



# Wealth Creation ... and Preservation

*Independent, unbiased advice to help Americans prosper*

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## When the markets are down . . .

Please take a close look at these numbers . . .

|   | Price, 31<br>Dec<br>2009 | Price, 30<br>June<br>2010 | Change,<br>1st half<br>2010 | Current<br>Price, 3<br>Jul 2010 |
|---|--------------------------|---------------------------|-----------------------------|---------------------------------|
| Dow Jones<br>Industrial Avera-<br>ge (DJIA) | 10,428                   | 9,774                     | -6.3%                       | 9,686                           |
| S&P 500                                     | 1115                     | 1030                      | -7.6%                       | 1023                            |
| NASDAQ                                      | 1860                     | 1739                      | -6.5%                       | 1728                            |
| Crude Oil                                   | \$79.36                  | \$75.63                   | -4.7%                       | \$72.14                         |
| U.S. Dollar                                 | 78.22                    | 86.28                     | +10.3%                      | 84.67                           |
| Gold  | \$1,096                  | \$1,245                   | +13.7%                      | \$1,208                         |
| Silver                                      | \$16.85                  | \$18.71                   | +11.1%                      | \$17.85                         |
| Fidelity High<br>Income Fund                | \$8.46                   | \$8.43                    | -.004%                      | \$8.41                          |

Note that the major stock markets indices (DJIA, S&P, and NASDAQ) were all down for the first half of the year. In contrast, 61 of the 67 Fidelity accounts I manage for my clients were profitable during the same period of time. Of the six that lost money, 3 lost less than 1%, 1 was down 1.71%, and one is holding positions against my advice.

This is not the first time I have managed to beat the markets for my clients; I have done that many times. This time, however, it is important because of the historic volatility we have experienced and because this time my clients' money has been primarily in the stock market.

(Continued in the *Recommended Investment Allocations* section)

# The long term is closer than you think

## or, what happens when the chickens come home to roost

I have been in this business long enough to have seen every type of market and almost every type of economic environment. By now, after 30 years, I should be ready to retire and enjoy the fruits of my labors. Instead, I am taking on the greatest challenge of my career as I prepare for the economic event everyone hopes they will never see.

Americans tend to be poor savers. Most of us reach retirement age with insufficient assets to see us through. Very few people in this country can claim to have had consistent success with their investments. At the same time, all the things that money can buy have steadily become more expensive. In other words;

1. We didn't save enough,

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## The Wealth Creation and Preservation Strategy

### Part I: A safe at home

The first step, is conducted in conjunction with your preparedness program, which I have detailed in previous issues of *Wealth Creation and Preservation*. Please refer to my [www.wcandp.com](http://www.wcandp.com) website and look for the article "Why should you have a safe at home?" in the *Special Reports* section on the left.

You should have a heavy, fire-resistant and burglar-resistant safe bolted to the floor in some inconspicuous corner of your home. The fire resistance is important because you will put cash and all of your important papers into the safe; under the PATRIOT Act the government has the right to drill out the locks of your safety deposit box and steal the contents. You have no legal recourse ever get your property back.

The burglar resistance is important because you should store quite a bit of silver and cash in this safe.

In addition, you should have a separate insurance policy for the items in the safe. You should also keep enough \$20 bills in the safe to cover all of your expenses for at least three months and, if possible, for as long as one year. I make this recommendation because for the first time, because of the complexities of technology, there is a very real possibility that the worldwide system of payments will fail.



2. What we did save didn't grow enough (or lost value), and
3. The cost of everything we will need to buy in the future has risen constantly for years and will continue to rise throughout our retirement.

As you may have guessed, this is not a pretty picture.

The coming phase of this major economic decline will probably devastate the retirement accounts of millions of Americans. If the Elliott Wave analysis is correct, things are about to become so bad that millions of Americans will demand that the government do something to help them. Unfortunately, our government will be only too willing to help.

I have no plans to retire for a couple of reasons, one of which is that I have always promised that I would never abandon my clients. I have been unsuccessful in all my attempts to find someone to replace me. No one is willing to put in the hours I do, nor do they have the background and experience they would need. Now that the economic situation is about to become much worse I feel that I have an obligation not only to my existing clients, but to as many Americans as I can reach.

Since the most recent quarterly edition of *Wealth Creation and Preservation* I've had some important conversations and done a significant amount of research, all of which has led me to believe that **the pace of this economic decline is about to accelerate**. Events that I had hoped were at least ten years in the future could conceivably occur in the next 12 to 18 months. That's why I say that the long-term may be closer than you think: a whole series of events which 30 years ago were considered unthinkable all appear to be lining up to fall like dominoes in a crisis of unprecedented proportions.

If you have been reading my e-mails, you know that I have tools available to me which I hope will be effective in enabling me to make money for my clients even in bad times. **There are no guarantees**; if I didn't think I could be successful in managing my clients' money I would get out of the business now. Robert Prechter recommends that we do just that; that we sell all of our investments, our annuities, our treasury bonds, our certificates of deposit, and our mutual funds, as well as our precious metals, and move to cash. Cash, of course, pays no interest or dividends, and if the currency in which the cash is based is falling or is experiencing inflation, cash is guaranteed to lose its value and its purchasing power. Still, Prechter believes that cash will be the safest place to be in what's coming next. I disagree only slightly.

Over the years I have had a fairly standard set of recommendations which I have applied to each of my clients with only minor modifications. This is the only way I have been able to manage so many small accounts, because I did basically the same things for every client. We have changed investment product types from time to time as circumstances have changed; we have used permanent life insurance, the newer forms of universal life insurance, stocks, bonds, ETFs, mutual funds, options, variable annuities, fixed index annuities, and total return fixed annuities, along with commodities and other types of investment vehicles.

Three months ago my standard recommendation to my clients looked like this:

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1. Buy a large fire- and burglar-resistant safe, and bolt it to the floor somewhere in an inconspicuous place in your home. Place into it your important and valuable papers, along with your silver and other valuables. Plan to spend up to \$2,500 for the safe.

2. Keep at least a three months' supply of cash in \$20 bills in your safe, and as much as a year's supply to meet all your regular expenses.

2a. Own the appropriate foreign currencies as a hedge against the long-term decline of the dollar. Some of your foreign currency should be kept as cash in your safe at home, some in your IRA or other brokerage account in the form of an ETF, and some in a foreign bank account to keep it away from Uncle Sam's sticky fingers as best you can.

3. Keep a significant portion of your investment funds in Fixed Index Annuities, which give you the opportunity to participate in the market's gains without incurring the risk of the stock market.

4. Finally, let me manage an account for you using the most sophisticated financial tools ever devised in a carefully balanced strategy to minimize risk and maximize the potential for gain.

That last item is the key to any hope you might have of keeping ahead of inflation, taxes, and the declining dollar. Historically, the stock market has at least kept up with the general rate of inflation, especially when you factor in the gains earned from dividends. In 2008 the stock markets gave back 10 years' worth of gains, and the prognosis is for an even larger stock market decline which could begin at any moment. In such an environment it would be foolish to purchase the typical investments that stock investors buy, for a falling market will decimate those investments. Instead, my balanced approach has a chance of making pretty good money in almost any type of market, as long as the account is adjusted as needed..

### Dropping Part 3: An Important Announcement

On this Independence Day 2010 I formally announce that I have ceased selling all annuity products. We have done very well with our Fixed Indexed Annuities from companies like Allianz. Though the performance of our annuities with Sun Life has been disappointing, we got through 2008 without losing any money. Those of you who purchased ING multi-year guaranteed annuities (MYGs) when I recommended them several years ago have enjoyed wonderful returns ever since.

I do not expect those returns to end anytime soon. I am not closing my annuity contracts, nor do I recommend that you close yours. What I am saying is that I will no longer initiate new annuity contracts on behalf of my clients. The reason for this is simple; annuities are designed to last for at least 10 years, and I no longer believe that the United States dollar will last that long. If it does not, the likelihood of receiving full value for your annuity will be seriously diminished.

You may recall that in the last issue of *Wealth Creation and Preservation* I touted "structured settlement" annuities, at least those with a duration of 10 years or less. I now rescind that recommendation as well, for those products will be just as subject to the collapse of the dollar as any other.

I recommend that you initiate the free withdrawal provisions and other opportunities to move money out of your existing annuities. The big question is **where** to move that money, because there are so few good places for it. More than half of the money for which I am responsible is in annuities.

The answer to that question is lengthy and important, and I may not have time to do it justice here. I have always had a personal bias against illiquid and long-term investments, which is why I have never invested in real estate - at least, not since 1983. Annuities, including the variable annuities with which I did so well for many clients for many years, have served us well in good times and bad, but we never had to contend with the collapse of the dollar until now. I cannot in good conscience lock up any portion of your money even for a year or two, because the money you might get back could be worthless.

## The Wealth Creation and Preservation Strategy

### Part 2: Silver

In my book *Moneywise* I detailed the reasoning behind my recommendation that you own silver in preference to gold. My basic recommendation remains the same: you should put in your safe \$1,000 in face value of pre-1965 US dimes, quarters, and half dollars for each member of the family living at home. Right now that will cost you about \$15,000 per person; when I first made that recommendation it would have cost you less than \$4,000.

You may, if you wish, substitute US 1 ounce silver eagles or 1 ounce silver Canadian maple leaves were some of the old US coinage.

Once you have this basic position, you may hedge it in your Fidelity or other brokerage account by purchasing ZSL, the silver inverse ETF. You should continue to buy silver whenever the price drops significantly.

You shouldn't plan on selling your \$1,000 of face value at *any* time, regardless of how high the price of silver may go. This is your hedge against the collapse of the dollar, and one day these old coins will be as well recognized as Federal Reserve notes are today.

You may also purchase silver above and beyond your "core" position in your Fidelity account by using the silver ETFs SLV and AGQ. It is very convenient to buy silver this way, and you can sell call options against your position. Always remember, however, that this is paper silver only, and that you will in all likelihood not be able to redeem it for physical silver at any time.



# The Wealth Creation and Preservation Strategy

## Part 2a: Foreign currencies

As you may know, in the world today there is not one currency backed by gold, silver, or anything else. The entire world has followed the American model of fiat currencies despite the fact that every nation that has ever used a fiat currency has seen its currency fail.

I have written at length about paper money, and how it is the greatest confidence game in human history. Complex societies need a medium of exchange, and paper money is infinitely more useful than physical gold, sea shells, rocks, or other tangible items that we might use to buy and sell things. Unfortunately, governments are licensed counterfeiters, and always find it impossible to resist the temptation to print far more money than their economy can sustain.

I believe that the United States dollar will shortly join hundreds of other failed currencies all over the world as its value goes to zero. While the Federal Reserve has been in charge of keeping the dollar's value stable, the dollar has lost 97% of its value. **There is no reason to expect that the dollar will survive**, and therefore we must prepare for a day when our dollars will not be accepted by anyone for anything.

In that day it is my hope that there will be one or two currencies that will retain their value longer than failing currencies like the US dollar, the euro, the British pound, the Japanese yen, and the Chinese yuan. The two currencies I recommend are the Australian dollar and the Canadian dollar. Both countries have immense natural resources, and I want to believe that that will keep their currencies going after many others have failed.

Now may not be the right time to invest heavily in these currencies, whether you open a bank account in those respective countries or just by the currency ETFs in your Fidelity account, but that they will come and I will let you know what I think the time is right.



Because events happen so quickly these days, and because technology enables us to move money around the world at the speed of light, it is very easy for people and institutions to get into trouble with their money. Some, like AIG and the commercial banks and investment banks that failed in recent years, fell victim to their own greed and set aside sound analysis which, if done properly and heeded, could have kept them out of trouble.

Most of us, however, are simply victims of circumstances beyond our control. It is very difficult to predict the markets, even with a tool as good as Elliott Wave is. Most people don't have access to good tools, nor do they have the ability to perform sophisticated financial analysis. They are forced to rely upon people in my profession, unaware that the people in my profession are almost always just salesmen who may know little or nothing about money and investments. (*Moneywise*, Chapter 4)

If you follow my recommendations you have no assurance that you will do any better or any worse than anyone else in the years to come. The only thing you know is that what I recommend will enable you to keep your money as "close to home" as you possibly can, where it will be available to you without penalty and without delay. Recent events in the stock market have clearly indicated that unforeseen events, and even technical "glitches", can do great damage to your money in a very short period of time. It is important to stay nimble and liquid, and to keep up to date with what's going on in the world. You must be prepared to make decisions very quickly.

I will do my best to make sure that your money is available to you on very short notice, and that you will have to pay minimal commissions, if any, to get it into your hands. I will also make sure that you have access to as many investments as possible that just might help you escape the collapse of the dollar.

Please note that nothing I have said has been political in nature. At this point it doesn't matter who got us here; we are where we are and we need to cope with the situation as it exists. You and I cannot afford to be "deer in the headlights", nor can we wait for the government to bail us out. You need to become as self-sufficient as you possibly can.

## Confiscation

What was once a remote possibility, quickly dismissed by the media and the liberal establishment, has moved along the continuum to the point where it is now becoming almost a certainty. I'm talking about the possibility of your 401(k) and IRA accounts being confiscated by our government in one way or another. The reason why this is coming about is because Social Security has run into the red six years earlier than they planned. I knew it would happen, and so did many others, but our government made representations were obviously not correct, and in 2010 the Social Security Administration has already begun paying out more money to current retirees and the disabled that they will receive in Social Security taxes.

In order to "save Social Security" our government is beginning to feel compelled to take away an opportunity that was granted to Americans many years ago; the opportunity to save money in a tax-deferred vehicle. The administration has pointed out repeatedly that they are offering us the opportunity to convert our traditional IRAs and, in certain circumstances, our 401(k)s to Roth IRAs and defer or spread the income taxes on that conversion over a period of two years. Viewed in that light, this can be seen as mainly a carrot in front of a mule - and we are the mule.

Unfortunately, I'm not certain whether Roth IRAs will be exempt from this "confiscation" when it comes, and for that reason I am somewhat ambivalent in my recommendations. I am also concerned that income taxes are going to rise dramatically, especially once we begin to pay income taxes on the value of our employer-provided healthcare plans. If you are already over 59 ½ it might be wise to consider withdrawing money from your IRA or, if available, from your 401(k) this year to avoid paying taxes on the same amount next year in a higher bracket.

We need to clarify this issue of confiscation. I use the term because that's exactly what our government did in 1933 when Americans were forbidden to own gold. It

was an Executive Order drafted and signed by Franklin D. Roosevelt that illegally and unconstitutionally took away America's right to own gold, a right we did not regain for about 40 years. All our current president needs to do is to take that Executive Order, cross out the word "gold", and insert the words "401(k)" or "IRA", and there we are. I don't think that's going to happen, however. Even when FDR confiscated gold he did pay Americans something for it - and as soon as all the gold had been turned into the government FDR raised the price from \$20.67 to \$35 an ounce.

Instead, I believe that the government is looking at forcing Americans to buy U.S. Treasury bonds in their retirement accounts. The media will love this, for it sounds fiscally sound and responsible. It is anything but. The government also wants Americans to be forced to buy an annuity in their 401(k)s and IRAs, and for the reasons I have already described annuities are no longer a good idea. In other words, it is clear that our government is arranging a "double whammy" for the hard-earned retirement savings of millions of Americans.

How will it work? The plan is quite simple. Americans will be compelled to buy U.S. Treasury bonds with the money in their IRAs and 401(k)s. The government and the media will proudly proclaim that this will eliminate risk in these all-important accounts. Americans have already seen a good portion of their retirement money vanish in the market collapse of 2008, and buying Treasury bonds, once deemed to be the second safest investment in the world, will be made to appear like a very conservative idea. Again, it is anything but.

In *Moneywise* I describe the inverse relationship between bond prices and interest rates. When interest rates rise, bond prices fall, and vice versa. It's a very simple relationship, and it works 100% of the time. Guess where interest rates are right now?

That's right. **The interest rates on US treasury bonds are at the lowest level ever.** That means that if you buy a US Treasury bond today, whenever interest rates rise over the next 30 years the value of your bond will fall. It also means that you will be paid the lowest rate of interest ever paid on those Treasury bonds. This is a terribly bad deal for the American people. But wait; it gets worse.

The second phase of the scheme is to force you to buy an annuity when you want to start taking money out of your IRA or 401(k). In an annuity you are locked into a payment schedule which cannot be changed. Regardless of what happens to interest rates or inflation or the value of the dollar, whatever amount you receive initially from this annuity is the amount you will receive 10, 20, or even 30 years later. This idea tremendously benefits the government at your expense.

What is the likelihood that such a bill whatever pass in Congress? With all the dreadful legislation that makes its way through these days, I'd have to say it would almost be a slam dunk. However, there's more than one way to skin a cat, and our current president intends to do this by Executive Order if necessary. You think you still have any freedom as an American citizen? You may not realize it, but illegal aliens are in many ways better off than American citizens.

What can you do about all this? Your options are limited, particularly if you are contributing to a 401(k) and are under the age of 59 1/2. Please consult with me about what you might want to do to protect what you have worked for for many years.

## Canada

A few weeks ago I made an overnight trip to Winnipeg, Canada. I had read a report from Doug Casey, whose materials I have been reading for over 20 years.. Doug recommended certain banks in various countries as places to move money outside of the dollar, and I went to open an account in one of them.

Because of the PATRIOT Act and the meddling of the IRS and our State Department in foreign affairs, American money is no longer as welcome as it once was in other countries. Ten years ago I could open a bank account in any of 100 different countries just by wiring funds and e-mailing application; not any more.

## The Wealth Creation and Preservation Strategy

### Part 3: Managed accounts

Life would be so much simpler if all this could just put our money someplace and forget about it, confident that when we needed it it would be there with interest. Unfortunately, life doesn't work that way.

I continue to manage money, using Fidelity Investments as my primary custodian, because only in a managed account do I have any confidence that I can help my clients keep ahead of inflation, taxes, and the declining dollar. Silver is one thing, and foreign currencies are another, but a managed account enables me to purchase any of thousands of securities utilizing the sophisticated strategies I employ.

As I mentioned on the cover of this issue, at the moment the strategy seems to be working. I have great hopes that I can refine and improve it and do even better for my clients in a time when many Americans will be losing much of what they have left.

Instead of listing my Recommended Buys in this column as I usually do, let me refer you to the *Subscribers Only* section of the [www.wcandp.com](http://www.wcandp.com) website, where you will find a more detailed report than I have room for here. Instead, let me share with you the details of the strategy, so that you have some idea how this all works.

**Income.** Numerous studies of the markets over the past 50 years have come up with the same answer: dividends represent a significant portion of any portfolio's gains. Since the year 2000 the only gains most people have had have been dividends, if any; the stocks that pay those dividends have declined significantly.

The whole emphasis of my strategy, which is the current version of my "Type I" strategy, is to obtain income from multiple sources, and to do it as safely and conservatively as possible.

## The Wealth Creation and Preservation Strategy

### Part 3: Managed accounts

(continued from Page 5)

Since the banks are paying little or nothing on savings and Certificates of Deposit these days, and since the "world's safest investment", the T-bill or Treasury bill is yielding nothing these days, most Americans need income from their investments. My clients own high-yielding energy trusts and high-yielding ETFs. The latter are purchased at a discount to their Net Asset Value (NAV), which increases the effective yield and slightly reduces the risk of the investment.

To further increase the income and reduce the risk, I sell covered call options against our energy trusts and, whenever possible, against our high-yield ETFs. This brings in additional income and effectively reduces the price we paid for the stock or ETF. When the options expire we sell new options and bring in additional money.

Since it appears that we are on the verge of beginning a very massive Wave 3 down it is not enough simply to sell covered call options and hope for the best. That's why I use the relatively recent "inverse ETFs" as a further hedge against a declining market. I use three inverse ETFs in particular:

DUG as the inverse to energy,

SDS as the inverse to the stock market, and

ZSL as the inverse to silver.

For example, if we owned \$10,000 worth of Penn West energy (PWE) we can buy \$10,000 worth of DUG to offset that position. Now, DUG usually pays no dividends, which means that we are using significant portfolio assets that provide us with no income. However, we sell covered call options against the inverse ETFs, and that can bring in significant additional income.

To open this particular account, which is of course denominated in Canadian dollars, I needed to appear in person at the bank with a certified copy of my birth certificate as well as other forms of identification. Only when I had met all the requirements were they pleased to open an account for me. Since my wife was not with me on that trip this had to be a single account; she will need to appear in person if she wishes to add her name to the account or open an account of her own.

I chose this particular bank because, unlike most Canadian banks, this one has no branches in the United States. If you have read *Moneywise* you know that I never advocate breaking or evading the laws of the United States; I dutifully report my foreign accounts to the Treasury Department each year as the law requires. Even though Treasury knows exactly how much money I have and where it is, that does not mean that they can get their hands on it instantly, as they might be able to in an American bank with a foreign affiliate. That's what I'm depending on.

By the way, there is no equivalent of the FDIC in Canada, and savings accounts are not insured. I was willing to open an account in Canada simply because Canada did not suffer from the economic crisis nearly as much as we have. Remember what I said about Canada having enormous natural resources; that particular blessing has enabled Canada to escape some of the problems besetting us. This particular bank was profitable throughout the downturn, bailouts, and stimulus we engaged in here in the States.

Because now is probably not the time to be making a major investment in either Canadian or Australian dollars, I opened my account with only a small deposit. I can add to the balance at any time since the by mailing a check or by wiring funds, whether in US or Canadian dollars. Finally, my investment in Canadian dollars is being hedged here in my Fidelity account with the use of options.

### Why doesn't economic stimulus work?

I have been speaking out against Keynesian economics since I finished graduate school. I really wanted to believe Ben Bernanke when he promised us he would get us out of this recession without repeating the mistakes of his predecessors during the Great Depression. Unfortunately, "Helicopter Ben" has made exactly the same mistakes and worse. He has proven himself to be a true Keynesian.

The basic underlying theory behind economic stimulus is that the economy needs to be stimulated. Why does it need to be stimulated? Because intelligent people, people like you and me, are concerned about the future and are saving money that we might otherwise have spent so that we are prepared for a "rainy day". Our government thinks that's a pretty foolish thing to do, so they create these enormous stimulus packages that spend your money for you. If you were to receive your full share of the benefits from this spending, that wouldn't be too terribly bad an idea, but you don't.

This money, trillions of dollars the government does not have, is spent on every boondoggle pork project our senators and congressmen can find. Massive projects are hastily put together and funds allocated to the major contractors, who then subcontract out the work to others, who then subcontract out to still others. By the time the money gets to the company or person who will actually do the work, only a small percentage of the original amount remains to do the entire job. The rest has been wasted on overhead.

That's in a good situation. In a bad situation much of the money is literally stolen through fraud, greed, and corruption before it ever gets into the hands of the principal contractor. Similarly, the bids must include all the political and other payoffs the contractor incurred in obtaining the contract, and all the costs of compliance with tens of thousands of regulations pertaining to every aspect of the work to be done.

Either way, vast sums of money are now being squandered on projects with little or no value. If the project is actually an appropriate one, it usually ends up costing several times the normal amount. The government is desperate to spend money and is willing to relax the rules to make sure the money gets out the door. Only, they say, when the money is being spent is the economy being stimulated.

Once these trillions have vanished into the pockets of people all over the world, many of them Chinese, our national debt has increased by precisely the amount squandered. We have to pay interest on that national debt. Interest never sleeps or takes a vacation; it simply accumulates minute by minute, day by day, and year after year. We need to pay interest on money we borrowed and squandered, and the money we pay as interest could have been used to pay for worthwhile things - like national defense, or reducing the national debt, or doing any of the relatively few things government is actually authorized to do under the United States Constitution.

By virtue of the fact that the national debt has been greatly enlarged, the reliability of the United States dollar is called into question. The dollar, over the longer term, loses value against its peers in the foreign currency markets. This has a negative effect upon everyone who spends dollars, which includes all of us, for our purchasing power is reduced. But wait, there's more: we have to pay off all that new debt.

Remember, these trillions have been wasted and have produced almost no net benefit to the economy. What we are seeing today is an exact duplicate of what happened in the 1930s; the federal government spent massive amounts of money to no effect. Unemployment remained high, the economy was not stimulated, and America remained in a major depression.

Because so many Americans are unemployed, there are fewer Americans paying taxes, and many of us have seen our incomes reduced as the economic crisis grinds on. Those of us who are still paying income taxes are strapped because of the crisis. We would like to put money aside so that we will have something to fall back on as the crisis continues. We need to prepare for the possible loss of employment, health insurance, and all the other crises life can bring, and yet we are forced by our government to pay a much higher percentage of what we earn as taxes.

People who are strapped financially are going to do everything they can to reduce their tax burden, particularly when new tax laws raise their effective tax rates. This means that the IRS has to hire tens of thousands of new employees to make sure that each of us is paying our "fair share". This means that a much larger chunk of the taxes we actually pay are being allocated to your bureaucratic and administrative overhead.

Do you see where this is going? Even if you ignore the fact that the economic crisis was a product of inept, incompetent, and corrupt meddling in the economy by the government, you are still faced with the fact that the money spent as "economic stimulus" 1) cannot possibly do a better job of stimulating the economy than allowing the citizens to spend their own money themselves, and 2) can only be detrimental to the country and the economy as it deepens and prolongs the economic crisis.

Do you think anyone in Washington understands this, except perhaps Ron Paul? I'm afraid not. Politicians love to grandstand, and they make speeches about how they're saving this country as they spend our money and make us poorer.

## The BP Oil Spill in the Gulf of Mexico

I recently saw an article with several videos attached that indicated that the US government was considering using a nuclear weapon to try to seal the BP well, which is still leaking thousands of barrels of crude oil into the Gulf of Mexico each day. Please contact me if you would like the link to the article; it was forwarded to me by an observant client.

The article draws the analogy between the air pressure in your automobile's tires and the pressure of the hydrocarbons in this oil field. Most automotive tires should be kept at about 35 psi, which is 35 pounds per square inch of pressure. The oil and natural gas currently coming out of the BP well is in the range of 175,000 to 195,000 PSI, numbers that are almost incomprehensible. The immense pressure is caused by the weight of a mile of water pressing on that rock formation, to the extent that the article suggests that a well in the center of this field could produce half a million barrels of free-flowing oil every day for years to come.

## The Wealth Creation and Preservation Strategy

### Part 3: Managed accounts

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For example, we are currently buying DUG for about \$75 a share. I am selling the January 2011 DUG \$85 call option at about \$12 a share. That means that if DUG rises to \$85 a share or higher by the time the option expires in January, we will be forced to sell our DUG shares for \$10 more than we paid for them. We will also get to keep the \$12 we received for the covered call option.

This strategy is very sophisticated and utilizes relatively new and unseasoned investments (inverse ETFs) which are deemed to have a higher degree of risk than ordinary investments. You need to understand that I'm using them as a hedge, rather than as an aggressive position. Even so, you have to agree to a special agreement on the Fidelity website in order to be able to trade them in your account.

One final note: we made money during the past six months by taking a balanced position, meaning that we were prepared for the market to move slightly one way or the other, and that's exactly what happened. As this decline accelerates I will be buying more inverse ETFs so that my clients may profit from the decline, and that will be a more aggressive strategy than what I have used previously.

#### Please contact me

I'm sure you have questions about this. Please feel free to contact me and we can discuss these strategies.

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.



## Parting Thoughts

I have left The Economic Crisis Scoreboard out of this issue for lack of space. Unfortunately, Big Government has scored several more runs, and we are still in the second inning. At the moment, the score is:

Big Government 20

The American People 1

If you haven't begun studying the Constitution yet, now is as good a time as any. I have copies I can make available to you at no cost.

I also recommend that you read chapter 3 of *The Patriot's Guide to Taking America Back*, currently available in the Special Reports section of the [www.wcandp.com](http://www.wcandp.com) website. This deals with the issue of natural rights versus human rights, which is the central issue of our time and the driving force behind liberalism and socialism.

Americans need to understand and debate these issues, and soon.

Regarding Wave 3 Down, it may have begun. I will be much more certain of it once we have had a 500-point down day, something I anticipate by the end of the summer.

Abby Joseph Cohen has just joined her voice with the small chorus of those claiming that the stock market will rise nicely between now and the end of 2010. This is good news: she is almost always 100% wrong, and that serves as a confirmation that I am on the right track.

## Travel Schedule

I expect *The Patriot's Guide to Taking America Back* to be in print by the end of September, and I plan to travel around the country promoting it. I am working with Tate Publishing in Oklahoma to get the book published. This is going to be a busy year.

*Charles W. Kraut*



I hope you understand that BP wants to get this fixed by any means possible. The cleanup costs and the attempts to fix the problem may eventually force the company into bankruptcy, having spent every penny they could lay their hands on. I do not excuse anything that they have done prior to or subsequent to the accident, for information currently available seems to indicate that there may have been some negligence. It is also possible, however, that they were dealing with depths and pressures beyond their experience.

This article also indicates that the problem is much worse than has been indicated by the media or the White House. My personal concern, with the little I know about geology and hydrocarbons, is that a nuclear weapon applied to a field like this could have absolutely disastrous consequences for the entire world. Take a look at the video of an oil well which has been burning for forty years because it simply cannot be extinguished. Talk about global warming!

What would happen if through some mishap or miscalculation in the detonation of this nuclear weapon, the entire oil and gas field under the Gulf of Mexico were to erupt? It's certainly something to think about.

## Recommended Investment Allocations

NOTE: There are important changes listed below.

**The "A" Strategy** - An income-producing and low -risk strategy using bond funds and money market funds. It's time to close the 'A' Strategy. It has served us well for many years, earning almost 30% in 2009. I am closing it because if we experience the declines in the stock market that I anticipate high yield bonds will fall with them, never to rise again. The risks in the 'A' strategy are no longer acceptable. Even at the other end of the risk spectrum, government bonds, as I explained previously, cannot move much higher in price but can certainly move much lower. There's no point in buying them now because the interest they pay is so low.

**Type I accounts** - Moderate risk, seeking growth and high dividends. Following are 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 403(b) and other retirement accounts which have access only to a limited group of the Fidelity Funds.

1. 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.

- ★ High-yielding ETFs: MSD, AOD, CWF, FHO, GIFD, JGT
- ★ High-risk penny stocks: **AENS, BCTE, ITRO, SCLL, ETRUF, PEGX, SWFCF, HTM, WWAT, XSNX**. All of these stocks have fallen sharply.
- ★ High-yielding energy-related stocks and ETFs: **PWE\***, **ERF\***, **PVX\***, **PGH\***
- ★ "Commodity" stocks: **SSRI\***

2. Fidelity Funds non-brokerage accounts limited to the Fidelity Funds only

- ★ 40% Fidelity Bond Fund SPHIX
- ★ 20% Fidelity Select Gold Fund FSAGX
- ★ 30% Fidelity Inflation-protected Bond Fund FINPX
- ★ 10@ Money Market Fund

3. 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.

As always, please feel free to call me with your questions and ideas. I appreciate the opportunity to be of service.