Wealth Creation
. . . and Preservation

Independent, unbiased advice to help Americans prosper

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My strategy is not working very well in these volatile markets

In the past few issues of *Wealth Creation and Preservation* I have discussed in some detail the sophisticated money management strategy I am employing on behalf of my clients for whom I manage money. The current strategy has been in place for about two years, and I am disappointed to say that it does not seem to be working.

For the first time in my career I find myself being right about the direction and trends of the various markets I deal in, but I have been unable to match my clients' portfolios with the direction of the markets.

The markets recently fell for several weeks. Though I increased our inverse ETF positions to "balance" the portfolios, the income-producing stocks in the portfolios fell faster than the inverse ETFs rose.

I am analyzing the data to to determine whether the strategy is salvageable, or whether I simply need to do something else. Frankly, I have no desire to charge my clients a fee to lose money for them. Managing your account(s) occupies almost 50 hours per week of my time. That's time wasted if you're not making money.

Fortunately, I have found a partial solution. Allianz has a new Fixed Index Annuity that has a five-year life instead of the usual ten-year term. Please find out more about this new product in this issue, and contact me for more information about it.

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Let me make one thing perfectly CLEAR

Here's a "secret" no one on Wall Street will tell you these days:

Cash is king.

That's it. For the next several months (or even years) cash will be the most important asset class you can own.

But wait, you say, isn't hyperinflation on the way? All the media say it is. If that's the case, isn't cash exactly the *wrong* thing to hold?

Nope.

The evidence is becoming plainer by the day, though it will take the media at least a year to "get it" - assuming they do at all. **We are now in deflationary territory**. You and I have been force-fed news night after night about crop failures, famine, pestilence, war, drought, wildfires, refugees, floods, homelessness, starvation, higher prices, and so much more. It's all, as they say, "so 2010" to think that way.

Is it possible? Is it conceivable? Can the media, the government, and even Wall Street be so completely wrong about what is happening in this country and all across the world?

Yes, yes, and emphatically **yes**. In *Moneywise*, Chapters 5 and 6, I discuss the financial services industry and the financial media, and why both so often get the story completely wrong.

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In this issue:

Volatility

What is volatility? In investing, it means periods of time and which markets move rapidly, even violently. For example, the US stock markets have traded with significant volatility in a relatively narrow trading range since the second week of August 2011. Just look at the S&P chart on Page 6.

Not surprisingly, there is an index and derivatives available to invest in volatility. The index is called the VIX, and in recent weeks the VIX index has soared, though still remaining well below its 2008 highs. I was able to trade the VIX profitably for several of my clients, beginning about June of this year. Like so many investments today, the volatility index is why referred to as a "smoke and mirrors" investment. It is so sophisticated that it can only be designed by a PhD, and most of those who attempt to make money in it will find themselves with significant losses.

Sometimes volatility becomes extreme on an intraday basis. For example, on October 4 the Dow Jones Industrial Average was down about 250 points during the day. Then, seemingly out of nowhere, **someone in Europe made a comment about how he thought the Greek situation was going to be resolved favorably**. In less than two hours the Dow advanced 400 points, closing the day up about 150 points and initiating the current significant uptrend. You just can't make this stuff up.

Besides, the government has a vested interest in making it look like everything is wonderful. Since our major media are heavily biased in favor of the current administration, we can expect them to be nothing more than a mouthpiece for the government, particularly the liberals in government. They too want you to think that everything is fine.

Yes, but CASH?

Honestly, in 30 years I never thought I would be advising you to hold onto cash. It is so easy to believe that the Federal Reserve is destroying the dollar (they are, and have been highly successful at it), which requires us to own inflation hedges for the rest of our lives just to try to keep up with the decline in purchasing power of our currency.

Perhaps we have forgotten the lessons of the Great Depression. The 1930s were a period of deflation. In deflationary times the currency rises in value and in purchasing power, primarily because the quantity of currency available decreases. How can this be? It all has to do with the *velocity of money*, an important issue in economics. The velocity of money increases as it changes hands more rapidly. When you put money in the bank, for example, that money is supposed to be lent out quickly to someone else at interest. That person will spend your money in the local economy, which will place your money into the hands of other people, and so on. The faster this happens, the greater the velocity of money.

When the economy slows down, the velocity of money slows down. Or maybe it's the other way around. Either way, a decline in economic activity by definition must invoke the laws of supply and demand. Economic activity is down, therefore demand is down, therefore prices must fall. This is what we are seeing today.

We don't always see prices fall in times of economic contraction. Most of us remember the "stagflation" of the Jimmy Carter years, and the "Misery Index" used by Ronald Reagan's campaign to help defeat Jimmy Carter for the presidency. In fact, inflation has become such a way of life for us that we now expect it. President Richard Nixon declared emphatically that any rate of inflation greater than 4% was unacceptable – which led to the price controls and other foolishness that turned out to be completely ineffective.

How is it possible that we can see prices rise, which is to say, price inflation, when demand is falling? That's really a topic for another day, but the simple answer is *the deliberate destruction of the currency*. I have mentioned this so many times I have lost count, and yet this destruction of the dollar business is one of the most significant aspects of our lives, and has been for more than two generations. The housing "bubble" got as big as it did because we have become conditioned to

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Charts provided courtesy of eSignal and moneycentral.msn,com.

expect that housing, like everything else in life, could only *increase* in price over time.

Now you should begin to see a pattern emerging. When the real estate market collapsed, beginning with residential real estate and now carrying over into commercial real estate, what had been regular and dramatic price increases in real estate suddenly became rapid and unpredictable sharp price declines.

Was there less demand for housing, and is that why the bubble burst? Were interest rates raised so high that buyers were priced out of the market? Did housing overnight become "unaffordable", causing a "buyer's strike"?

None of these things happened. Instead, a market that had been allowed and encouraged to become overheated simply reached its point of collapse. The same thing has happened to many markets in many countries over many centuries, and was entirely predictable. I predicted it, and seven years ago advised anyone who would listen that a real estate collapse was coming.

Now let's look at what's happening today. Instead of real estate, let's look at corn, wheat, soybeans, silver, copper, gold, stocks, cotton, coffee, sugar, cocoa, and dozens of other commodities. The news media are full of inaccurate reporting about how the prices of all these things are just charging ahead, and that these rapid increases will bring on hyperinflation just as they have already brought on price inflation. This kind of reasoning is used by precious metals companies to get you stampeded into gold, and it's working.

Commodity	Peak price	Peak Price date	Current price	Change from peak
Gold	$1,917.19	23 Aug 2011	$1,667.80	-13%
Silver	$49.82	25 April 2011	$32.21	-35.3%
Copper	$4.64	7 Feb 2011	$3.29	-29%
Soybeans	$16.52	July 2008	$12.35	-25.2%
Wheat	$13.18	March 2008	$6.61	-49.9%
Cotton	21970	March 2011	10347	-52.9%
Crude oil	$147.27	July 2008	$85.39	-42%
DJIA	14198.1	Oct 2007	11416.3	-19.6%

Let's look at the facts

These are astonishing numbers if you compare them with what you're hearing from the media all day long. Yes, the peak price may not be entirely relevant, especially because in certain cases it represents an all-time high for that commodity. That said, if we are indeed in a period of significant inflation, why are commodity prices not only not rising, but actually falling?

We hear that demand is down in the United States and in other countries affected by the economic crisis, but we also hear that that *decrease* in demand has been offset by *increased* demand in the emerging economies, including China. If that is the case, what could possibly cause commodity prices to decline?.

What does Martin Weiss say?

I don't quote Martin Weiss very often, though his name has come up repeatedly in these pages. I have called him a "shameless self-promoter". He certainly ought to be penalized for excessive use of exclamation points in his publications.

Nevertheless, even though he is no fan of technical analysis and has probably never uttered the term "Elliott wave", Martin is right about some things. Here's a current quote from his *Safe Money Report*:

"Cash was king in 2008-2009, and it's now being restored to its throne.

"That's the single most important piece of wisdom that arises from the market conditions we see today and foresee in the months ahead.

"And it's more important now than ever before, even as the so-called 'experts' up and down Wall Street aggressively push a rash of 'new solutions' for near-zero interest rates.
"But most aren't really new, and none are truly solutions. Some advisers are telling clients to buy high-yield, or junk, bonds to augment their income. Others are talking about all the supposedly juicy yields available in the real estate investment trust (REIT) arena.
Big yields? Of course! The big problem? *They're often understating – or even neglecting to mention – the risk of massive damage to your principal.*" (emphasis his)
Martin goes on to describe some REITs that not too long ago had very attractive yields. Unfortunately, the yield has dropped and the price per share has dropped even more, leaving investors with losses and far less income than they had expected.
To give praise where praise is due, **Martin Weiss also operates what I believe is the *only* independent rating service for banks, insurance companies, credit unions, and other financial institutions.** That kind of information can be essential in today's environment.

☑

If you need medical treatment, but cannot afford it or cannot afford to wait. . .

From *Independent Living*, May 2011:

You may not be familiar with "Medical Tourism". At least 300,000 Americans travel abroad to seek medical care every year. Why? Because in certain foreign countries medical care is not only significantly less expensive but is usually available without delay, with quality comparable to that available in the US. There are foreign hospitals designed for non-natives that look more like a resort than a hospital, and the quality of care can rival that of the best American hospitals.

"American medical tourists seek treatments not fully covered by their insurance or to take advantage of lower costs for dental care and cosmetic surgery. The advantages of foreign medical services are numerous. The cost savings make medical tourism a feasible alternative for the uninsured and often as well for insured patients who run into coverage limits, high co-pays/co-insurance, denials, and other brick walls.

"Interestingly, according to a McKinsey and Company report, only 9% of travelers seek lower-cost as their primary consideration. The report notes that 40% of medical travelers seek advanced technology, 32% seek better healthcare, and 15% seek faster medical services.

"You can learn more about your options for medical tourism through the Medical Tourism Association (561-791-2000); www.medicaltourismassociation.com).

"How medical tourism will change when Obamacare overtakes the medical system is not known, but it could very well grow in popularity. . . What we may see are more Americans looking abroad for quality care at world-class centers in India, Thailand, Mexico, or Singapore because they don't want to wait to receive service in the US; such is the case for many Canadians who come to America for medical treatment despite having "universal" medical care at home."

Just as the current laws regarding Medicare take away much of your free choice concerning your healthcare options, it is entirely possible that Obamacare may somehow eliminate this option. Let's hope not; we're going to be short about 39,000 doctors in the United States shortly after Obamacare takes full effect in 2014. ☑

The cause is something else you're not hearing about from the mainstream media. The cause, as I have mentioned many times in the past, is the simple fact that we are in **the world's first global economic crisis**. The entire industrialized world is experiencing an unprecedented slowdown in demand. The crisis appears to be contagious, and with good reason; China, which seems to be supplying the majority of American household goods and food, is now suffering as a result of the decline in US demand. Other emerging market countries are following suit.

Of course, it doesn't help that many of the industrialized countries remain in dire straits financially. As the crisis deepens and we slide into a major depression we will reach the point at which we can no longer "kick the [debt] can down the road". Someone will have to say that there is no more money to bail out this country, or that country, and therefore we must let them go.

Letting go means allowing that country to declare bankruptcy, something that should have been permitted years ago. It is the application of the "too big to fail" policy on a national scale, and it is always a terrible idea.

Capitalism by its very nature is both creative and destructive, but when government prevents the necessary destruction from taking place, the economy is saddled with failed, corrupt, inefficient, and obsolete industries that the taxpayers must subsidize even if the companies have no reason to exist.

In the instance of this current economic crisis, many banks were deemed too big to fail because it was thought that they were so big that their demise might bring down the entire US economy. Of course, they only got as big as they did because they heavily lobbied Congress for favorable legislation that would enable them to profit from all sorts of businesses, some of which should never have been allowed to exist.

I have spoken and written on this subject previously. Why is it that the world's major banks would be at risk for several times the entire net worth of the planet? Who did they think would bail them out if something went wrong? The bankers knew that the taxpayers would be forced to bail them out when they made serious mistakes, misjudgments, and gross blunders. We have paid for their greed and their corruption. Our children, our grandchildren, and even our great-grandchildren will continue to pay to keep these failed institutions in business.

But what about deflation?

When the major banks were on the hook for several times the net worth of the entire planet, and when their schemes began to "head south", the amount of money that disappeared permanently in the collapse was enormous and without precedent. It was such a huge amount of money that even with all of its money "printing" **the Federal Reserve has been unable to create as much as was destroyed**. That is the primary reason why we will not see hyperinflation anytime soon.

Instead, because so much of the world has saddled itself with debt that it cannot possibly repay, consumer spending is declining. In a normal business cycle, declining demand leads to deflation as prices decline. It is important to note that we do not have normal business cycles; the Federal Reserve saw to that shortly after they went into business in 1914. They adopted policies that attempted to control the currency and the economy, and which soon led us into the Great Depression. No, the Federal Reserve didn't get us into the Great Depression all by themselves; they were aided and abetted by an inept Congress and an incompetent President (or two).

What happened during the Great Depression? Nobody had any money. Demand was down because there were many unemployed, and all the social "safety net" programs created in the New Deal and later in LBJ's Great Society had yet to be forced upon the suffering taxpayers. Wealth redistribution, that great hallmark of socialism, was a thing of the future.

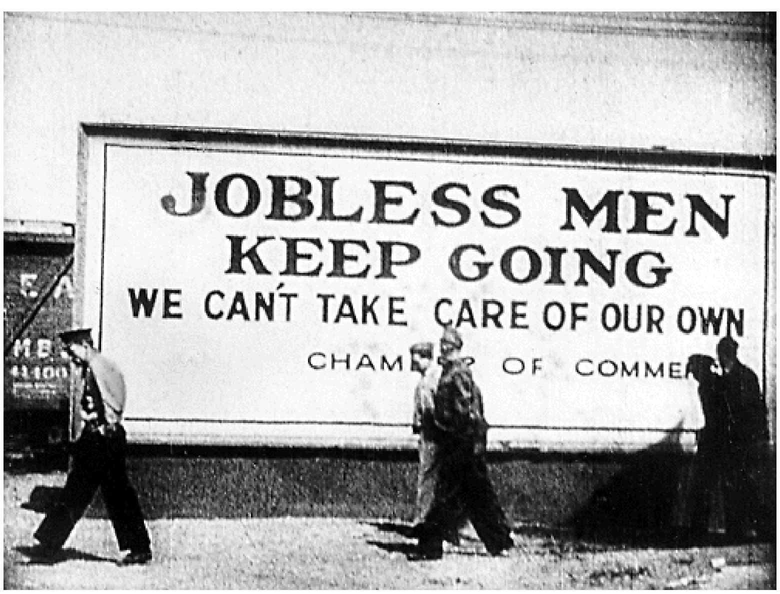
In other words, in the Great Depression if you didn't work, you didn't eat, and neither did your family. Americans learned to make do with a lot less. **Because dollars were scarce their value increased.** Prices declined for a number of years, one of the few times in American history when that has actually happened for an extended period of time.

Can it happen again? Of course it can. Because economic activity is declining, stocks will suffer as commodity prices fall. In other words, **there will be few or perhaps no safe places to invest** where you can have any confidence that your investment will not be wiped out. In such times, cash is king.

Yes, but I'm not keeping ahead of inflation…

That's the response I often get at this point in the presentation. Remember, if the value of the dollar is increasing there will not be any price inflation. You may be receiving zero interest on your savings, but the purchasing power of your dollars continues to increase. In fact, receiving no interest means paying no taxes on your interest, and yet the value of your money is going up.

I know it's a very difficult thing to try to grasp. Those in the securities business are always trying to find investments to sell you so that he or she can make a commission. I'm saying that there will not be appropriate investments to buy, because the risk in the market will be so very great.



The unemployed were not welcome in this town in 1932.

Bashing the Chinese

The bill the Republicans in the Senate allowed to pass last night (11 October 2011) was the "Let's start a trade war with the Chinese by punishing them" bill. That's not the the bill's name, but that's certainly what it will do.

More than a year ago in these pages I talked about how Obama was protecting the unions that got him elected by setting up significant tariffs and other new costs on imports, particularly those coming from China. One of his first acts culminated in a photo op at an Indiana tire plant. There was Obama at the podium complete with TelePrompTer, and behind him dozens of the union faithful, as he announced a new tariff on Chinese tires being imported into the United States.

I bought a set of tires for my car recently. I expected to pay about $300, including balancing and possibly even alignment for a good set of Michelin tires. I paid almost $800. Thank you, Obama, for helping the United States economy by making us pay much more.

To quote an article today on www.cnbc.com:

"The Democratic-controlled Senate passed a bill on Tuesday to slap tariffs on Chinese goods for keeping the yuan low to subsidize its exports at the cost of US jobs. The bill now faces the Republican-controlled House of Representatives, who opposed the measure and warned that it could start a trade war. . .

"China on Wednesday urged the Obama administration to block the bill, raising the risk of further strains between the world's two top economies."

This is not the first time I have urged caution on our Congress and our administration, and this time is even more serious than the last. China has the power to collapse the United States overnight without firing a shot. All the Chinese need to do is to say that they will buy no more US debt because they don't feel it is a good investment. How can we be so foolish as to try to punish them when they hold all the cards, and literally hold the future of the United States in their hands?

Militarily and economically, China is expanding rapidly despite having overbuilt domestically. China is also currently experiencing a huge decline in their stock markets. They are using diplomatic and non-diplomatic means to assume control over areas of the South China (**continued next page**)

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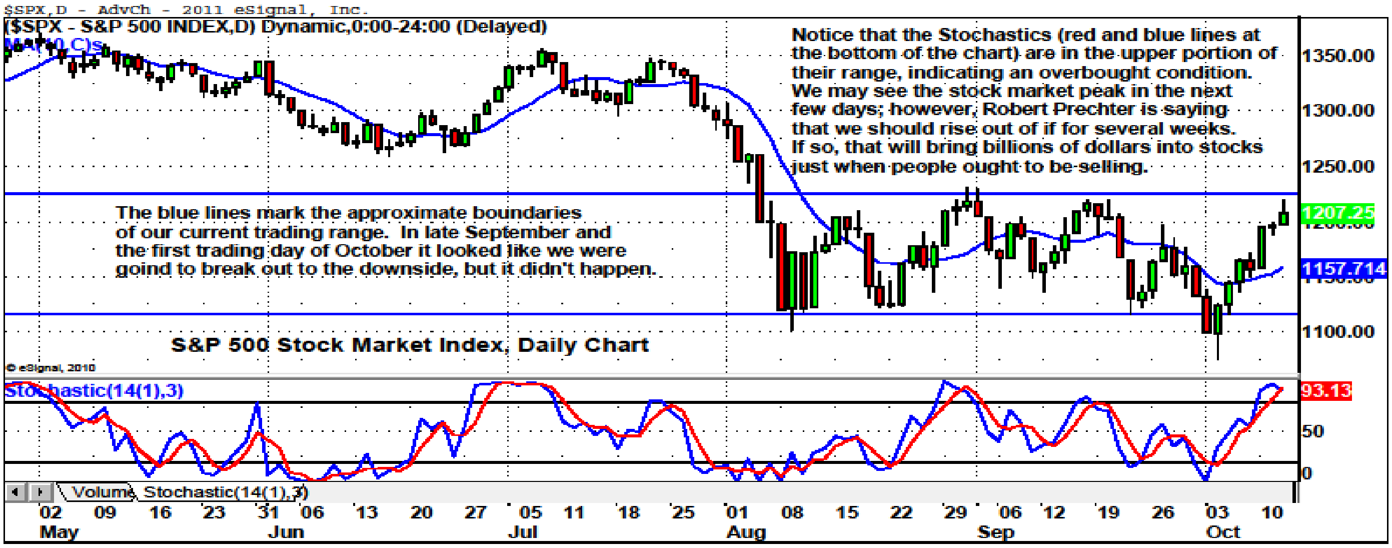

Sea that for centuries have been claimed by other nations. China is establishing drilling platforms, harbors, ports, and other bases on remote islands close to large underwater fields of oil and natural gas.

The Chinese are also conducting a massive buildup of their armed forces so that they may nullify the American presence in the Pacific. They will soon have one aircraft carrier, and are building at least two more. They have just announced and conducted the initial flights of a stealth fighter aircraft. They are well into the development cycle of a ship-killing missile that can destroy our aircraft carriers from more than 100 miles away.

In other words, the Chinese, who are very intelligent and who plan for a much more distant future than Americans can conceive of, are doing many of the things America has done over the past 150 years to promote and develop its own economy. Many of these things will be done to the detriment of the United States. As I have said before, the 19th century was the British century; the 20th century was the American century; and the 21st century will most likely be the Chinese century. It is theirs to lose.

Why, then, are we so arrogant and so foolish as to think we can punish the Chinese when they are so soon going to overtake us both economically and militarily?

By the way, just how many aircraft carrier groups does the United States currently have in service to project American military power around the world? Would the number **3** surprise you? Well, that's it. ☑

What about foreign currencies?

This is where the discussion becomes not only unsettling, but downright disturbing. The US dollar, our infamous Federal Reserve Notes, are the world's reserve currency, having replaced gold some years ago. Since their purchasing power will be rising, the obvious question is will their value be rising in relation to other currencies. The answer is a qualified yes, which is why it will be important to hedge against your Canadian bank account as well as your physical silver and gold holdings.

The unsettling part of all this is that in theory other currencies, particularly those issued by countries likewise experiencing a greater depression, should also rise in purchasing power in their own countries. Whether or not that will happen is a question no one can answer at this point. What I have already told you is radical enough for now. My **recommendations remain the same; cash in US $20 bills, physical silver, mostly coins, in your safe at home, and a bank account at the Canadian Western Bank.** These things are as liquid as they come, and you should have access to any or all of them almost instantaneously.

There is another reason to hold cash. Robert Prechter and others have recently mentioned that there is a possibility not only of the failure of the international system of payments, which I have previously discussed in these pages, but also **a global "run on the bank"**. In such an unprecedented event, depositors would rush to their banks (as we saw in "It's a Wonderful Life") and withdraw the money. Doing so, regardless of the reserve requirements imposed upon the banks by their various governments, would immediately precipitate bank failures all over the world. Such an event today is considered unthinkable, and will probably remain unthinkable *until the day it actually happens*.

A new, 5-year Fixed Index Annuity (FIA)

You should continue to do all the things I have been recommending for months now;

1. Cash, important documents, and silver coins in your fire- and burglar-resistant safe at home.

2. An account in Canadian dollars at a branch of the Canadian Western Bank.

3. Managed money, with an eye toward income hedged with inverse ETFs.

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What has changed in recent months is that I'm now putting a much stronger emphasis on cash. In fact, I am strongly recommending that clients who have managed accounts with me at Fidelity take a significant portion of that money out and move it to somewhere where it is in cash. **For retirement money, I have actually started offering a Fixed Indexed Annuity (FIA) for the first time in about two years.** I stopped recommending FIAs because all the good ones were ten-year products, and I continue to believe that the US dollar does not have ten years left. Since then, in recent months Allianz has launched a new, five-year FIA, the **Endurance Elite** annuity.

I don't like losing money for you when you have entrusted me with it. I have little confidence that I can sufficiently improve the sophisticated strategy I have been using to manage your money; these markets are just too volatile.

I would much rather see you put some or all of the money I am currently managing into either Endurance Elite, a Certificate of Deposit of two years' duration or less, a savings account at a top-notch Credit Union, $20 bills in your safe, an Internet bank like ING Direct (or Discover Bank), or more money in your Canadian Western Bank savings account.

The Outlook - and what you should do now

For those with all Allianz contracts having contract anniversaries in the next three months, I recommend that you allocate or reallocate your funds as follows:

75% interest-bearing / 25% NASDAQ 100

The NASDAQ 100 has outperformed the S&P 500 in the last couple of years, and I believe it offers us the best chance of appreciation in the stock market. Since you cannot lose money in your Fixed Index Annuity, feel free to put a higher percentage of your money into the NASDAQ 100 series if you wish.

Real Estate

As I predicted, real estate, particularly residential housing, has resumed its slide. It only remains to be seen whether prices will fall below their true

Tim Geithner and the IMF

According to CNBC.com, this morning (Friday, 14 October 2011) US Treasury Secretary Timothy Geithner just announced that the US is going to play a very major role in helping Europe solve their economic problems. His plan is to export the TARP program, which was a dismal failure in United States, to Europe so that it can fail there.

The media have been reporting that the Troubled Asset Relief Program (TARP) was a complete success in the United States, and that American taxpayers, in addition to getting every penny back that was loaned or given to these troubled institutions, received $20 billion in interest.

Don't believe it. I don't know of anyone who has seen a full accounting of the TARP program. What I do know is that hundreds of billions of dollars were either borrowed or printed, and given to numerous financial institutions and perhaps others as well.

If indeed those hundreds of billions of dollars had been paid back, the impact on our national deficit should have been instant and tremendous. The deficit should have been cut in half or better; instead it has soared to unbelievable levels.

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Geithner likes to say that the IMF (International Monetary Fund) is going to take care of everything and fix Europe's problems. What he's not saying is that the United States is the primary support of the IMF, and that it will require billions of your tax dollars to bail out Europe.

You are so generous. You bailed out the Wall Street fat cats so that they could be paid record bonuses in the hundreds of millions of dollars. You have paid thousands of dollars to first-time homebuyers and to people buying new cars. You have bailed out the farmers, half the nations of the world, and America's poor, and now you are bailing out Europe (again). Aren't you thrilled that you are doing so much good in the world? At the same time, don't you wonder why every year America has more enemies, both within and without?

How much do you enjoy paying the pensions of Greek workers who retired in their 40s, while you have to continue to work, perhaps into your 70s? Are you beginning to understand that if you are a taxpayer your government views you as the funding source for every idiotic scheme they can come up with?

Do you think that your government really cares about you, or are you beginning to realize that all they are interested in is power?

It almost looks like our government is deliberately destroying the American middle class. Even if it isn't deliberate, they're doing a terrific job.

replacement cost. If they do, that will clearly indicate that we are in a major depression rather than just a recession.

The Stock Market

It is very difficult to find stocks worth buying at this point. In the last issue of *Wealth Creation and Preservation* I mentioned two stocks I have just begun to buy that paid significant dividends. They are Prospect Capital Corporation (PSEC) and Fifth Street Finance Corporation (FSC). Both have options available, which means that we can sell covered calls against them. I bought both at a time when it looked like they had bottomed out; unfortunately, both fell, along with all the other financial stocks, to new, lower bottoms before rebounding. We have since sold all our FSC shares.

Bonds

I'm even more careful about bonds at this point, particularly corporate, municipal, and high-yield or "junk" bonds and income ETFs. Now that the dollar may have begun its multi–month or multi-year rally against foreign currencies, bonds may not do very well.

Oil

Oil fell all the way to $74.95 on October 4, and we are seeing lower gas prices at the pump. It's too early to say that oil has moved into a trading range, for its volatility remains high and oil markets are both speculative and highly manipulated. Enjoy the relatively low gasoline prices while you can. In a deflationary depression, oil will continue to fall; however energy is one area where demand may continue to grow as the increase in demand and places like China, India, and Brazil offsets the decline in demand in the United States and the Western world.

Preparedness

I still recommend you take a look at the website www.providentliving.org for ideas about how to prepare and protect yourself from this economic crisis. In addition to your silver coins, your Canadian dollars, and your cash, if you can you should store

food, water, other essentials, and energy. If possible, you might try to grow some of your own food - even if some of it ends up being eaten by the deer, the raccoons, and the rabbits.

What investments do we own today?

This is the current list of investments my clients own in the accounts I manage for them.

High-yield ETFs and income and dividend ETFs

AOD Alpine Total Dynamic Dividend Fund. Current yield 10.75%

ETW Eaton Vance Tax Managed Global BuyWrite Opportunity Fund. Current yield 9.89%

FHO First Trust Strategic High Income Fund. Current yield 7.03%

FHY First Trust Strategic High Income. Current yield 10.8%. We own FHY because our FHO shares were acquired by FHY.

FSC Fifth Street Financial Corp. See the chart above.

GLAD Gladstone Capital. This is not an ETF, but is has a high yield. The price has fallen dramatically from its recent high of $14.05; we bought it from $9.20 to $9.65. 9.0% yield. We bought it again when it fell to $7.00.

GIFD Global Income Fund. The quarterly dividend is mostly a return of capital, but the ETF sells for an 18.6% discount to its Net Asset Value (NAV) and yields 7%.

PSEC Prospect Capital Corporation. Current yield 13.71%.

High-yield energy trusts:

BBEP Breitburn energy partners . Current yield 9.7%

PGH Pengrowth Energy Corporation. Current yield 8.9%.

PWE Penn West Petroleum. Current yield 6.8%.

We have sold covered call options against all of the energy trusts.

In addition, we own shares of SLV, the silver ETF, and have sold covered calls against most of them. We also own the three inverse ETFs I use regularly, ZSL (silver), DUG (energy) and SDS (the S&P 500).

Update on Canadian Western Bank

I recently received a thank you e-mail from Angela Chow at the Canadian Western Bank in Vancouver, Canada. CWB has been quite accommodative – now that we have figured out which branches to go to – regarding helping you open an account in Canada. Here's something else Angela had to say:

"We have updated our policies so that we are now able to open accounts for US residents, so long as they are able to produce two pieces of acceptable identification . . .

"Please also note that we currently are running a promotion called the Greater Interest GIC. It is an 18 month GIC with an interest rate of 2% [per year]. The bank will match 1/8 of 1% of all the funds that are invested in the product and donate it to local charities. In the last three years we have raised over $629,975.

"This promotion is available until October 31, 2011."

Have you made that trip to Vancouver yet? The exchange rate for Canadian dollars is still pretty close to parity (one dollar US = 1 dollar CAN). This is as good a time as any to be buying Canadian dollars.

☑

I just can't get it into my head. *Cash?*

For the first time in my career **wealth *preservation* must take precedence over wealth *creation*.** The risks in the markets are just too great, even with a conservative, "balanced" strategy like the one I have been using.

If you have cash in the right places, such as those I mentioned in this issue, you will be positioned defensively, but at the same time you will be ready to take advantage of tremendous opportunities as they arise. What if, for example, you could wait a year or even two years, for a high-yielding, world famous stock to decline in price by 75%? Would you rather buy the stock now and hope that it will go up, or buy four times as many shares for the same amount of money a couple of years from now?

Patience is a virtue many of us feel we lack. Don't be in a hurry to lose money. Don't be hasty in putting money at risk. Don't assume you understand all the risks, and put your money someplace where you can be blindsided by risks you had never considered.

Don't be a "deer in the headlights". Titanic forces are at work that are changing the world right before our eyes.

We cannot anticipate all of the changes, and neither will he be able to profit from any of them. Consider placing some of your managed money into an annuity like the Endurance Elite. That way you can put all of it into "the stock market" without taking any of the risks of the stock market. That should help to satisfy your desire to be in something which you think will grow over time.

You can help me and yourself by looking out for high-yielding CDs and savings accounts, and by passing this information on to me so that I may share with others. Just because we seem to be stuck at 1% or so in annual interest does not mean that there is a something safe and conservative out there that will pay more.

We have the privilege of living in what was once the greatest country in the world. We have lived under the greatest form of government the world has ever seen. Even though our form of government has been radically changed, if we can muster the courage and gain the education and skills we need we can restore freedom once again, and make America as good a place to be as it ever was. The Americans I have met in the past two years have convinced me we can do this - and we must.

It is my privilege to serve you. Please contact me with your questions and ideas.

Charles W. Kraul

THE ECONOMIC CRISIS SCOREBOARD	INNING											
	1	2	3	4	5	6	7	8	9	R	H	E
BIG GOVERNMENT	20	15								35	46	3
THE AMERICAN PEOPLE	1	0								1	3	0

We are *still* stuck in the second inning of this economic crisis, even though the media and our leaders have unanimously declared the crisis to be over.

Meanwhile, Big Government is scoring one hit after another:

1. On October 11 the United States Senate passed the "Yuan Bill" I mentioned earlier this issue.

2. Fortunately, Obama's jobs bill, which was supposed to cost "only" $477 billion, was defeated in the Senate. However, Obama is now promising to bring the legislation to pass in bits and pieces. Earlier he had promised to circumvent Congress as much is possible and get things done through new and existing bureaucracies as well as new Executive Orders.

3. Hillary, fresh from her United Nations victory in which you and I will now see our tax dollars used to fund homosexuality training all over the world, is working hard to circumvent the Second Amendment by utilizing the United Nations to establish a treaty (which Obama will sign) initiating new and onerous gun registration requirements and adding new bureaucratic hurdles to our concealed carry laws.

4. Solyndra exploded into a major new Obama administration scandal which has so far cost us something in the neighborhood of $500 million. The question you should be asking your Congressman and Senator is, "How is it possible that half a billion dollars simply disappeared at Solyndra? This scandal merits a very thorough investigation.

5. And let's not forget *Operation Fast and Furious*. This Obama administration disaster was so foolish in its conception and execution that your average 5-year old could have done it much better. Can you imagine why anyone would promote the sale of automatic weapons to known Mexican drug cartels? Neither can I. Now add "criminally stupid" when those weapons began being used to kill American DEA and Border Patrol agents. Why would any government official bureaucrat do such a thing?

There is much, much more going on behind closed doors. Stay tuned as this administration systematically destroys what little is left of our constitutional republic <u>and</u> makes the economic crisis many times worse.