



Wealth Creation ... and Preservation

Independent, unbiased advice to help Americans prosper

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The stock market's worst year since the Great Depression

2008 didn't end at all like it began. What began as an inflationary spiral became a deflationary recession.

	Price, 31 Dec 07	Price, 31 Dec 08	Change, 2008	Current Price, 23 Jan 09
Dow Jones Industrial Average (DJIA)	13,265	8,776	-33.8%	8,078
S&P 500	1,468	903	-38.5%	832
Crude Oil	\$95.98	\$44.60	-53.5%	\$45.98
U.S. Dollar	76.70	82.15	+7.1%	86.19
Gold	\$835.30	\$865.00	+3.6%	\$897.70
Silver	\$14.85	\$10.79	-27.3%	\$11.94

These numbers are *amazing* when you consider how the first half of 2008 went. Here are the *high prices* for the year 2008:

DJIA	13,136.79
S&P 500	1,440.24
Crude Oil	\$ 147.27
U.S. Dollar (2008 low)	71.05
Gold	\$1,033.90
Silver	\$ 21.44

Being **RIGHT** is not **ENOUGH**

or, timing may not be everything, but these days you won't go far without it

An increasingly important part of my work involves making predictions. Many people make predictions, and at least half of them turn out wrong. When you manage money for people as I do you are responsible for the accuracy of your predictions and the actions you take based upon them, which means I must hold myself to a higher standard than the media, most of Wall Street, and most Americans.

I am very grateful for my education. Obtaining an MBA in Corporate Finance took two long, hard years of less than five hours' sleep each night and more reading than I had done for my entire B.A. in Social Sciences. I gained the ability to analyze and evaluate, and as I put these skills into practice I began to be able to predict with ever-increasing accuracy. If you were to look back on the past 15 years of *Wealth Creation and Preservation* you would find many things that came to pass just as I predicted. If you compare what I said with what Wall Street and the media said, you will find that my predictions were far more accurate than theirs.

Here are some recent examples:

1. In the 4th Quarter 2008 issue of this newsletter I said "People will begin to wonder why a few extremely wealthy people were permitted to destroy the world's financial system, and then permitted to retire with huge

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Please visit us at
www.wcandp.com

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from *The Daily Reckoning*

"The gist of the world economy for the past quarter century was a division of delusion, which led to huge bubbles. Americans pretended to have good money. Asians pretended to have a good customer. Bankers pretended to have good credits. And Wall Street pretended that toxic assets were good ones.

"Asians made; Americans took. Asians saved; Americans borrowed. Americans provided the demand. Asians provided the supply. Asians built a real economy, with real money, and real factories and real skills. America's economy was mostly a conceit, in which people became accustomed to a standard of living that very few of them could afford.

"But now it has come to an end. And whom do you think will suffer most?

"Our guess: the Chinese!

"Eighty years ago, America was in China's position. It was the world's young, growing, dynamic economy. Manhattan soared then as Shanghai soars now. But when the collapse came in the '30s, the demand for American goods shriveled. Foreign and domestic purchasers pulled in their belts and cancelled their orders. For a while, America was out of business. It was only at the onset of WWII that the orders started coming in again in massive quantities.

"This time, it's China that's going out of business. "



bonuses. As people begin to suffer the ill effects of a struggling economy, they will look for someone to blame - and punish." Today, 16 January 2009, in an article entitled "Financial 'death penalty' for Madoff?", Scott Burns says "I believe we're at the beginning of something as powerful as the civil rights movement or the protests against the Vietnam War. The difference is that this public anger is far broader. . ."

(See <http://articles.moneycentral.com/Investing/Extra/financial-death-penalty-for-Madoff.aspx>)

2. Several years ago when **Section 529 plans** were beginning to be promoted by my peers as a great way to fund your child's college education, I said "Though I like the tax structure of the 529 plan, most of the plans I have seen do not offer a sufficiently broad range of investment choices. It doesn't matter how much money you are saving in taxes if you are not *making* any money."

11,000,000 Section 529 plans were opened by people who didn't follow my advice. Yesterday, moneycentral.msn.com carried this story:

The great college savings fiasco. "529 plans, sold for a decade as the I-stop solution to paying for college, haven't performed as advertised" ". . . many parents who have invested in 529s, counting on the market to help cover the soaring costs of college, would have been better off putting their money under their mattresses."

(See <http://articles.moneycentral.msn.com/learn-how-to-invest/the-great-college-savings-fiasco.aspx>)

3. One of the most important examples came relatively early in my career when whole life insurance was declining in popularity because Americans weren't saving as much. People were living longer and needed life insurance that wouldn't become too expensive in later years the way term insurance does. The industry invented a disastrous alternative called *universal life*.

Universal life in its earliest form was the 1980s equivalent of today's toxic derivatives. Policies were being sold showing annual gains of 10-12%. Though those rates were available at the time it was obvious to me that they couldn't last.

Years later tens of thousands of Americans ended up getting the dreaded letter from their insurance company telling them that they were in a no-win situation from which there was no escape.

I never sold a Universal Life policy and advised everyone who would listen not to buy them. Twenty years later the industry finally got the message, and insurance companies made essential changes to the products they would sell in the future.

4. For several years I have been writing about **the declining standard of living enjoyed by the American middle class**. That too is gaining the attention of the media to a much greater extent, especially now that the market has collapsed. (See *US living standards in jeopardy*, by Jim Jubak at www.moneycentral.msn.com.) Many others have been writing about stagnant real wages, soaring health care and college costs, the hidden effects of inflation, and so on.

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5. I have made more noise about silver than just about anything else. I began recommending that everyone buy it in 1993 when it was \$3.93 an ounce; last year it hit \$21.44 before illegal manipulation by some major New York banks took it down by more than half. If you had bought when I said and sold at the top you would have made 445% in 15 years; that's not bad.

OK, enough of the self-praise. I made some predictions about y2k which I am grateful I retracted in late 1999 when it appeared that major steps had been taken to avert a calamity. I made some predictions about the markets both in the late 1990s and in 2008 that didn't work out as expected. In the 1990s I was right but I was early; I believed I was right about 2008 but had to adjust for the "new reality"..

In the late 1990s my clients didn't lose any money because I was early in my predictions of a stock market collapse; we just missed out on some opportunities to profit. We could have made profits in the dot.com bubble like everyone else, but I chose to sit that one out. We missed out on losing a fortune.

In 2008 it looked like I was right on the money for the first six months of the year. My clients were seeing the value of their accounts rise even as everyone else's was falling. After June 30, 2008 all that changed. With the decline of oil and silver - in fact, the unprecedented decline of virtually every stock and commodity market all over the world - we saw our accounts lose value. I thought we were in the midst of inflation; inflation got postponed for a while while the government tinkered with deflation instead. I wasn't early this time; I just didn't see that markets could be torn apart by the collapse of hedge funds.

It doesn't matter that I was right about silver and oil, our two primary investments (three, if you include foreign currencies); market forces took them down for a time, and I didn't get us out at the top because I didn't think it was the top.

That's the point. It's simply not enough to be right if you are *early*. (Of course, it's certainly worthless being right and *late*.)

The best-known members of my profession, including most of the Nobel Prize winners, agree that *you can't time the market*. They say it is impossible to pick the right moment to buy or sell anything. They are wrong, and thousands of technical analysts can prove it. Even if you include 2008 I have done a good job of disproving that hypothesis for about fifteen years. After all, *any* year you can beat Warren Buffet and hundreds of other top money managers is a good year. That's what I did in 2008.

The solution: a new strategy

I have implemented a **new strategy** for managing my clients' accounts. There are two primary components:

1. Elliott Wave International (EWI) recommendations (medium- to long-term)
2. Refined Elliott Trader (RET) Software recommendations (short- to medium-term)

The other components include:

3. Fundamental analysis
4. Technical analysis
5. My own experience, training, and judgment.

Several years ago I canceled my subscriptions to publications I had been receiving from Elliott Wave International because I had lost so much money following Robert Prechter's recommendations. He was right about the pending collapse of the stock market, but he was early by several years. Once the market peaked in 2000 he thought we had seen the final high. In a way he was right, for when the market hit its

S-I-R

Savings

ING Direct is currently paying an FDIC-insured 2.4% for those of you with Internet access. Otherwise, look for the best interest rates you can find at your local bank and Credit Union. *To open an ING Direct account, please e-mail me and I will send you a coupon good for \$25.00 cash.*

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

Investment

My recommendations for investment and retirement money have changed once more. 10-15% of your net worth should now be in a combination of precious metals, especially silver. I have significantly reduced our holdings of Canadian dollars and Australian dollars, and will not begin buying them back until the dollar index is 90 or higher.

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

Retirement

A significant portion of your retirement money should be invested in places where it is guaranteed by top-quality companies. This means Equity Index Annuities (EIAs).

The balance - up to 50% or more, depending upon your circumstances - should be diversified into investments which have the potential to beat inflation, taxes, and the declining dollar. This would include the precious metals and energy funds, domestic and foreign stock mutual funds, foreign currencies, the precious metals themselves, and a few others. All investments should be professionally managed and timed.



How did the world's best money managers fare in 2008?

Here are some statistics from Morningstar. Morningstar tracks 18,081 mutual funds. The average performance for those funds in 2008 was a loss of 30.56%. The average would have been worse except for the many inverse mutual funds that go up when the market goes down.

The three worst performers, two of which are in the Legg Mason family of funds, lost 61% (LMOPX), 62% (WGGFX) and 66% (LMGTX).

The worst performing ETFs was the ProShares Ultra Financial Fund, which lost 86.9%. That's no surprise, because the financial industry died in 2008 and this fund is leveraged to do twice what its index returns.

The worst of the worst unleveraged mutual funds was the Fortis FLF Equity Russia Fund, which lost 73.62% as Russia's stock market collapsed. Other foreign funds specializing in Russian and Indian stocks did almost as poorly.

The worst performing leveraged fund was the ProFunds UltraSector Mobile Telecomm Fund, which lost 89.10%.

According to Yahoo Finance:

13,261 mutual funds lost more than 25% in 2008.

1,102 of them lost more than 50%.

394 of them lost over 55%.

166 lost over 60%.

96 funds lost more than 65%.

54 mutual funds lost more than 70% of their value in 2008.

How did Warren Buffet, the world's greatest investor, do in 2008? Berkshire Hathaway 'A' shares began 2008 at \$139,300 per share and finished the year at \$96,600. Ignoring dividends, the fund lost 30.6% in 2008, giving back almost two years of gains and exactly matching the average mutual fund loss mentioned above. It appears to be the worst year in the company's history, and of course the fund has continued to fall in 2009.

final high in 2007 if it were adjusted for inflation it would be below the 2000 high. Nevertheless, I predicted the double top (2000 and 2007) and he did not.

Today we are clearly in the throes of the economic crisis he warned about for so long, and though I have an excellent short-term tool for predicting the markets I once again need Robert Prechter's help in identifying the long-term trend. For example, over the past two weeks I have begun adding to my "short" stock market positions. Short positions are those that go up when the market goes down. Several of my clients now owns shares of one or both of two short ETFs, one for energy and one for the Dow Jones industrial average. I am buying them because *the primary trend is down*, even though we may see a significant rally at some point during this year.

The new professional version of the RET software is becoming useful to me in making short-term moves. In the past several days the software has sent a signal to get into the US stock markets on seven occasions. Each time, on a trial basis, I purchased call options right after I received the signal, and closed the positions when the signal went away. *All seven of these trades have been profitable*, the first time in my career I have done that. I will spend a lot of time in 2009 becoming very familiar with the new software.

I have high hopes for this strategy. It can help me to be a better money manager, and that is particularly important right now as we wade through this economic crisis. There is more to it than just two tools that try to predict the short-term and long-term. The rest of it has to do with my unique approach to the markets and to money. My approach has served my clients well because I have always tried to avoid risk, and have sought for investments that had above-average potential. We are not using many mutual funds right now because you can't sell a call option against a mutual fund. Besides, there were very few mutual funds paying the kind of yields we are receiving from our energy trusts and our Canadian real estate company (Quest Capital - QCC).

My clients have lots of money invested in the energy trusts, and I have decided to hold onto most of them. We are selling covered call options in most cases and collecting very good dividends. In some cases, as the prices of these stocks and ETFs have fallen I have bought more shares. Oil will not stay down below \$50 forever, and we may run out of natural gas very soon. I continue to use my own judgment and experience as well as some additional tools to try to find the best places to put your money.

One final example helps illustrate my strategy. Just this week natural gas seemed to have formed a triple bottom spanning almost 5 years. What that means is that natural gas has fallen to the exactly the same price three times, in 2004, 2007 and 2009. On both previous occasions it then rallied significantly; I reasonably expected to do the same this time, especially because Canada will now run out of natural gas in about 6 1/2 years. I believe my clients should own those things which are essential to our existence and which are running out.

Update on the Financial Crisis

Please don't think for one minute that we are approaching the end of this crisis, or even that the worst is behind us. This financial crisis, the worst in history, has just begun. Once they recognized that a crisis was upon us our government had a very tough choice to make:

1. A short period of pain and suffering, or
2. A very long period of pain and suffering.

Unfortunately, the Bush administration chose the latter. Worse, President Obama has just announced his intention to drag out the pain and suffering as long as possible. President Bush and Hank Paulson decided to follow Japan's example; Pres. Obama agrees with them. So much for Obama's promise of change!

The key word here is *bailout*. The TARP and the other failed rescue attempts have cost us hundred of billions of dollars. President Obama is proposing doubling and

tripling the amounts already committed or planned for in this desperate attempt to revive the economy. There are two huge problems; 1) bailouts never solve anything, and 2) bailouts usually make things worse. Let me try to explain what's going on.

The current scenario

Think of it this way.

1. You are the sole proprietor of your own business. You have worked hard at it for over 20 years, and have had some success. You have complied with ever more burdensome regulations; you have paid higher and higher wages for increasingly inexperienced and unmotivated employees; you have paid taxes upon taxes to your city, county, state, and federal government; you have kept your products or services competitive by constantly investing in new technologies and equipment and by retraining your employees.

2. One of your competitors across town has made serious mistakes in the conduct of his business. He has taken on far too much risk, and now faces the very real possibility of bankruptcy. In addition, he has "cooked the books" and cleverly concealed some of his business transactions as well as certain significant balance sheet items.

3. The day of reckoning has now arrived. Because of the mistakes and other errors of judgment committed by your competitor, the economy has slowed significantly. This has hurt your business by slowing your sales and reducing your profitability. You now have to begin laying people off because you cannot afford to keep them on.

4. In the meantime, your failing competitor has lobbied the government for assistance. The government has created new money out of thin air which depreciates all of your money and investments, and given it to your competitor to rescue him from his foolishness. He will in fact be made whole by the bailout, though he may continue to make bad business decisions and get himself in trouble all over again.

5. With this precedent established, other businesses of many types are now likewise appealing to the government for relief because they too are suffering from the economic downturn. They are given that relief because the politicians are desperate to pull the economy out of the mire so that they may get re-elected.

6. Because it has spent so much money the government is now desperate to raise its revenues. Since it taxes profits and income, and your failed competitor has no profits or income, you'll have to pay more taxes. You are now being hit twice; the value of what you own has been depreciated by the inflationary effects of the newly created money. Now those depreciated dollars are being taken from you by new and higher taxes. With the economy in a recession and your business off, within a couple of years you are out of business. You simply could not afford to support yourself and your competitors when your sales plummeted.

The alternate scenario

The scenario deals with real capitalism and Austrian economics, both of which are missing in America today. This scenario is identical to the first, but only in paragraphs 1, 2, and 3. Here is the alternate scenario to paragraphs 4, 5, and 6.

4. Despite your failing competitor's lobbying efforts, the government refuses to step in and bail him out. The essence of capitalism is risk, and all participants in the market must make the best decisions possible and act with integrity. When they do not, and the "chickens come home to roost", the price that must be paid is borne by those who made the mistakes.

5. Your competitor's business fails. Now that he is out of business your sales increase. You are soon able to rehire some of those you had to lay off. You can even hire (fairly inexpensively) some of your competitor's former employees.

6. The decline in unemployment coupled with the rebound in sales and the restored profitability of your company stimulates the economy. It also qualifies you to pay more taxes. The government is paying out less in benefits for unemployment and other social costs associated with the recession. The economy comes out of what was a shal-

The Wealth Creation and Preservation Portfolio

NOTE 1: This column used to be called "Stocks at a Discount". I have changed the name because that program is specifically an income and growth program, while the WCandP Portfolio will show the entire list of recommendations and holdings.

NOTE 2: Since *Wealth Creation and Preservation* appears only four times a year, I urge you to visit my new website to keep up to date with both the *WCandP Portfolio* and my *Current Investment Recommendations*.

NOTE 3: During the past three months we were stopped out of many stocks. We are now buying back some of them.

NOTE 4: I own some of the stocks mentioned below, and I actively trade most of them. Prices quoted are as of January 23rd. **Please use a trailing stop (TrSt)** with these stocks whenever possible.

NOTE 5: Stocks, ETFs and mutual funds mentioned for the first time in this issue are highlighted in **RED**.

Properly placed trailing stops continue to prove more effective than covered calls in this market decline.

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

1. Buy Atlas Pipeline (**APL**) at \$6.50 or better and use a \$.75 trailing stop. I expect Atlas and all our energy trusts to lower their dividends now that oil is below \$50 per barrel. (APL's current yield is over 40%.) If you use a trailing stop you cannot use a covered call option; it's your choice. These stocks are now low enough to rebound nicely when oil starts heading up again.

2. Buy 1st Trust Natural Gas Index (**FCG**) at \$11.50 or better. Sell a covered call or use a \$.60 trailing stop. I believe Natural Gas is forming a triple bottom.

The Wealth Creation and Preservation Portfolio

(Continued)

4. Buy PennWest Energy (PWE) at \$12.50 or better. Sell a covered call or use a \$.60 trailing stop.

5. CDE (Coeur d'Alene Mining) fell so far it no longer has options. Since the company's financial situation just stabilized, we are buying again below \$.80. (TrSt \$.20)

Current Positions:

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

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

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

We bought quite a few shares of Quest Capital (QCC) for as much as \$2.00 per share. QCC is now \$.90, a 55% decline from our initial purchase price. I continue to "average down" on QCC and increase our position size. QCC continues to pay a dividend in excess of 10%.

We are still holding Itronics (ITRO). I still believe the company will someday show a profit. They are in a good business (silver recycling and organic fertilizers).

low recession and the normal business cycle continues. The government has avoided unnecessarily inflating the currency, huge amounts of deficit spending, and having to raise taxes. By not responding to your competitor's appeals the government did not promote a trade war by laying tariffs on imported goods.

This all sounds very simplistic, but is not. This is very real, and is the way that capitalism and free markets *should* work. It is unfortunate that our government has seen fit to interfere at every level of business, raising the costs of doing business and increasing taxes to cover the cost of the growing government bureaucracy.

The Japanese model

Our government and the governments of several other Western nations have chosen to follow the Japanese model. I'd like to believe that all of their leaders know that that model doesn't work, and that they choose it only because it is politically expedient to do so. I don't want to think that they chose it knowing that it will fail.

As governments have seized more and more power they have made themselves responsible for the success or failure of their country's economy. This is a huge mistake; it changes free and independent people into slaves. Our government's response to the current crisis was entirely predictable; the stage was set by Franklin D. Roosevelt in the Great Depression.

Wall Street and the big banks have spent enormous amounts of money to get people elected to Congress and the Presidency; those debts must be repaid at any cost. With Hank Paulson running the Treasury Department it can truly be said that the fox was put in charge of the henhouse. That man had the audacity to demand that Congress print \$700 billion and give it to him so that he could distribute it to his buddies. He insisted that he should not be held accountable as to the distribution of the funds. He even went so far as to tell Congress he would use this money one way, but when he got it used it in a completely different way. By his actions he has qualified himself to become a charter member of the Hall of Shame, right along with Alan Greenspan and Ben Bernanke.

The Japanese made the same mistakes, though the workings of their political system are quite different from ours. Japan has always been a much more paternalistic society than ours, though it was usually employers rather than government that were responsible for the welfare of the people.

What did Japan do that hurt them so badly? Back in the early 1990s Japan's leaders decided that they would fix their economic problems by stimulating the economy. Part of the program including making sure that few or none of their antiquated, bankrupt business enterprises would fail. Japan also embarked upon an enormous public works program, squandering trillions of yen in a vain effort to prop up the stock and real estate markets and to keep people employed.

If this seems to have a familiar ring to it, you only need to think about the history of any 20th century socialist or left-leaning government. The USSR, Great Britain, France, China, the U.S. and many other countries did some of the same things Japan did, with similar results. However, Japan in 1990 had the tremendous advantage of running a national surplus and having one of the highest personal savings rates in the world. All of that didn't help them. At its peak in late 1989 the Nikkei 225 stock index soared to an all-time high of 38,916. It was half that when our market peaked in early 2000, and our markets fell in tandem through 2003, then rose and fell again. Today the Nikkei stands at 7,745.25, down exactly 80% from its 1989 all-time high.

The United States has chosen to follow Japan's example with one extremely important difference. We entered this crisis as the world's greatest debtor nation, with the lowest personal savings rates known to man. We had destroyed or exported our industrial base to the point that most of our major manufacturing firms were making more money from finance than they were from manufacturing. 20 years later Japan has not recovered. We may reasonably expect it will take even longer for us to recover because we will be starting from a much worse position.

I know that's difficult to grasp; it is a frightening prospect for the future. It certainly doesn't give me great pleasure to write about it, and it is definitely not my intent to scare anyone. I could be wrong; in fact, I could be very wrong. However, history and human nature are on my side. Once a nation's economy has been politicized it is on the road to destruction.

The scenario I expect to unfold is very simple. We are now in a deflationary environment, and will continue so for an unspecified period of time, perhaps as late as 2011, at which point we will shift from deflation to massive inflation. The deflationary period will be painful because unemployment will soar, credit will be unavailable, and consumer prices will continue to rise. The inflationary period will be worse because the dollar will be destroyed. In both phases we may expect to see significant social unrest in this country and increasing conflict among nations.

I wish I could explain all the reasons why I believe these events will come to pass. It is very difficult to articulate these things because so many factors contributed to the current crisis. It is not fair to suggest that the crisis could have been averted had there been better and more effective regulation of the securities markets. The derivatives that are responsible for the crisis were created and issued legally. Only common sense would have prevented major financial institutions from risking several times all the money in the world so that they might enhance their bottom line.

It's very easy for me to say that had I been in a position of authority I would not have permitted such derivatives to be created and utilized, but many who tried to raise appropriate objections were fired. I have learned from experience that the leaders of corporations have massive egos, and they feel they need to do things in a big way if they are to obtain the prestige and power they seek. They gambled with other people's money and lost in a big way.

A perfect pattern

If you take a look at the chart of the S&P 500 on the middle page you will see something very unusual. The chart, which shows the S&P 500 between the years 2007 and 2009, has both a perfect double top and a perfect double bottom. I had to look at this chart for several minutes to realize what exactly what I was seeing. This type of thing is rare, particularly for one of the most important indexes in the world. At this point the stock market can do one of three things; it can stay in its trading range and move up, it can stay in its trading range and move sideways, or it can fall through the line indicated in blue and continue to fall. Robert Prechter thinks it will do the latter; I'm not sure.

Fundamentally, the stock market can fall for a long time. Prices have come down very dramatically, but earnings have fallen as well and are expected to remain depressed for months if not years. That means that the stock market can easily fall much farther as it tries to find "value"..

If we are truly in a deflationary environment the stock market can fall more than 50% from its current levels. This is what Robert Prechter anticipates will happen. I haven't done enough work with the new RET software to make my own determination, but I will. If you've been shopping recently you know that even though gasoline may have become less expensive, most other prices are still moving up.

Interest rates may have bottomed, and that is a scary thing. I was astonished to see money fleeing to the dollar, and particularly to US Treasury bills, notes, and bonds. Someday this flight to the dollar will end, and I'm absolutely certain it will "end in tears", but for now we have to invest as if the dollar were going to remain strong for some time to come. So much money has flowed into Treasury paper that interest rates have been driven down to ridiculously low levels. This is the best possible situation for the Federal Reserve and for our government. Low interest rates reduce the amount of interest that the government has to pay on its debt. When this reverses we will see interest on the national debt become the single largest item in the national budget (unless large portions of this debt are monetized). In this instance monetizing the debt means printing money with no backing to pay it off. I am convinced this is what our government has planned all along. Governments usually choose inflation because it bails them out.

The Wealth Creation and Preservation Portfolio

Current Positions (Continued)

Closed-end funds:

GDF, MGB, MSD

High-yield stocks:

QCC

Speculative stocks:

BCTE, SCLL, ITRO, BTIM

Closed Positions:

We closed out AXU, VVR, BHY, EMD, CMK, SLV, most of our CDE, LMC, PBW, and several others. Some day we will buy them back, as we have with CDE.

Other Information

If you have lots of energy stocks you might want to own some DUG, the ProShares UltraShort Oil & Gas ETFS. This fund goes up when the XOI Oil and Gas Index falls. Buy it and sell a short-term covered call against it.

Please contact me

If you are trading stocks on your own you might want to talk to me before you make a purchase or sale. The markets are so volatile right now it is more difficult than usual to get in and out at good prices. Note that I have not fully detailed all of my recommendations in this issue, and you may have questions about this information.

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

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



Silver "Insurance" Program Update

The SIP program is still out of the market, but by the time you read this we may have made a purchase. One of my sources has recommended a spread on Silver options, and it looks attractive.

This is a highly speculative program where, when we are in the market, we lose a little money each day (time value) by betting on an event whose likelihood, to my mind, is unquestioned. The analogy to the lottery cannot be overstated, with the sole difference being that this is a real thing, the opportunity to purchase a scarce resource before the rest of the world comprehends its real scarcity.

I had hoped to be in the Program by now with one contract, but I am glad it didn't happen. Please be patient; I believe an opportunity will present itself by the end of the year when silver bottoms or double bottoms. The options remain very expensive.

We will enter new positions in the Silver "Insurance" Program, but I can't tell you exactly when.

www.wcandp.com

I am very excited about my new website. It is a valuable source of information available to everyone. It extends my ability to assist people by an order of magnitude. **I hope you will use it and share it with your friends.**

You can use it to purchase my book (when it is available). You can buy silver coins and a subscription to this newsletter. Those who are already clients will soon receive a password that will enable them to access all of the website including the Subscribers Only section.

Travel Schedule

I expect *Moneywise* to be in print by the end of May, and I plan to travel around the country promoting it. I am working with Tate Publishing in Oklahoma to get the book published.



Recommended Investment Allocations

NOTE: There are numerous changes listed below.

The "A" Strategy - An income-producing and low-risk strategy using bond funds and money market funds. 'A' Strategy money should now be interested in *U.S. High-grade Corporate Bond Funds*. You may also use the closed ended funds WIW, GDF, TIP, MGF, MGB and MSD (none of which focus primarily on high-grade corporate bonds).

Type 1 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: **GDF, MGF, TIP**
- ★ 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: **AAV*, PWE*, ERF*, PVX*, PZE*, APL***
- ★ "Commodity" stocks: **SSRI**
- ★ "Commodity" ETFs: **DBS**
- ★ Mutual Funds: Fidelity Bond Fund **FBNDX**

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

- ★ 50% Fidelity Bond Fund **FBNDX**
- ★ 20% Fidelity Select Gold Fund **FSAGX**
- ★ 30% Fidelity Inflation-protected Bond Fund **FINPX**

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.

Type 2 accounts - higher risk, seeking growth using combinations of all available funds.

4. Allianz and other Equity Index Annuities - Type 2 accounts:

- ★ 25% S&P 500 / 50% NASDAQ 100 / 25% Interest-bearing

As always, please feel free to call me with your questions and ideas.

Charles W. Kraut

The Charts

Standard & Poor's 500 stock index (S&P500)

Please note the blue lines marked 1 and 2 on this chart. they highlight the double top and a double bottom I discuss on page 7. This chart spans nine years, which suggests that it is significant.

It is because of this chart that I say it is possible for the stock market to retest the lows (blue line 2), then move back up toward line 1. I am preparing my clients for that possibility, as well as for the possibility of a break through line 2 to the downside.



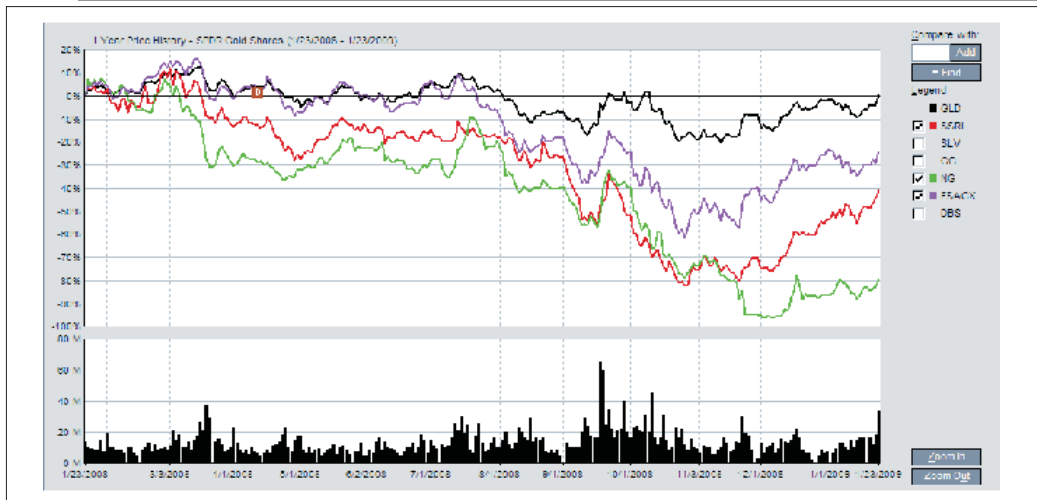
The Nikkei 225 (N225)

This is a chart of the Japanese stock market from the beginning of 1984 to the present. Notice the huge peak in 1989, followed by a very long and painful decline which has now lasted 20 years. The right portion of the chart representing the use 2000 to 2009 closely resembles the chart of the DJIA above. Now that the US has commenced massive government intervention, our market may follow this pattern and decline much more over the next several years.



Comparison chart

This chart is a little different from what you ordinarily see on this page. I wanted to show you a rather dramatic comparison of four precious metal investments. The top line is GLD, a gold ETF. The purple line is the Fidelity Select Gold mutual fund (FSAGX). The red line is SSRI, a silver stock we began buying at its recent lows. The green line on the bottom is NovaGold Resources, a Canadian gold and copper company. The chart shows one year's data.



Notice that NovaGold and SSRI fell about the same amount into October of last year, after which SSRI rallied sharply and NovaGold continued to fall. I noticed that SSRI had fallen twice as far in percentage terms than DBS or SLV, and began

buying hundreds of shares for my clients. As you can see from the way the red line has moved up, it was a very good idea.

Finally, notice that the price of gold is flat from where it was a year ago, while the Fidelity Select Gold Fund has lost about 25% of its value. This comparison chart clearly illustrates that gold and silver mining companies' stocks are more volatile than gold itself.

Charts provided by eSignal, Yahoo! Finance, and moneycentral.msn.com

The "Behind the Charts" Market Update

Data as of 23 January 2009

U.S. Stock Markets

Dow Jones Industrial Average (DJIA). 8,077.56. The Daily chart has "trading range" written all over it, but I am preparing for a retest of the November 2008 lows and a possible breakout either up or down afterward. Longer-term, I expect the stock market to fall for at least two more years.

S&P 500 (S&P). 831.95. The S&P looks very much like the Dow. Robert Prechter may be right when he says the market will decline until the year 2016. Let's hope not.

NASDAQ 100 (NASDAQ). \$NDX, 1314.01. This too resembles the Dow. Remember that there are three types of markets: those moving up, those moving down, and those that are flat. The NASDAQ is flat at the moment.

Bond Markets

US Treasury Bonds. 129 19/32, continuation contract. Treasury bonds hit a new all-time high in December 2008 as the flight to quality became a tidal wave. This has been called a "bubble" by some in the media, but I don't think the term applies. Bonds go up when interest rates go down, and vice-versa; we will see Treasury bonds plummet once deflation is gone and inflation has taken its place - or when investors realize that the U.S. dollar is worthless.

High Yield or "junk" Bonds. We are still out of High Yield bond funds, but 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 from their lows.

Commodities

Crude Oil, \$45.98/barrel, continuation contract.

The wild ride continues. Speculative money flowed out of oil and many other commodities as the worldwide financial crisis grew. We may have seen a bottom, at least for now. Oil is also being affected by reduced demand in the West.

Oil under \$50 is a bad thing. Sure, it's great to pay less when you fill your gas tank or heat your home, but prices under \$50 have caused many development contracts to be shelved or cancelled. This will make the next oil spike sooner and even wilder. I expect to see oil over \$250 per barrel.

We have added to some positions in the energy trusts. The dividends are down but are still very acceptable as we await higher oil prices.

Natural Gas, \$4.50/mcf, continuation contract.

I don't usually talk about natural gas on this page, but as you can see from the chart on the previous page natural gas appears to have formed a perfect triple bottom. It has not yet been announced publicly that Canada will run out of natural

gas in less than seven years, but when that announcement is made it is sure to raise the price.

Double and triple tops and bottoms can mark very effective turning points for stocks and commodities. I'm beginning to buy natural gas ETFs because the price of natural gas is very low in any event.

Real Estate

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

Gold and silver. Gold \$901.80, Silver \$11.98 per ounce.

Gold hit a new all-time high of \$1,033.70 on 17 Mar 08, and silver hit \$21.38 the same day. Adjusted for inflation, gold still hasn't begun to approach its 1979 high. Silver and gold are very close to their prices three months ago. We may be setting up for another wave down; it's very hard to say. I have taken profits on some silver positions we purchased recently, but I am maintaining core positions in SSRI and DBS. I encourage all my readers to continue buying physical silver and storing it at home, if possible.

Nothing has changed regarding silver. It remains in very short supply, and the regulators seem to be ignoring the massive manipulations going on all around them.

The Euro \$1.2967, continuation contract.

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 is falling rapidly once again. I'm very glad I closed out my clients FXE positions close to the high. I wish I had done the same for our Australian dollar and Canadian dollar positions.

What to do now

1. Buy Silver! This is a good buying opportunity. You can buy silver futures by buying DBS in your Fidelity account, but you should also own "junk" US pre-1965 coins including dimes, quarters and half dollars. You can buy them from Dallas Gold & Silver Exchange, from me at www.wcandp.com, or on eBay. I have some inventory to sell at this point. You should consider selling your certified gold coins if you will replace them with junk silver coins. It is probably true that there is much more gold in the world than silver, and silver may increase in value even if gold falls.

2. Make your home as energy efficient as possible. If you can switch to propane and bury a tank in your back yard, consider doing so. Buy the tank and enjoy the discount for buying larger quantities at longer intervals.

3. Store food and water. Prices are only going to go up even though wheat has given back every penny of its recent spectacular rise from \$7.55 a bushel in November 2007 to \$13.18 on 13 Mar 2008. That's one of the things I was referring to when I talked about market manipulation in this issue. Wheat is now \$5.83, just off a two-year low of \$4.71.