Wealth Creation
. . . and Preservation

Independent, unbiased advice to help Americans prosper

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A negative quarter

Please take a look at the following information:

Data as of Friday, 3 Oct 2008	Change, 2008 Y-T-D	3rd Quarter 2008	Current Index Price
Dow Jones Industrial Average (DJIA)	-19.3%	-11.8%	10325.38
S&P 500	-22.1%	-12.9%	1099.23
Crude Oil	-4.1%	-34.8%	$93.88
U.S. Dollar	+6.3%	+10.4%	80.58
Gold	-3.7%	-10.9%	$833.20
Silver	-26.7%	-37.8%	$11.32

We are at the beginning of an inflationary cycle. You would expect the stock market to rise briefly, then fall as the economy slows. You would also expect inflation hedges (oil, Gold, and Silver) to rise, especially when we have significant monetary inflation. Finally, you would expect the dollar to fall. **Just the opposite is happening**.

The Federal Reserve is printing money faster than ever before. Prices are up, but all the inflation hedges are down. My clients have seen their account values fall right along with every other investor in America - and that is unprecedented in my nearly 30 years in this business. This market doesn't make any sense - but then, markets seldom do.

18 September 2008. You should circle that day on your calendar as the most historic day of the new millennium - so far, anyway. Most people only read about it afterward, and very few people understand it, but on 18 September the world managed to pull itself back from the brink of financial catastrophe - for the moment.

Governments around the world worked around the clock (putting "government" and "work" into the same sentence usually creates an oxymoron) in concert with major financial institutions to jawbone the crisis back into its cage. What almost happened? It's a little difficult to describe, but it involves the failure of so many financial institutions and the collapse of so many stock markets that mankind might never recover.

The end result would have been a massive deflationary depression, the likes of which the world has never seen. Instead, we obtained a temporary reprieve because these governments injected money into their markets at a critical moment and told us that everything was fine. I'm not sure which of those two steps had more effect, the injections or the jawboning.

Charles W. Kraut, MBA

Please contact us at our new website:

www.wcandp.com

In this issue:

from *The Daily Reckoning*

6 October 2008

"As we write this morning, China's Hang Seng finished down almost 5%. Japan's Nikkei 225 closed 4.25% down.

"What does it mean? Maybe nothing; maybe NOT nothing. Could the market suddenly find its feet and bolt up 500 points? Sure. But it could also collapse again too. Over the past few weeks, the latter has obviously been the better bet.

"In times of mass liquidation, as we are seeing now, it's very hard to tell which way things will swing. As we wrote yesterday, this is a market in which hedges ain't hedging, correlations ain't correlating and all reason seems to have escaped Mr. Market's *modus operandi*. We suspect things will return to "normal" eventually. The only problem, as Keynes astutely pointed out, is that "The market can stay irrational longer than you can stay solvent."

"In fact, many of the guys who 'got it right' on the fall of the financials are struggling to keep their heads above water. Rain, as they say, is falling on the guilty and the innocent alike. A quick look at most long-only portfolio reveals some pretty gruesome losses. Without an adequate short strategy, many portfolios look like a crash scene. "

☑

That 'injection' of money is only one of many in the past several years. This is where government creates money out of thin air and throws it at large financial institutions. For some reason, it usually works. The rich get richer and we pay the bill.

I don't mean to stir up public sentiment and encourage class warfare any more than I like to say "I told you so". I'm not even all that keen on just venting my frustrations at those who are turning our world upside down. What I *want* to do is to help us understand the seriousness of what is happening.

I have written at length about the greed that you find everywhere on Wall Street. I have written about how powerful executives on Wall Street and elsewhere can get massive handouts from government with which they line their pockets. Even when they destroy their companies through gross mismanagement they still get away with hundreds of millions of dollars in "golden parachutes". It is the combination of greed and the overpowering desire to "win at all costs" that has brought us to the brink of disaster.

I'm not going to retell the entire story of what is happened over the past month or the events leading up to it. Many books will be written about it, and they should be written from a more distant perspective, after the dust has settled. Briefly, this is how I see it:

1. The United States government passed two key pieces of legislation in 1977 and 1995 which strongly urged Fannie Mae and Freddie Mac to ignore common sense, standard banking regulations, and good business practices and lend enormous amounts of money to people who probably could not afford to pay it back. This is part of the great "social agenda" that goes all the way back to the days of Franklin Delano Roosevelt, but which gained increased momentum under LBJ's "Great Society". The idea was to enable more Americans to participate in the American dream by making it possible for them to own their own homes. As is always the case when government gets involved, greedy people took what might otherwise have been a good idea and twisted it so that they could generate huge profits for themselves while doing nothing for these new homeowners - except perhaps deceiving many of them.

2. The Federal Reserve decided to abandon its previous policy of fighting inflation and decided instead that it was their job to prevent further economic downturns. Alan Greenspan became the great champion of creating money without basis, but he has more than met his match in "Helicopter" Ben Bernanke. Bernanke has continued the trend Greenspan started, lowering interest rates to keep the wheels of commerce turning. In this government program, as in all others, greedy people found ways to take advantage and made enormous profits in speculation on interest rates and currencies. Unfortunately, everyone who owns a piece of US treasury debt, owns a fixed annuity, has a Certificate of Deposit, or has money in a savings account has suffered as a result.

3. Government regulators aided and abetted a tremendous expansion of derivatives. Derivatives are sophisticated financial instruments that use huge amounts of leverage. Even after derivatives bankrupted Orange County, California these extremely technical instruments only grew in number and value. When "the smartest guys in the world", including two Nobel prize-winning economists, drove Long-term Capital Management over the cliff and nearly took the entire world with them, our regulators and our government did not get the hint. Just as during the Cold War the nations that possessed nuclear weapons had enough material to destroy the world several times over, so these derivatives utilize so much leverage that they were at risk for something like 30 times all the money in the world. We just didn't learn.

4. The inevitable crisis brought on by the growing default in mortgages caused lenders to become much more restrictive in their lending practices. This is the type of event that brings on deflation and an increase in the value of the currency because there is less of the currency around. If banks do not loan out several times the amount of money they have on deposit the monetary base shrinks rapidly. One of the most important of the recent victims of this "credit contraction" has been the money market funds, which buy very short-term debt from corporations or governments. Although short-term debt is supposed to be almost "riskless", money market fund managers have found to their chagrin that it is not. For only the second time in history a money market fund - and a significant one, at that - "broke the buck" as the value of each share in the money market fund fell below one dollar. It is at that moment when a panic can begin, for all the credibility the currency may have had can disappear. Why? Because *no one knows where they can put their money and keep it safe*.

Remember, the dollar is the world's biggest confidence game, and the world is rapidly losing confidence in it. The West had looked longingly to the Euro as a replacement for the dollar, but, alas, the Euro may be on its way out as well.

That explains why so many banks have recently seen a "run on the bank". Even though in the back of their minds savers and depositors realize that FDIC insurance makes their money in the bank safer than it is in a money market fund, they suddenly feel that there is an additional element of risk in cash. After all, the bank may have put their depositors' money into one of these money market funds - or worse.

Now we are seeing the fallout from all this greed, mismanagement, and proliferation of incomprehensible securities. Lenders who made fortunes in fees and points lending money to people who couldn't make the payments are going bankrupt by the dozens. Their business has all but gone away.

Now that all those millions of adjustable and "Alt-A" mortgages are resetting at higher interest rates, borrowers are defaulting in record numbers. In short, all those mortgages that were bundled and sold through the good offices of Fannie Mae and Freddie Mac to investors all over the world are now in jeopardy.

In an ordinary environment, all other things being equal, it is unlikely that any more than a small percentage of these loans would actually fail. However, these are not ordinary times:

- Real wages have not increased in the past 40 years, but the cost of living certainly has. Retirees living on a fixed income are having to get by on less as prices rise and they receive less and less interest on their savings.
- The investment markets are sweeping away years of gains, forcing millions to postpone retirement.
- Unemployment is rising to multi-decade highs.
- Government at all levels is deeper in debt than ever before.
- Many people paid too much for their homes, and now that the price has fallen many are "underwater" in their mortgages. For them, the easiest

S-I-R

Savings

ING Direct is currently paying an FDIC-insured 3.0% 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.*

I am no longer recommending Everbank. I don't care for their service or their products, except perhaps for their Gold and Silver CDs.

Investment

My recommendations for investment and retirement money have changed once more. **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.** All of them are down, but hold on to them.

Your Investment program can also include the "*Stocks at a Discount*" *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*.

☑

I should probably stop reading the Constitution . . .

As I have watched the massive and unprecedented interventions by the Federal Reserve and the executive branch of our government, it has occurred to me that it would be nice to know what the Constitution has to say about the authority it gives the President the United States to manage the economy.

Since I always keep a copy close at hand I looked it up. Here are the things the Constitution allows the President to do:

1. He is the commander-in-chief.

2. he has the power to make treaties with the advice and consent of the Senate.

3. He has the power to appoint ambassadors judges of the Supreme Court and many other officers of the United States.

4. He has the power to fill vacancies in the Senate that occurred during its recess.

5. He is authorized to give a State of the Union address.

6. He and all civil officers of the United States shall be removed from office on impeachment for and conviction of treason, bribery, or other high crimes and misdemeanors.

That's it. There's nothing in his job description about a national bank, a Federal Reserve, or anything about the president's responsibility or right to manage any aspect of the economy of the United States. I'm not enough of a student of history to know whether there are still various enabling acts, such as the Federal Reserve Act of 1916, that give the president some authority to officiate in these matters, but I am reasonably certain that the Constitution has never been amended to enable the Executive Branch to control the economy.

I believe that if the Executive Branch or, for that matter, the Congress had never become involved in the management and stabilization of the economy, our economy would probably be humming along just fine, thank you. At least, the business cycle would be functioning as it should without the creation of all these "bubbles".

I could be wrong.

option is simply to walk away and drop the keys off at the bank as they leave.

Getting back to Freddie and Fannie, who bought these "toxic" loans? It would almost be easier to answer the opposite question, who didn't buy them? Just about every pension plan, retirement fund, bond fund, insurance company, bank, investment bank, Wall Street firm, and private bank added them to their portfolios. Those institutions are in trouble now, and many of them will fail.

We are on the brink. Housing is just one of the levers that can tip us over the edge.

OK. Let's all take a deep breath and take a look at the future.

Coming Events

Here are some of the things I anticipate for the near future that will affect you.

① Crude oil will continue to fall, perhaps as far as $50 a barrel. $50 is 1/3 of the price it hit earlier this year.

② The dollar, having recently devastated the euro, the Australian dollar, and the Canadian dollar, will stabilize and perhaps gain a little more against those currencies before it peaks.

③ Gold and silver will remain in the doldrums long enough to convince people that they are not good investments.

④ Interest rates will remain low. Search as you will, you will not find anywhere to put your "safe" money and get a meaningful return.

⑤ Talk of deflation will dominate the financial media.

⑥ Stock markets all over the world will exhibit record volatility. One day everyone will be convinced that "the bottom is in", and the next day the cry will be "the sky is falling".

⑦ "Stagflation" will damage the economy and keep prices rising.

These are all short-term events. They will occur because the world has not begun to digest all the inflationary ramifications of the massive amounts of money creation taking place. Once it does, everything will change - and not for the better.

Here are some of the things I believe will happen beginning no later than the middle of 2009:

① The dollar will reverse course and begin to lose value against all major foreign currencies except perhaps the euro. The Euro may go into a long, terminal decline.

② Our economy will sink into recession, then depression. Unemployment will rise, banks will fail, pension plans would go bankrupt, and our government will be there to bail them out with paper money. Every new dollar created will hasten the ultimate destruction of all dollars.

③ People will begin to wonder why a few extremely wealthy people were permitted to destroy the world's financial system, and then permitted to retire with huge bonuses. As people begin to suffer the ill effects of a struggling economy, they will look for someone to blame - and punish.

④ New laws will be created that will further reduce freedom in the United States. Americans have already shown their willingness to sacrifice freedom for "security" (the infamous "Patriot" Act); they will now prostate themselves before the altar of Big Government and sacrifice their right of self-determination for government welfare. Why do dictators arise? To give the people what they need and want.

⑤ Oil will rise, quite possibly into the $200 - $300 range, forcing many companies out of business and many people into unemployment. If oil falls to $50 in the near term, no one will be willing to sell it (I'm referring to OPEC, et al.). Also, no one will be able to afford to explore and drill for it.

⑥ State-funded retirement plans will begin to fail as their investment returns (or the lack thereof) force them to cut back on benefits.

⑦ Inflation will continue, but this time the standard inflation hedges will rise in response.

⑧ A new class of "retired poor" will arise and demand government benefits beyond those already provided to them by Social Security. They will need those benefits because their former employers canceled their pension plan. In its place is a 401(k) plan to which these retirees did not contribute enough and/or in which they did not make enough money to be able to afford retirement.

⑨ The housing market may continue to fall as demand for homes declines. I still maintain that we will see three generations under one roof as we did many years ago.

I could go on and on with gloomy predictions like this, but that's enough to give you some ideas about how you might want to prepare. What will life be like in your neighborhood if a third of your neighbors cannot afford to make their house payments? How will your local police department respond there is a significant increase in criminal activity, including burglary and auto theft? How many elderly people who need nursing home care will be able to afford it? How many will be compelled to fall back on the resources (if any) of their children?

I would really appreciate your input and ideas about how to prepare for and respond to these events. They will be without precedent in American history. The Great Depression, the event that may most closely resemble what is coming, was very different from what we are about to experience. In the 1930s people had higher standards of personal integrity and morality. They also had a lot more money in personal savings, though many of them lost that money when their banks failed. There was no drug trafficking, for there were very few illegal drugs. The few that did exist were not as popular as they are today. We also were not faced with a growing shortage of precious natural resources as we are now.

I anticipate greater conflict within nations and between nations, much of it over scarce resources. Just look at the battle between Georgia, Florida and Alabama ver water in the A-C-F river basin. There are many more disputes like it.

Key Questions- Charles interviews Charles

Q. Is my money "in the bank" safe?

A. Under most circumstances, yes. Don't exceed the FDIC limits at any banking institution, and be prepared to wait several weeks to get your money if your bank fails. Please remember that unless the interest rate you receive exceeds the inflation rate, your money in the bank will lose its purchasing power.

Q. Is my Fidelity or other brokerage account safe?

A. The money I manage for my clients is managed very conservatively; however, that does not mean that we will not experience losses from time to time, as we are now. Because of the unprecedented events of the last 90 days I have taken losses in many of my clients' holdings. Much of what we still hold is worth less than what we paid for it. That will change, though it may take longer than we would like.

Q. Is my Allianz or other annuity money safe?

"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 7th. **Please use a trailing stop** (TrSt) with these stocks whenever possible.

I hope you used the trailing stops I have been recommending for many months. If you did, you got out of many stocks with only minor losses and are now sitting on a lot of cash.

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

1. Buy Western Asset Global Partners Income Fund (GDF) at $6.50 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. If you were stopped out of GDF previously, consider purchasing it again now at a much lower price. (TrSt $.30)

2. Buy Enerplus (ERF) at $27.50 or better and use a $1.00 trailing stop. I expect Enerplus and all our energy trusts to lower their dividends now that oil is below $100 per barrel. If you use a trailing stop you cannot use a covered call option; it's your choice. These stocks are now low enough to rebound nicely when oil starts heading up again.

3. Buy Provident Energy (PVX) at $6.25 or better. Sell a covered call or use a $.40 trailing stop.

4. Buy PennWest Energy (PWE) at $17.00 or better. Sell a covered call or use a $.60 trailing stop.

5. Buy DBS at $20.00 or better. This is the other Silver ETF. Unlike SLV, DBS has options. Sell a covered call or use a $1.00 trailing stop.

6. Buy TIP at $100.00 or better. Covered calls aren't worth much, and a trailing stop would probably be ineffective with TIP, which buys Treasury Inflation-Protection bonds and currently yields about 6.5%.

"Stocks at a Discount"

(Continued)

Current Positions:

We currently own mostly commodity stocks including silver (DBS), silver mining (CDE), other mining companies and funds (GDX), energy income trusts (AAV, ERF, PVX, PWE), and some energy stocks, (HTM, NGLPF, SWFCF, WGPWF). All are less expensive than when we purchased them.

We also own high yield ETFs or closed-end funds (FAX, GDF, QCC, and MGF) and the foreign currency ETFs FXA and FXC. All are lower than our purchase price. We were stopped out of or sold off all the rest.

We also own several speculative stocks. Here is the short list: SCLL, ITRO, OXBO, PEGX, CDDRF, IPWG, XSNX, and WWAT. None are recommended for purchase at this time. Some of them have fallen so far there is no point in selling them. This is why we never put a large amount of money into any one of them.

We bought quite a few shares of Quest Capital (QCC) for as much as $2.00 per share. QCC is now $1.20, a 40% decline from our initial purchase price. I have continued to "average down" on QCC and increase our position size. I believe that the company, a Canadian mortgage firm, has seen its price decline only because it has been "tarred with the same brush" as many other financial stocks. QCC continues to pay a dividend in excess of 10%.

Itronics (ITRO) continues to trade very heavily, but the stock has done nothing for us in the 3rd quarter. I still believe the company will someday show a profit. They are in a good business (silver recycling).

A. Under most circumstances, yes. Insurance companies are required to hold reserves in excess of the amount of money entrusted to them by their policyholders. Of course, these reserves are invested somewhere, mostly in high-quality bonds, but all of the insurance companies' assets can lose value. Money you place with an insurance company is not insured by the FDIC; rather, it is insured by the insurance company itself. When an insurance company gets into financial difficulty, it must find a new partner to buy out some or all of its assets. Many of the largest insurance companies in the United States have been bought out under such circumstances by European companies including AXA, ING, and Allianz.

Q. What is your strategy for managing money?

A. My strategy has not changed. I manage money in a way to minimize risk while producing an above-average return. The worst year I ever had as a money manager was 1994 when my average client lost somewhere between 1% and 2%. 2008 has not been as kind; I purchased commodities, precious metals, and energy trusts for myself and my clients in anticipation of much higher inflation and global shortages. All of these investments peaked earlier this year and their value has plummeted since then. I did not anticipate this. The stock market fell in the fourth quarter of 2007 and all of 2008, but my clients were able to make money all the way through the first half of 2008. We began losing money only in the third quarter of 2008. I have cut back on many of our positions, and most of my clients have a high percentage of cash in their accounts so that we will be ready to purchase once this market bottoms. In the meantime I expect we will continue to obtain good dividends from the things we continue to hold.

Q. Where have you been wrong?

A. Hindsight says that I should have bailed out at the top. Of course, no one knew it *was* the top at that time. I actually had taken profits for my clients all the way up, and we had gotten to the point where there literally was nothing left to buy because everything cost more than I was willing to pay. I had no idea that money would flow out of the commodities, especially oil, as fast as air out of a balloon that has met up with a pin.

I was also wrong in following the recommendations of Mark Skousen, a financial advisor I have known for many years. In my book *Moneywise* I emphasize that very few people who write newsletters use technical analysis as well as fundamental analysis. Mark is one of those who uses *only* fundamental analysis. This week, when all of the closed end high-yield funds we owned or used to own had fallen to as low as a third of the price we paid for them, Mark still recommended holding onto them. I, on the other hand, had specified in these pages that wherever possible we should employ trailing stops against these funds, and I did close many of our positions. I only wish I had gotten out of them earlier.

Finally, until just a few weeks ago I had never understood the cycle created by those who are manipulating the price of silver. You may recall the e-mail I sent out recently on that subject. For many years I have believed that silver was terribly underpriced, and would rise sharply when "the market" became aware of its true value. That's why I invented the Silver "Insurance" Program, in which I have not placed a trade in more than two years. I now realize that silver is a short seller's paradise; all you have to do is to watch until it rises to a certain point, and then buy put options against it. Once it begins to fall it will do so very quickly, and make the put options profitable. I am developing a new strategy that will take advantage of this realization.

Q. Should I "cut and run"?

A. That is always up to you. I am not in the business of handing losses to my clients, and I very much regret the situation in which we find ourselves. If I didn't think I could "turn lemons into lemonade" I would recommend that you bail out and go elsewhere. As I mentioned in the previous section, however, once monetary inflation is acknowledged commodity prices will rise once again and exceed their previous 2008 highs. In the meantime all I am doing is collecting lots of dividends and interest.

Oil in the news

As you know, crude oil has fallen from its recent high of $147 a barrel to below $90. This means that oil is now cheaper than it was at the beginning of 2008. Unfortunately, oil's lower price will not translate into savings for you this winter. It was announced today (7 October) that heating oil will be about $.58 per gallon <u>more</u> expensive than it was last winter.

Natural gas is also lower than it was last winter, but I suspect its price will likewise remain high this winter.

I wish I could explain to you why oil ran up so far, so fast, and then fell precipitously, but I can't. My research indicates that all the "usual suspects" were involved; the hedgers, the speculators and the gamblers. Something else happened this time. As oil began to rise sharply institutional money managers literally threw money at it, pushing its price much higher. That money poured out of oil (no pun intended) when some people decided that the trend was over, and when others were forced to sell off their winners to offset their losers. Many managers, including many hedge fund managers, have needed to increase liquidity in recent weeks. This has pushed down both the commodity markets and the stock markets.

The baby and the bath water

Market selloffs like this one are amazing things to watch. Good stocks get sold right along with bad stocks; losers and winners alike. At some point you just have to wonder what people are thinking because stock prices have fallen so far that they have become tremendous bargains. Still, people don't buy them.

There is no strategy for preserving wealth in a market like this. Once the downturn has begun in earnest, you can only admit that you should have gotten out sooner. If you are now holding onto stocks that have become very inexpensive - and we are - there is no point in selling because the stocks simply will come back. There is no good reason to turn a paper loss into a real loss, especially when you are getting paid good dividends along the way.

Once this downturn is over - and I won't begin to speculate on how long that will take - you will be able to throw a dart at any list of stocks and be almost certain to find a winner.

Recommended Investment Allocations

NOTE: **There are numerous changes** listed below. We have closed many positions, most of them with losses, and we have switched from "high yield" to safety, which means that we now have U.S. Government bond funds and GNMA funds as well as TIP in our Fidelity accounts.

<u>The "A" Strategy</u> - 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 *U.S. Government 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.

<u>Type I accounts</u> - 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

- ☆ 20% Franklin Gold Fund
- ☆ 80% Franklin Money Fund

"Stocks at a Discount"

(Continued)

Closed-end funds:

GDF, MGF

High-yield stocks:

QCC

Speculative stocks:

BCTE, SCLL.

Closed Positions:

We have closed out AXU, VVR, BHY, EMD, CMK, SLV, most of our CDE, LMC, PBW, and several others.

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.

The stock market will probably bottom sometime in the next few months, but that could happen at levels much lower than where we are now.

This is the bear market I have been predicting for years. It couldn't begin until the S&P had "double-topped". Don't be too eager to rush in and snap up a bargain which will only become tomorrow's loser. Use covered calls or trailing stops, and consider using protective puts in non-retirement accounts.

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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.

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 by the end of the year when silver bottoms or double bottoms. 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 expect *Moneywise* to be in print by the end of February, and I plan to travel around the country promoting it. I am working with Tate Publishing in Oklahoma to get the book published.

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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**, MGF, **TIP**
- "Stocks at a Discount" penny stocks: AENS, BCTE, **ITRO**, **SCLL**, ETRUF, PEGX, SWFCF, HTM, WWAT, XSNX. All of these stocks have fallen sharply from where we bought them
- High-yielding energy-related stocks and ETFs: AAV*, PWE*, ERF*, PVX*
- "Commodity" stocks: none at present.
- "Commodity" ETFs: DBS
- Other stocks - RET recommended: none

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

- 50% Fidelity Government Income Fund
- 20% Fidelity Select Gold Fund
- 30% Fidelity Money Market Fund

Allianz and other Equity Index Annuities (EIAs)

- 25% S&P 500 / 25% NASDAQ 100 / 50% 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:

- 25% S&P 500 / 50% NASDAQ100 / 25% Interest-bearing

The good news

I never thought that breaking even would be considered good news, but it is. For several years I have been very careful to place about 50% of my clients' investments and retirement assets into either fixed or Equity Index annuities. In that way, about half of your investment assets were completely free of risk; as long as you met all the contract provisions you are guaranteed to get your money back plus whatever return was promised.

Through most of 2008 my clients have been getting annual statements from their equity index annuities that showed no gain and no interest credited for the contract year. Some of you kept a portion of your annuity money in the fixed or interest-bearing account, and were paid some interest. Either way, with the markets in the tailspin they are in at present, making nothing is beginning to look pretty good.

We live in challenging times. We may not have seen the worst of this crisis, but I am confident that we will come out of it. I hope that we will learn the right lessons from the experience. For some people hard times are like a refiner's fire; they come out humbler, kinder, and more compassionate than they were previously. I hope to see much of that in the days to come.

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)

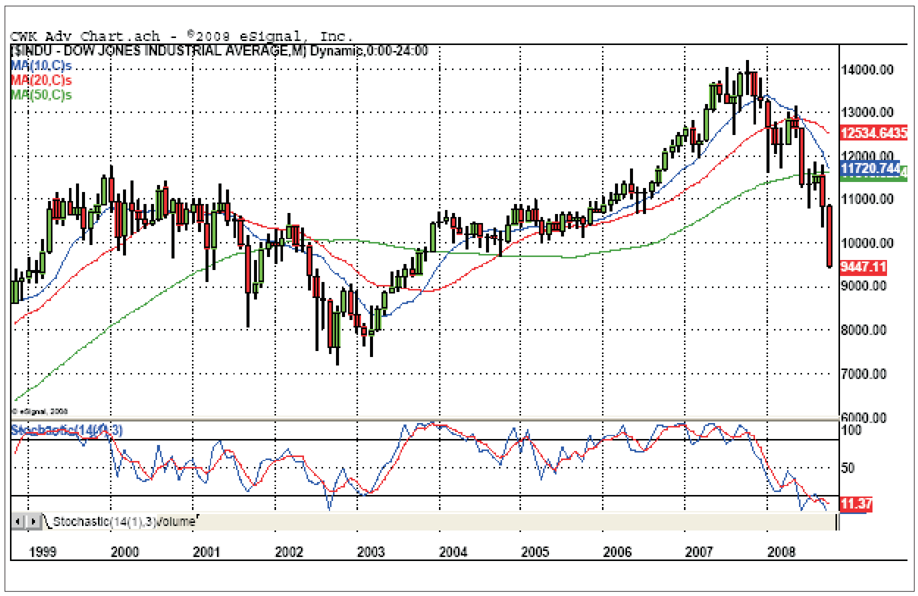
Western Asset Global Partners Income Fund (GDF)

This is a monthly chart of one of the high yield, closed-end funds Mark Skousen recommends. I have sold off all of our other high-yield funds, but we still have some money in GDF. This chart seems to indicate that investors believe that the world is coming to an end - or at least that the bonds held in GDF will never be paid off.

Dow Jones Industrial Average (DJIA)

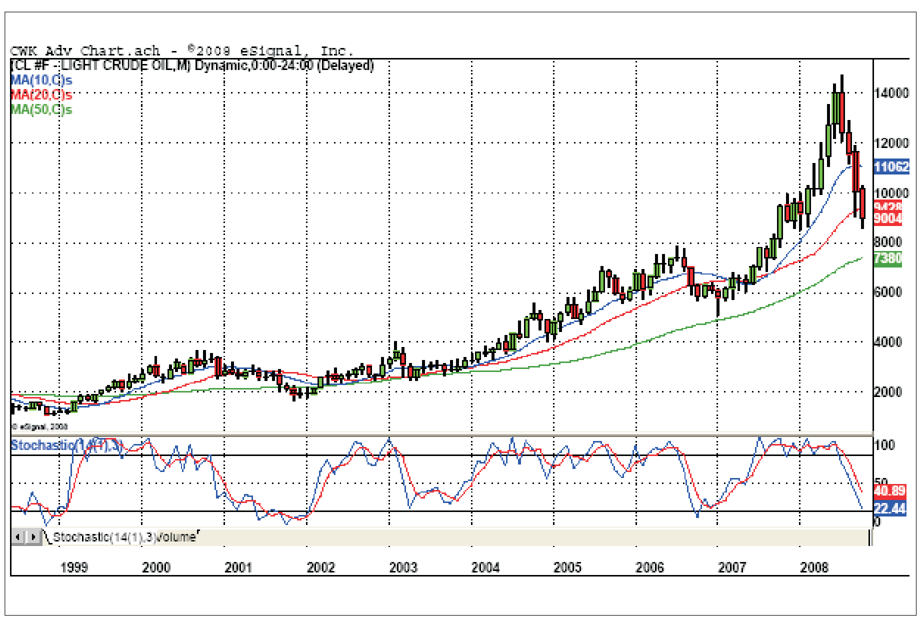
Right now there are many charts that, like this one, demonstrate how quickly markets can fall compared with how long it took them to rise. All those red bars on the right tell me that people are literally throwing stocks away just to get into cash.

Now that stocks have been hurt this much, it is entirely possible for the decline to accelerate in a self destructive "feeding frenzy". If a bad stock market causes a recession, which is the way it usually happens, then P/E ratios will dwindle and give investors another reason to sell stocks. We could be a long way from the bottom of this market.



Crude Oil (CL #F)

Unlike the DJIA chart above, crude oil actually fell about as quickly as it rose. Considering that the supply and demand characteristics for crude oil are so constant (demand increases constantly while supply is flat) it is just amazing that oil can see so much volatility. Less than 10 years ago oil bottomed out at \$10.65 a barrel. In July 2008 it peaked at \$147.27. Neither of those prices was realistic; both reflected aggressive speculation and efforts to manipulate the market. If crude oil now falls to \$50.00 a barrel, that price will also be unrealistic.



The "Behind the Charts" Market Update

Data as of 7 and 8 October 2008

U.S. Stock Markets

Dow Jones Industrial Average (DJIA). 9,447.11. As I expected, the stock market has resumed its downtrend - with a vengeance. In 90 days the Dow has fallen 3,426 points for a loss of 27%. This bear market is becoming historic.

S&P 500 (S&P). 974.38. The S&P has likewise resumed its decline from its 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 trend is down and may be accelerating to the downside. We ought to have a "bounce" here soon, but when and how much I cannot say. Robert Prechter may be right when he says the market will decline until the year 2016. Let's hope not.

NASDAQ 100 (NASDAQ). $NDX, 1314.01. I still expect the NASDAQ to outperform the S&P in 2008 regardless of whether the market end the year up or down. Nevertheless, I have closed all of our stock mutual funds that invest in NASDAQ-type securities.

Bond Markets

US Treasury Bonds. **118.110, continuation contract**. Treasury bonds double-topped in January and September 2008, reaching the original all time high of June 2003. Interest rates are still so low that it seems foolish to own bonds; however, I was wrong about them because bond prices have remained high despite high inflation. This will change, though it may take a while for bonds to respond to inflation.

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; they have all now fallen much more.

Commodities

Oil $87.83/barrel, **continuation contract**.

The wild ride continues. Speculative money is flowing out of oil and pretty much out of all commodities as this worldwide financial crisis grows. Oil is also being effected by reduced demand in the West. Our statistics still tend to exclude China and India, whose consumption of oil continues to rise daily.

We may have passed Peak Oil already. We may not know it for quite some time, because the economic slowdown will reduce consumption in the West, giving the East the time they need to back away from oil price subsidies. Do you think our government is smart enough to add to the Strategic Petroleum Reserve right now? I don't either.

I have now moved my clients' money out of all gold and natural resources funds. However, we still hold most of our energy trusts, and all of them have fallen dramatically

Real Estate

I moved out of our Real Estate positions in November 2005. The commercial real estate industry is now showing signs of distress, and the residential housing crisis is only worsening.

Gold and silver. Gold $915.50, Silver $11.62 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 high. Gold is higher than it was 90 days ago, but silver is 15% lower. It looks like a lot of the current "flight to quality" is going to gold, while silver is suffering because people believe that in an economic downturn the amount of silver used in industry will decline.

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 blanks to make them. Please check my recent emails about silver and short-selling.

The Euro $1.37105, continuation contract.

The Euro hit a new all-time high of $1.5984 on 22 Apr 08. It has fallen off a cliff since then. I'm very glad I closed out my clients FXE positions close to the high. I wish I had done the same for our Australian dollar and Canadian dollar positions.

The commodity markets are in full retreat I believe that the declines will be temporary, but temporary can be a long time. 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, especially for energy, once the current decline ends we will have to pay more and more for what we want.

What to do now

1. Buy Silver. We are seeing a tremendous buying opportunity. You can buy silver futures by buying DBS in your Fidelity 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, from me, or on eBay. I have some 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. Wheat is now $6.06, its lowest price since July 2007.