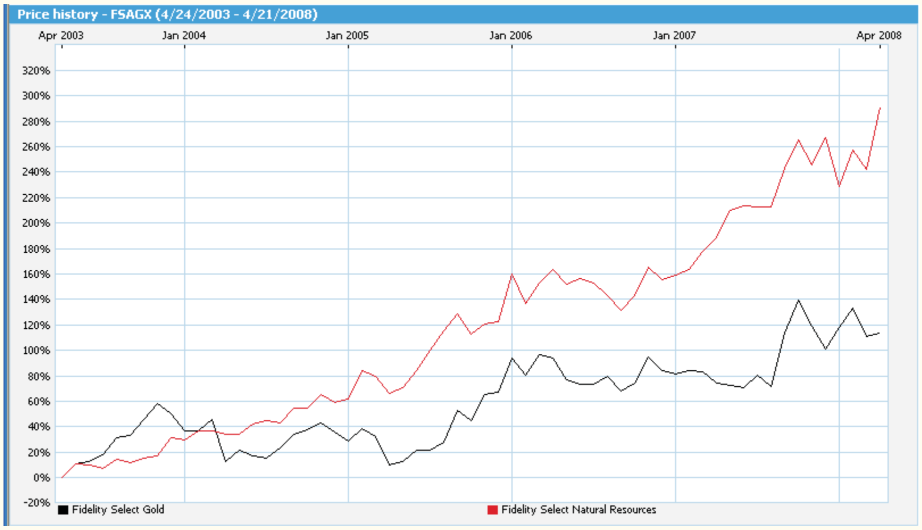
What can you do? Most of my readers are not now in a position where they could do even a fraction of what I have described. We have chosen this type of life, though the maintenance of our property takes away time that could otherwise be used to generate income. We would do these things whether we thought 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. 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 regular 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 1 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.

FranklinTempleton Funds

"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.

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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 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.

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- 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 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" 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% NASDAQ100

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

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 (S&P). 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 end 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.