



Wealth Creation . . . and Preservation

Independent, unbiased advice to help Americans prosper

4th Quarter 2010

Volume 17, Number 4

\$25.00 per copy

"It's different this time . . ."

In recent months many new clients and readers have come to me. All of them are concerned about what they see going on around them. It is no secret that the economy continues to deteriorate, and that our government seems determined to do everything it can to tax and regulate us to death. The United States has become a very different place than the free land in which you and I grew up.

In my book *Moneywise* I discussed the old saw about "It's different this time", and mentioned that certain things seem to happen frequently while others are unique events. For example, there is a business cycle which tends to run its course - when it is unhindered by the "invisible hand" of government. Once the government gets involved the cycle changes, and never for the better. Governments like to justify their existence by demonstrating that they are able to overcome nature itself through regulating and micro-managing the economy and the citizenry. Of course, they always fail to do either, and in failing create immense problems which cause the people great suffering.

Today we are in a deflationary recession which is trying to become a deflationary depression. Our government (see the lead article, right) wants us to believe that 1) they have fixed all the problems pertaining to this economic crisis, and 2) that we should be very grateful to them for having made everything better again. The government is incorrect on both counts. Many of my clients and readers can sense that something is very wrong.

It is time to complete your preparations so that you and your family may survive the next phase of this ongoing and deepening economic crisis. Please read this issue carefully.

Sounding the "All Clear"

It has been difficult not to get swept up in the steady stream of "wonderful" news about the economy with which we have been deluged of late. With midterm elections approaching, the President, Congress, the Federal Reserve, and the media have been more than anxious to reassure the American people that everything is just fine, and that we should "stay the course" and keep in office those who got us where we are today. It's hard to believe the optimism and enthusiasm I am witnessing, but after all this is an election year.

Unfortunately, those who got us here are either very intelligent and know exactly what they are doing, or they have no clue about what's going on. Both groups working in combination have done this country great and lasting harm. Our republic is suffering - as are most of its citizens.

The "recession" we have been experiencing, the experts say, ended in June of 2009. If you are still out of a job, as one of the more than 15 million Americans who cannot find work, I'm sure that news makes you feel a lot better.

In fact, the economists and the President are so confident in the success of their terribly destructive stimulus programs that they now feel free to say that we actually hovered at the edge of a depression. Using the "D" word, of course, makes them look even better as the saviors of our country and the Free World. It's much more difficult to rescue the economy from a depression than it is from a recession, so please show your appreciation and gratitude at the ballot box.

Charles W. Kraut, MBA

Lexington, Virginia
ckraut1@comcast.net

Please visit

www.wcandp.com

Please make sure I have your
current e-mail address.

In this issue:

Sounding the "All Clear"

The Bad News

What am I doing with your money?

The coming Collapse of the Dollar

Confiscation Part II

Recommended Investment Allocations

Cover Story

Page 2

Page 4

Page 5

Page 6

Page 8

The report card:

The United States "turns itself in" to the United Nations for its human rights violations.

Just when you think that our government couldn't do anything worse than what they been doing to us for the past several years, it does something even worse. On August 24, 2010, the U.S. Department of State released the very first of what will apparently be a long series of reports to the UN High Commissioner for Human Rights about how well or how poorly the United States is doing internally in promoting human rights for all, citizens and aliens alike. You may find the report by doing a Google search for the Universal Periodic Review.

You may find it odd, as I did, that Barack Hussein Obama and Hillary Clinton would submit you to this corrupt, bloated, dysfunctional bureaucracy called the United Nations to be judged. It's even more odd that the people who will sit in judgment on us come from some of the most corrupt, vicious, malicious, and dictatorial governments in the history of humankind. The thing that will perhaps amaze you the most is the actual text of this "report card", in which dozens of statements are made about what the United States is going to do, every one of which is a violation of our Constitution.

I want to save space in this issue to share more charts than usual, but I have got to disclose some more about this particular nightmare.

(continued next page)

The bad news

The bad news, of course, is that the good news is wrong. As I have been saying for months, all that has happened is that the stock market has regained much of its 2008 losses. That's it. All the government has done is to spend money it doesn't have in a failed effort to stimulate the economy.

There is no reason to expect that this economy will recover regardless of the impact or the potential impact of any action taken by government to this date. Our government has violated the basic tenets of capitalism, which include "creative destruction". If in the United States you have the right to succeed in your business *you must also have the right to fail*. The big bankers and Wall Street firms that got bailed out, whether through a temporary loan or permanent stimulus funding, became "zombies"; they were literally the walking dead. Their executives had made serious mistakes and lost great chunks of their shareholders' money and, in many cases, money belonging to their policyholders, borrowers and savers. These losses did not give these companies the right to go to Washington hat-in-hand to plead for massive funding to enable them to continue to operate. Instead, they needed to suffer the consequences of their bad decisions and their companies should have been allowed to fail.

The obvious retort to that argument, of course, is that if these companies *had* failed the United States economy would have failed. I don't think so. Yes, enormous amounts of money literally disappeared when some of these "toxic derivatives" blew up, but if these institutions and their executives had known that they would be held personally accountable for their actions we can hope that they might have acted more prudently.

If you have been reading *Wealth Creation and Preservation* for more than 10 years you may remember that I beat the drum constantly about these financial institutions being on the short end of the stick with these derivatives. It is estimated that at its peak the value of these derivatives was several times the value of everything in the entire world. Who did these executives think they were, taking that kind of a gamble with their shareholders' and their customers' money?

There is nothing wrong with capitalism as an economic system. It is a far better system to create wealth for the many than any other system known to man. In order to function as it should and can, it must be left alone, free of the influences of government. By this I mean regulation as well as bailouts. There was enough regulation in place prior to this catastrophe *except* that the Congress of the United States made a very serious mistake; they repealed the Glass-Steagall act, and opened the door for the investment banks to treat FDIC-guaranteed savings as their own piggy bank.

Just this week I visited briefly with my Congressman, and in our conversation he mentioned that he had supported the repeal of Glass-Steagall - but now he regretted having done so. Hindsight can be 20/20, but it's always too late.

My premise is that the collapse came about because Wall Street was too closely tied to Washington. For decades Corporate America has supported the Republican Party, and in the process built monstrosities like the military-industrial complex Eisenhower

Charles W. Kraut, MBA is a private individual licensed for the sale of insurance products and, in certain states, as a Registered Investment Adviser (RIA). *Wealth Creation and Preservation* is published as a means of disseminating information compiled from numerous sources in such a way as to reflect the conclusions drawn by Charles Kraut in his analytical work. *Wealth Creation* is a copyrighted publication. Those wishing to copy this publication or otherwise disseminate it to others must first obtain written permission. Many of Charles' articles and past issues of *Wealth Creation* may be found on www.wcandp.com.

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

Insurance and investment products are not insured by the FDIC or any other government agency. You may receive more or less than you paid when you redeem your investment or insurance contract. Always consult the investment prospectus before investing. Past performance is no guarantee of future results. Charles W. Kraut makes no guarantees whatsoever regarding the performance, return, or dividends of any savings, insurance or investment program. Guarantees which are made, if any, are offered by the product provider and are stated as such in the product literature.

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

was so unhappy about. Today, however, Wall Street and corporate America have shifted their support. These are very smart people; they can see the way the country is going, and they have figured out that the Democratic Party is the place to be for the foreseeable future. For this reason, even though the Democratic Party is also the party of the unions, they have greatly increased their contributions to the Democrats. Like everyone else who makes campaign contributions, they expect payback - and they got it, both from George Bush and from Barack Hussein Obama.

This relationship has brought forth many bad decisions, all of them influenced by money. It didn't start with Continental Illinois back in 1974, but that incident marked a major turning point in the cozy relationship between the CEOs and Washington. Once our government had declared even one private institution "too big to fail" it was all downhill from there. That decision enabled the failure of Long-term Capital Corporation, which brought the entire world to the brink of financial collapse. It then moved on to the situation in 2008 with the collapse of Lehman Brothers, AIG, and other major financial firms. If our government had "just said no" to corporate contributions and lobbying from Wall Street, these companies might not have gotten themselves into so much trouble.

Unfortunately, it no longer does any good to discuss what *should* have been. We are now in this mess, and are slowly discovering that as so many people like me predicted, the stimulus and the bailouts are not doing any good at all - despite what you have been reading in the major media of late. These "zombie" companies are still threatened - and in some cases they have actually *increased* their exposure to toxic derivatives, setting themselves up for more and bigger failures down the road. Guess who will get to pay for those bailouts?

What to expect

Markets today are driven in large part by government interference. It is for this reason and for this reason only that the US stock markets are in a trading range, and they may remain in that range for several months to come. It is also for this reason that commodities are soaring. We are in *deflation*, and in deflation prices fall. In this particular deflation, prices are rising, and precious metals in particular are flying upward. Instead of having a simple, rational, business cycle type of market free of government interference, we see **conflicting influences from government which are distorting just about every investment on the planet.**

Expect the new round of Quantitative Easing (dubbed QE2) by the Federal Reserve to boost stock prices, at least for a while. The markets have been moving up ever since the Fed began hinting at QE2. QE2, like QE1 before it, are a slap in the face to everyone who owns a dollar. These despicable actions by the Fed merely print new money and distribute it. This money has no backing at all, and *has the effect of reducing the value of every other dollar in existence.* To you and me there is little difference between QE2 and being robbed at gunpoint. I could not agree more with Ron Paul that we need to end the Fed. When will that happen? Not soon enough.

These are not easy times for people like me, for we have to be prepared for any eventuality. I have made my basic decisions regarding what I will do with my clients' money, and I have shared that information with you in the past. I will bring you up to date on my approach in this issue, but basically all I am doing is some minor restructuring of my clients' portfolios on the assumption that the trading range we are in will extend at least another six months.

This period of time should enable you to complete your preparations for the next wave down, whenever it may begin. In addition to the strategies I discussed in the most recent issue of *Wealth Creation and Preservation*, you should do everything you can to become self-sufficient in terms of food, fuel, and other necessities. If you have the space, you can keep a year's supply of food on hand so that you can eat when there's nothing on the store shelves. You can store water, and in some cases you can store fuel (propane and firewood are my fuels of choice for storage). Are you going to eat well while your neighbors are starving? Perhaps, but what is more important is that you will have food to share with those in need. That's why you should encourage your neighbors to save for a rainy day as well.

The United States "turns itself in" to the United Nations for its human rights violations (continued)

Forget for a moment that the man who happens to occupy the Oval Office today is unaware of the fact that the United States is not a democracy. He could be forgiven that slip because so many of his predecessors, Republican and Democrat, made the same mistake. What you cannot forget is that this Obama character clearly states that we are and will remain the "world's policeman":

". . . democracy does not merely represent our better angels, it stands in opposition to aggression and injustice, and our support for universal rights is both fundamental to American leadership and the source of our strength in the world."

This man needs to read the Constitution and the writings of George Washington. Absolutely nothing in our Constitution talks about us leading the world or promoting anything among the other countries of the world except perhaps harmonious relations and free and open trade.

It should go without saying that "our support for universal rights" is not only unconstitutional, but that if pursued will inevitably prove the destruction of the United States. (You will have to read chapter 3 of *The Patriots Guide to Taking America Back* for a fuller discussion of that topic.)

But wait, there's more. Hillary weighs in and likewise calls America a democracy. This report states that "Progress is our goal, and our expectation thereof is justified by the proven ability of our system of government to deliver the progress our people demand and deserve."

You can and should make a very strong case that based upon the actions of the United States government over the past two centuries progress toward the fulfillment of the natural rights enshrined in the Constitution has clearly been going the wrong way.

(continued on next page)

The United States "turns itself in" to the United Nations for its human rights violations (continued)

Let's "cut to the chase" and get to the heart of the document. There are two statements on pages 4 and 5 that reveal the agenda of this administration:

"The desire to live freely under a government that would respect and protect human rights was a fundamental motivation of our country's founders – human rights have not only been part of the United States since the beginning, they were the reason our nation was created."

That statement is completely false. For any president of the United States to make such a statement is grounds for impeachment.

"Our commitment to the rights protected in our Constitution is matched by a parallel commitment to foster a society characterized by *shared prosperity*." (emphasis added)

Those last two words should send chills up and down your spine. Just in case you have never seen them in print before - as in the 1948 United Nations Universal Declaration of Human Rights, for example - you have now. Right here the President and the Secretary of State specifically declare that the path of our government is a path of socialism which must lead to communism and to destruction.

Why? Because "shared prosperity" and "human rights" destroy morality and the work ethic, and undermine a free society. *Under human rights I have the right to take money out of your pocket.* No such rights were ever granted by God, nor ever will be.

Just as a reminder let me quote briefly from that infamous United Nations Universal Declaration of Human Rights, Article 25:

"Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control."

No nation ever has survived or ever will survive human rights. Your government is firmly committed to this terrible process, as I have just shown you in their own words.



You can also expect to become even more confused as what you hear from the government and the media and what you see around you becomes more contradictory. Be prepared for that, for it is easy to lose sight of your goal and to forget what may be essential in the not-too-distant future. Don't become a "deer in the headlights" by failing to act in a timely manner. Don't let anyone convince you that you don't need to be prepared, for that mistake can be very costly to you and those you love.

Optimism reigns in the markets

We remain in a time of market transition. We are enjoying a pleasant respite, in which markets continue to show a slight bias to the upside. This bias, coupled with unbridled enthusiasm and extremes of optimism on the part of market analysts and traders, has brought forth statements to the effect that the stock market will keep going up for the rest of our lives.

In the past two weeks I have received no fewer than four mail solicitations trumpeting how anyone can start with \$200 or less and end up with \$15.1 million in just a few weeks. You know we're in trouble when people can put out that type of advertising and not get slapped down by the regulators.

There have been times of greater optimism than what we see today. For example, optimism reached higher extremes just before the crashes of 1987 and 2008, and again just before the crash of 2000. To mix a metaphor, at times like these we should make hay while the sun shines and keep a loaded lightning rod close at hand.

I am very pleased to have my clients' money heavily invested in appropriate markets at times like these. Yes, we have our inverse ETF positions, and they continue to decline in value as the market advances. I have no problem with that for two reasons: first, because I am completely confident that the market *will* fall apart, and second because for the most part we are receiving reasonably good covered call options premiums. These premiums reduce our cost basis in the inverse ETFs.

What am I doing with your money?

As I mentioned in a recent e-mail, I have been "rolling" some of our DUG options to a future date in order to take substantial profits on our October and January calls. I always love to take a profit for my clients, especially when that profit approaches 100% of the amount invested. To a great extent these option premiums, which we get to keep, offset the decline in value of the corresponding inverse ETF. That way, our cost basis in the inverse ETF is reduced over time.

In the third quarter 2010 issue of *Wealth Creation and Preservation*, which was perhaps my most important issue in years, I detailed my new strategy for my clients' money. It's a deceptively simple strategy;

- 1) Cash and silver coins in a good safe,
- 2) A savings account in a Canadian bank with no US branches (denominated in Canadian dollars), and
- 4) Managed money in a Fidelity account. We are fortunate that this particular strategy happens to be working well at the moment. Things are very precarious; both our economy and our government could be very close to collapse. In addition to the financial preparations you have made as you work with me, I also urge you to make the emotional and physical preparations that will enable you to survive in the years to come. We need to think about how we are going to exist in this new world which is rapidly approaching, for everything we know and feel comfortable with will change.

Following are some other changes I have been making in my clients' accounts in the last couple of weeks:

1. Many of our energy trusts and dividend-paying stocks have risen to or above the strike prices of our covered call options. Since these positions are "protected" by inverse ETFs it is appropriate to "roll" those in-the-money options to higher strike price, later-date options. For example, I am rolling our CQP January 2011 \$19 calls to the January \$21 calls. When we do this we take a loss on the existing option, but

we are buying a higher strike price that more than offsets that loss.

2. There are few stocks worth buying at present, but there are many that should be sold at a profit. With our high-yield ETFs I am selling when they look ready to change direction and buying those that have not risen as far. This is what I use comparison charts for like the one in the previous issue of WC&P.

3. I am closing some of our long puts on the stock market, since they will only lose value if the market remains in a trading range. These are being closed with losses.

4. I am "adjusting" (translate: selling) some of our inverse ETF positions. In a rising or flat market they are little more than a drag on the portfolio.



Enerplus (ERF) - broke out of its trading range to the upside, and looks ready to turn down.

The coming Collapse of the Dollar

No living American has any experience with an American currency collapse. The last one occurred in the late 1860s. What we are seeing today is a "slow-motion collapse" which has gradually reduced the dollar's value over almost a century. It's the old analogy of the frog in the frying pan full of water. The frog doesn't realize he's being boiled until it's too late to jump out. Americans don't realize that the value of their currency is literally being stolen from them every single day.

According to most of my sources, inflation is not a serious issue at the moment - but it will be, perhaps as early as a year

from now. That's money inflation I'm talking about, not price inflation. Prices are already going up - actually, they never stopped going up - but money inflation is not happening at the moment. Instead, we are in a period of deflation, during which dollars are supposed to increase in value - but this time, they won't.

The Federal Reserve just announced that it would seriously consider resuming what they call Quantitative Easing, or QE2, since this will be the second round of such shenanigans. What, you ask, is Quantitative Easing? It's a fifty cent word used to conceal a very ugly truth; our government can't get its hands on enough money to stimulate the economy, as they see it, enough to do any good. Therefore, the Federal Reserve will create half a trillion dollars out of thin air (again) and see if it will do any good. Because we are in a deflation that's not

really a deflation in the usual sense, these new dollars may not have an immediate effect upon every other dollar already in existence. By definition these new dollars should depreciate every other dollar currently in existence because we will now have more dollars chasing the same number of goods and services. Instead, these dollars will have more of a delayed effect.

Besides, the dollar doesn't need any help in collapsing, for it's doing that all by itself right now. As I write this (on 7 October 2010) I can see that the dollar rose very slightly today. However, with the exception of a six-week bounce that began in August the dollar has been plummeting since 8 June 2010. In the four months since that date of the dollar has



UUP, a US Dollar Index ETF, shows a clear downward trend since June - and a relatively perfect Zigzag formation. The dollar "is supposed to" turn up again soon - but don't hold your breath. This chart has the earmarks of a dollar collapse if this trend continues.

lost 12.7% of its value, not against itself, but against a basket of foreign currencies. Robert Prechter has advised twice that the dollar's fall would reverse itself, but even today there are no signs of that at all.

Just so you understand, there are three characteristic values for the dollar:

- 1) The number of ounces of gold one dollar will buy,
- 2) The purchasing power of the dollar as measured by CPI and other flawed or politically challenged indicators, and
- 3) The dollar's value relative to foreign currencies.

I have just discussed the dollar using all three definitions, which is why you are probably confused at this point. Let me try to make it just a little bit clearer.

Today it takes \$1,339.10 of US Federal Reserve Notes to purchase one ounce of gold. That is only one day away from the all-time high price for gold, and it indicates that *the value of the dollar in terms of gold is falling* even though we are in a deflationary environment. The value of the dollar should be *increasing* because there are fewer dollars, that measure is largely irrelevant at this point. The Federal Reserve has been flooding the market with dollars in a failing attempt to revive the economy. Not only are their efforts not working in increasing the value of the dollar, it seems that nothing can be done to reduce or slow Consumer Price Inflation. The CPI numbers we get from the government are lower than they were a year or so ago, but they still indicate that we have price inflation.

Finally, as I just mentioned, the dollar, the world's reserve currency, is plummeting against most other currencies. The once mighty US dollar reached its peak in July of 2001. Since then it has lost 36% of its value against other currencies.

It wasn't too many years ago when some folks laughed at me when I told them the Swiss franc would someday be selling for more than one US dollar. The Swiss franc, which was down today, is one day away from its all-time high of \$1.03. When I was living in Europe 35 years ago they Swiss franc cost anywhere between \$0.35 and \$0.42.

Similarly, the Euro, which has none of the attractiveness of the Swiss franc in terms of underlying value, is also soaring against the dollar. At its peak the Euro was \$1.605. It has had two troughs and one peak since then, and has fallen as far as \$1.1879 this past June. It is now \$1.3756. Not bad for a currency that includes Greece, Spain and Ireland in its membership, three economic basket cases with little or no hope of ever extricating themselves from their financial woes.



The Dow Jones Industrial Average, weekly chart. Each red or green bar represents one week of trading. Note that after bottoming in March 2009 the Dow has recouped about 60% of its decline, a picture-perfect Elliott wave pattern. Note too that it looks like we are forming a double top right now.

I raised this issue in the third quarter 2010 *Wealth Creation and Preservation*. Since that time I have done a great deal of reading on the subject, and am concerned that this confiscation of 401(k) and possibly IRA accounts may be coming even sooner than we feared.

The need for our government to steal your hard-earned money is obvious; Congress refuses to stop wasting your money and the president has grand designs that, in his own words, have already bankrupted us. Neither of them has any intention of slowing their wasteful spending, and the leaders of foreign countries are beginning to realize that America is rapidly becoming a deadbeat nation.

If our government is to continue its "progress" toward human rights and to create "shared prosperity" for all Americans, an obvious solution is a great equalizer such as the destruction of private retirement accounts. This government theft of perhaps as much as \$14 trillion will destroy the American middle class once and for all. Americans will know that their government is willing to steal from them whatever it wants, and will do so at the point of a gun.

I want to share with you some of the things I have been reading on the subject. First, let's go to a website sponsored by the Economic Policy Institute, an obviously leftist group working very hard to make theft by government palatable to the American people. Here's what they say about the role of government in shaping our society. This comes from their own briefing paper number 184:

"Government's role in building a new social contract"

"The federal government has a critical role to play in ensuring that private institutions are structured in ways that serve the public's interests. With respect to work and employment, this means a government strategy and policy that ensure families and businesses thrive

Confiscation Part II

and prosper together. Since the New Deal, the American approach to meeting these obligations has been to enact minimum standards covering the essential rights and conditions that all employees should be guaranteed and to develop administrative actions that support worker, union, and employer efforts to gradually improve on these minimums as economic conditions allow and social conditions warrant.

"Government's role is also to ensure that workers have the tools, including the necessary skills and supports, needed to contribute to and prosper in the modern economy. A third task is to support workers and families as they change jobs in this unstable economy or go in and out the labor force or between full- and part-time jobs as their family and life circumstances change over time.

"How can government carry out these responsibilities in ways that reflect the features of the contemporary workforce and economy? There are seven broad areas in which government can play an active role. . . "

The paper continues by listing the seven areas the author thinks government should be involved in, none of which can be found in the Constitution or in any of our other founding documents, and for good reason. The paper then gives another series of reasons why government is the answer, even though we all know the government is the problem:

"And finally, there is growing recognition that acceptance of more open trade and a dynamic economy hinges on a more active role of government. Government must play the kind of role that it so successfully performed after World War II, when it created the largest middle class in America's history. It must set minimum standards for wages, health coverage, and retirement security that ensure that hard working Americans have the basics of a decent life. Government also needs to leverage its resources to provide the tools needed for workers to succeed by promoting the life-long learning needed to prosper in our new global economy, and creating the supports for workers and their families as they move across jobs and/or in and out of the labor force as their life and job circumstances change over time.

"The very role of government is to ensure that the prosperity of our economy is broadly shared among all hard working Americans and their families. Yet, in the past two decades, government has not only retrenched in its obligation to set rules in the economy that value all working Americans, but it has set rules that undermine everyday Americans. It is time for government to be on the side of working Americans."

If our government really wanted to be on the side of working Americans it would leave us alone and let us use our ingenuity to create the kind of prosperity we are capable of. The genius of America is that we learn how to work our way through our problems. If we instead surrendered to the "nanny state" we will surrender all of our freedom in exchange for an empty promise.

Now let's look specifically at what Teresa Ghilarducci recommends as an appropriate substitute for 401(k) accounts and IRAs that we control ourselves. This comes from EPI Briefing Paper #204:

"How Guaranteed Retirement Accounts work"

"Structure. Guaranteed Retirement Accounts are like universal 401(k) plans except that the government, as befits a large and enduring institution, will invest and manage the pooled savings.

"Participation. Participation in the program is mandatory except for workers participating in equivalent or better employer defined-benefit plans where contributions are at least 5% of earnings and benefits take the form of life annuities.

The Commitments of Traders report

For several years I have talked about silver, and stated repeatedly that it will be the best and most important recommendation I will ever make. This is still true, even though silver has already risen 520% from the point at which I initially recommended it.

I have referenced Jim Cook at Investment Rarities, Ted Butler, a silver "expert", and others as I tried to get a feel for where silver was going.

I have mentioned that there are new and important industrial uses for silver which will require perhaps even more silver than we used to use in photographic film. These uses include silver nanoparticles as an antibacterial agent and superconducting supercooled silver high-tension power lines. If the "smart grid" is ever built it will require tons of silver to build these high tension lines, but the savings will be huge. Currently, high tension lines lose about 17% of the electricity generated at the power plant by the time the electricity gets to its destination.

I have also discussed the Commitment of Traders report I receive each week courtesy of George Slezak. This report is my "window on the world" for silver, for it shows me each week the positions of the big banks who have been illegally manipulating silver for years.

At the moment this manipulation is going badly for them. Ted Butler had claimed recently that J.P. Morgan in particular was getting out of the manipulation business, but if that is true it is not reflected in the Commitment of Traders report. The COT report I just received shows that the Reportable Commercials (Hedgers) are net short 64,537 contracts of silver, or 322,685,000 ounces of silver. This is a decrease of almost 4,000 contracts from the previous week, but the previous week posted the highest number I have ever seen. Those who own short positions totaling 64,537 contracts are losing \$322 million every time the price of silver rises one dollar.



Parting Thoughts

I hope you are studying the Constitution and teaching it to your children and grandchildren. I hope you are cherishing the idea of freedom in your heart, and made a commitment to defend it for the sake of your posterity.

We live in very troubled times. Great efforts are afoot to polarize and divide us as a nation, and they have been largely successful. We have been led to believe that the government owes us a living, and that any sort of behavior is perfectly permissible. These are patent falsehoods, and we are very late in beginning to refute them.

The Patriot's Guide to Taking America Back will be out shortly. I will travel almost anywhere to speak about it, for I find that I have had some small effect as I encourage Americans to educate themselves and become involved.

I am already planning a sequel to *The Patriot's Guide*, a book that will focus on the conflict between human rights and natural rights. Our nation and our world have not yet entered that debate. The world probably will not, because they do not have the Constitution of the United States. We must, or we will lose all that Americans have fought and died for since 1776.

Travel Schedule

I will be in southern California from late on Wednesday 20 October through Tuesday 26 October, and in the Dallas/Fort Worth area from Wednesday the 27th through possible Monday 1 November.

I will speak at Richie's Diner in Murrietta, California on Monday 25 October at a breakfast meeting beginning at 8:30. I am still looking for additional opportunities to speak on this trip.

Charles W. Kraut



"Contributions. Contributions equal to 5% of earnings are deducted along with payroll taxes and credited to individual accounts administered by the Social Security Administration. The cost of contributions is split equally between employer and employee. Mandatory contributions are deducted only on earnings up to the Social Security earnings cap,² and workers and employers have the option of making additional contributions with post-tax dollars. The contributions of husbands and wives are combined and divided equally between their individual accounts. . . ."

You get the idea. This plan, if and when implemented, eliminates 401(k) and IRA plans by definition. The author makes no effort to conceal her dislike of accounts that you can manage yourself, and lavishes praise on government and its ability to take care of you. Please note the use of the term "defined benefit plans". These plans are disappearing rapidly because it is obvious that corporations cannot afford to maintain them. Only governments are foolish enough to think that they can continue making payments to people whose working years ended long ago and whose life expectancy is increasing by the day. 401(k) and IRA accounts are *defined contribution* plans, not *defined-benefit* plans. Therefore, under this scheme they must disappear - which in this case means some form of confiscation.

In the interest of space I will spare you more of the awful details of this plan. Suffice to say that this group firmly believes that government is the only answer to resolving the problem of retirement.

What can you do? Again, it is a very subjective decision that you must make by yourself. If you are older than 59 ½ I suggest that you begin making withdrawals from your IRA and 401(k) accounts as allowed by your employer. Consider how much more income taxes you will pay on this money even if you convert it into a Roth IRA. If you are younger than 59 ½ you are facing an additional 10% penalty tax on all withdrawals from 401(k) and IRAs. You might want to talk to me about the rules before proceeding with a withdrawal.

Canada

In the last issue I neglected to mention the name of the bank that Doug Casey had recommended as being a solid Canadian bank with no branches in the United States. That bank is the **Canadian Western Bank**, www.cwbank.com. I opened my account in Winnipeg; you will probably want to open yours in Vancouver, which is a much prettier and more popular place. One of my readers told me that she was advised to bring along a letter of reference from her current American bank. Of course, if you do not have a current US passport, you will need to obtain one before you can plan your trip.

One of my readers told me that Canada does have their own version of the FDIC, which is contrary to what I was told when I visited my bank in Winnipeg. It is possible that bank employees there are instructed not to discuss government insurance of bank accounts just like insurance agents in the U.S. (like me) are not permitted to discuss each state's legal reserve system, which would account for the differing answers.

In any event, Canadian Western Bank is a member of the Canadian version of the FDIC, the CDIC. Under the CDIC your account is insured for up to \$100,000.00. For more information, please go to www.cdic.ca.

Thank you to the reader who provided me with the information.

Recommended Investment Allocations

Prices as of 18 October 2010

NOTE: There are important changes listed below. Stocks mentioned here for the first time are highlighted in Red.

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, **JPC**
- ★ High-risk penny stocks: **ABAT**, **AEHI**, HTM, XSNX. HTM and XSNX fell sharply about a year ago.
- ★ High-yielding energy-related stocks and ETFs: **PWE***, **ERF***, **PVX***, **PGH***, **CQP***
- ★ Other high-yielding stocks: GLAD, HTS, **ETW**
- ★ "Commodity" stocks: **SLV***

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

- ★ 20% Fidelity Bond Fund SPHIX
- ★ 20% Fidelity Select Gold Fund FSAGX
- ★ 30% Fidelity Government Bond Fund FGOVX
- ★ 30@ Money Market Fund

3. Allianz and other Equity Index Annuities (EIAs)

- ★ 25% NASDAQ 100 / 75% Interest-bearing

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

U.S. Stock Markets



This is a monthly chart of silver going all the way back to 2002. Note that in this current month it has moved sharply above 2008 high. It is possible that we are completing five waves up, but there are many possible Elliott wave interpretations of this chart. To the, this looks like a 'blowoff' caused by extraordinary factors, which means silver can go significantly higher before it reverses and falls again.



The Swiss franc ETF, showing a very strong move upward the Swiss franc which just the other day took the franc to a new all-time high against the US dollar. Note how the franc broke through a dollar in 2008, then tested the one dollar level twice before breaking through decisively this month.

Dow Jones Industrial Average (DJIA). 11,062.78. I showed you the chart on Page 6. The Dow (and the S&P) may continue to rally, or this may prove to be a double top. I am prepared for either event.

NASDAQ 100 (NASDAQ). \$NDX, 2,097.73. The NASDAQ has broken above its April high, partly because of Apple. It may continue to rise, for it no longer is at a double top.

Bond Markets

US Treasury Bonds. 131 1/32, continuation contract. Treasury bonds have double topped. If deflation continues or accelerates they will rise again. If inflation fears or the perceived creditworthiness of the U.S. dollar diminishes, they will fall.

High Yield or "junk" Bonds. We still hold some of the ETFs or "closed-end" funds I describe in the *WC&P Portfolio*. We purchased them at a significant discount after their price had fallen dramatically; they have rebounded nicely from their lows.

Robert Prechter is particularly insistent that we should get out of all "junk" bonds before they collapse. He is probably right, but he is often early.

Commodities

Crude Oil, \$81.98/barrel, continuation contract. Oil is clearly in a trading range between \$71.50 and \$86.50, a very wide range which is giving us good opportunities to profit.

Natural Gas, \$3.25/mcf, continuation contract. Natural gas is once again approaching its August 2009 lows. You, however, will be paying more, and much more for propane this winter. Why? 1) Supply and demand are out of balance, and 2) Utility companies are inventing new schemes to charge you more.

Real Estate

Stay away from all forms of real estate. Don't be misled by the parade of homebuilders on CNBC and Bloomberg.

Gold and silver. Gold \$1,354.90, Silver \$24.00 per ounce.

We are at or close to the all-time high in gold. Silver is at its highest prices since 1980.

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. However, despite the recent "blowoff" I believe Robert Prechter is correct when he calls for a major decline in the price of both metals. We know a little bit about preparing for inflation, but we just don't know how to prepare for deflation. Deflation is next on the world's agenda, but not a 1920s-style deflation.

The Euro \$1.3942, FXE currency ETF.

The Euro hit a new all-time high of \$1.5984 on 22 Apr 08. It fell off a cliff to \$1.2395, rose to \$1.4615, and fell back again before rising to its current level. I wish I hadn't sold some of mine back in June.

What to do now

1. Buy silver if you don't have enough. You can buy silver futures by buying SLV 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 at www.wcandp.com, or on eBay. 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 may increase in value even if gold falls.

2. Store food and water. Prepare for difficult times. Raise cash and keep it in a safe place at home. If you can keep 6-12 months' worth of money (enough to cover your regular fixed expenses) in cash at home, consider doing so. Save more money and invest it in accordance with my 3-point strategy.

3. Please tell your friends about me. I want very much to gain new subscribers and I will accept new clients.

The Economic Crisis SCOREBOARD	1	2	3	4	5	6	7	8	9	R	H	E
BIG GOVERNMENT	20	2								22	25	3
The AMERICAN PEOPLE	1	0								1	2	0

The economic crisis is in its second inning, and the government maintains a huge lead. The most recent two runs scored by government against the people of the United States includes the Obama administration's cowardly attack on the state of Arizona, and its renewed commitment to the United Nations to force "Shared Prosperity" down our throats.

We the People come up to bat on November 2nd. Please send a clear message to Congress and the White House that you will not stand idly by as they destroy what is left of our Constitution, our freedom, and our country.