

Wealth Creation and Preservation

Special Report

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The Wealth Creation Way

There are millions of people in this world who call themselves financial professionals.

Most of them have opinions about the markets and how you ought to manage your money.

Most of their opinions are wrong.

Why? Because they don't see the full picture. Most of those who call themselves financial professionals are often, at best, professional *salespeople* whose job it is to make *your* money their *employer's* money. Most of them conduct their business in such a way as to fully comply with all the applicable regulations; that way they keep themselves out of trouble. What they know about the world, and how they react to what is going on in the world, does not necessarily translate into any benefits for their clients.

The *Wealth Creation way* is different. My job is to provide you with all the education, solid research, good advice, and encouragement you need to make better financial decisions every day of your life. I will not waste our time talking about things you can read about in any financial publication. Much of what you see in the print media, on the Internet, and on TV and radio regarding investing is worthless because it's not useful to you.

If you are like most Americans, you need to do three things:

1. Create a personal financial plan that will guide your decisions and help you avoid the pitfalls and traps in personal financial management.
2. Set aside more money out of each paycheck for savings, investment and retirement.
3. Make every dollar you have work harder and more efficiently for you.

I help people create their own personal financial plan and motivate them to set more money aside. Most people go through life without a financial plan.

The most important thing I can do for you is to make your savings and investment dollars work harder and more efficiently for you. In this I have one goal: to make sure that the return on your savings, investments, and retirement funds at least equals the combined effect of inflation, taxes, and the declining dollar.

Since most Americans seldom or never achieve that goal with their money, I have a lot of work to do. I can't do all myself, which is why I created this website and wrote the book *Moneywise: Your Guide to keeping ahead of Inflation, Taxes and the Declining Dollar*. I want to help Americans find out what they *really* need to know about money. You can create and implement an appropriate, meaningful,

worthwhile personal financial plan only if you have the right information and know what to do with it. Knowing what you need to know will enable you to accomplish the things you really want to do in life.

A unique approach

Let's take a look at how the *Wealth Creation way* makes it possible for people like you and me to stay ahead of inflation, taxes, and the decline of the dollar. Here is one fundamental premise of money management:

There is not today, nor is there likely to be in the future, *any* bank certificate of deposit or fixed annuity that will pay enough to keep ahead of inflation and taxes.

People buy CDs and annuities because they are "safe." They are safe in only one sense of the word, and that is that your principal does not decline *in amount*. However, the purchasing power of that principal *does* decline every year that we have inflation. In addition, if inflation is running at 6% per year and your CD or annuity is only paying 5%, you are falling behind.

In other words, *most fixed products are "guaranteed" to lose money in an inflationary environment*. At the moment we are in a deflationary environment, but that will change in the next few months and we will resume the inflationary trend we have been in for many years.

It is unlikely that we shall ever again experience a lengthy deflationary period. The last one of any great significance was the Great Depression, and our government and the Federal Reserve will do whatever is necessary to make sure that we do not repeat that event.

Having said that, think for a moment about this: what will enable your money to keep ahead of inflation, taxes, and the declining dollar? The *only* things that will, and I have come to this conclusion after many years of extensive research, are those things which are called *investments*, and they have an element of *risk*.

Risk is that four-letter word so many people hate and fear, primarily because they do not understand it. Risk can be managed and even controlled to some extent, but it takes work and discipline to do so.

The *Wealth Creation way* separates the world of investments into two specific categories;

The US stock market, and

Everything else.

I utilize a very different strategy for each category. With the U.S. stock market plummeting in recent months after soaring to all-time highs I prefer not to have to make value judgments each day as to whether the market will rise or fall based upon its history. Instead, I use a product called an Equity Index Annuity (EIA), a fairly recent creation of the insurance industry that gives you to opportunity to participate in the gains of the stock market without incurring any of its risks. With an EIA you tally up the score once a year; if the market has moved up you will probably receive a portion of its gains. If the market moves down you lose nothing, but your reference point resets to the new, lower level of the market index.

There are EIAs that focus on growth and EIAs that focus on stability. Since you

have no risk from year to year (except opportunity risk, because you could have placed your money elsewhere), I prefer those EIAs that focus on growth.

That's the relatively easy part of my job, because EIA money is not at risk. I spend most of my time dealing with the "everything else" category, and that is a whole world of things to discover, evaluate, analyze, recommend and manage. In my work I make sure I can offer many - but by no means all - worthwhile investment opportunities to my clients. There is a long list of criteria an investment must meet for me to recommend it to my clients. Three of them are much more significant than the others. They are:

1. The investment must have the *potential* to provide returns in excess of the combined effect of inflation, taxes and the declining dollar.
2. The investment must be *marketable*; it must be easily bought and sold, and there must be a relatively large pool of prospective buyers. This excludes the vast majority of investments such as antiques, art works, businesses, and individually owned real estate properties, both commercial and residential.
3. The investment must produce a *history* of price performance. This excludes many collectibles, among other things. I don't mind if an investment has a roller-coaster history with lots of volatility; rather, I am looking for consistent trading.

Let's look briefly at each of these categories and see how *The Wealth Creation Way* deals with them.

The stock market

The stock market is a very important investment category. You don't buy "the market"; you buy one or more of the stocks that comprise the stock market.

Many of my peers will tell you that the stock market produces average returns in excess of 7% per year. Therefore, they say, all you have to do is to put some or all of your money into an index fund and sit back and watch your money grow. An index fund attempts to "mirror" a market index such as the Standard & Poor's 500 (S&P 500) or the Dow Jones Industrial Average (DJIA); normally it does so by buying and holding a proportionate amount of each stock in the index.

What most of my peers *don't* tell you is that the stock market today has significant risks. In fact, the US stock market has probably never posed a greater risk than it did in 2007 when it hit 14,000. The charts on the next page show what's called an "exponential" rise (some people call it a "parabolic" rise, but they're not married to a mathematician). You don't need to be a chart expert to identify these trends, especially if you recall your 11th grade algebra. When anything rises exponentially it is time to be very careful.

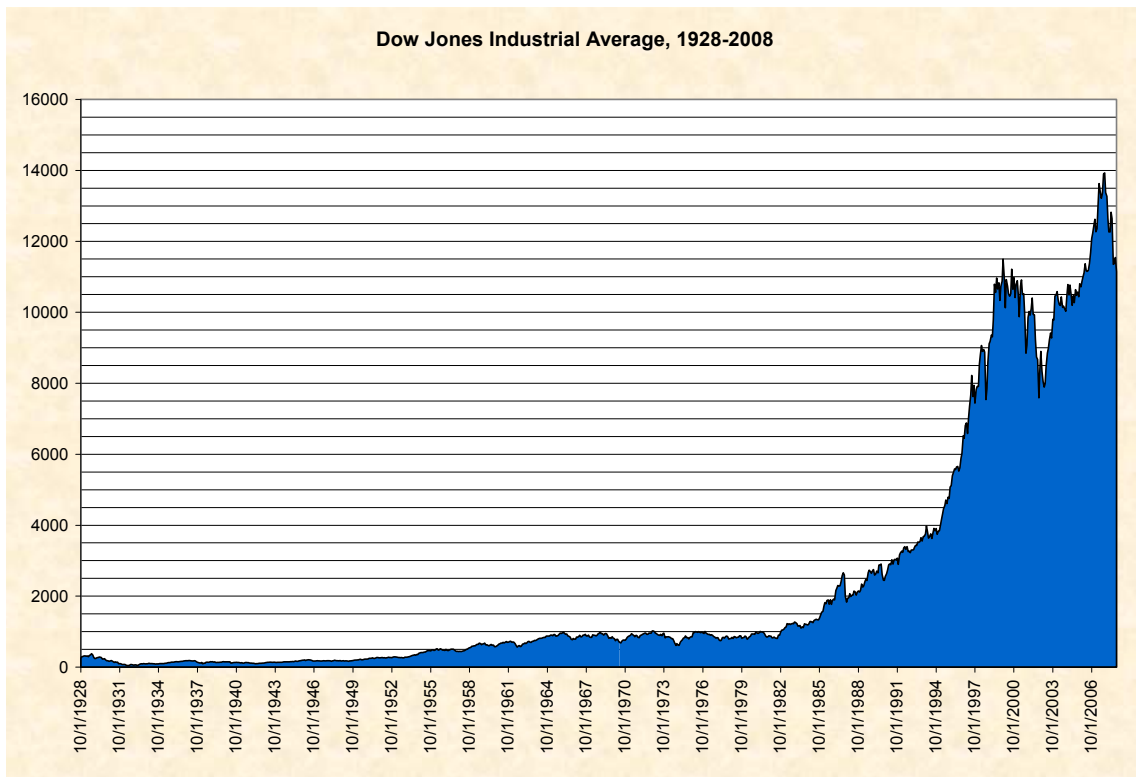


Chart 1, DJIA Historical chart 1928-2008

As you can see on the first chart, the exponential rise of the Dow Jones Industrial Average has been broken twice, first in 2000 and again in 2007. Note that the DJIA hit a new all-time high in 2000, then bottomed in 2002 and 2003, after which it hit an all-time high in 2007. The risk at today's levels is very high compared with the risk from 1928 through 1983. You get a sense of that just by looking at the chart, because a trend that was virtually *horizontal* for decades suddenly became almost *vertical*.

Note that the DJIA hit a new all-time high of 14,178.10 in October 2007, after which it began a long and sharp decline that took it down 47.5% to a low of 7,449.38 in November 2008. You might say that it took over 200 years for the DJIA Average (which has not existed for a century yet) to rise to 14,000, but only 13 months to lose half that much.

The second chart is another good example of an exponential rise. BHP Billiton, headquartered in Australia, is one of the world's largest natural resources companies. This chart looks quite similar to the DJIA chart, but note that the BHP chart starts in 1999. Note also that BHP has fallen more in percentage terms than the DJIA has. The entire natural resources sector fell sharply in 2008 when it appeared that a global slowdown was coming.



Chart 2, BHP Billiton, one of the world's largest mining companies. Note how this stock began to "go exponential" in 2003. Once it peaked, it fell much faster than it rose.

The problem with these charts is that this index and this stock (the DJIA and BHP), after chugging along for years with relatively minor gains and losses, suddenly began to move up faster than in previous years. There are many reasons why this can happen, but they all point to one thing; *there was a fundamental change in the way that investors looked at these things*. To take advantage of this change you should have gotten in when the trend was relatively flat - and you should have gotten out by now. There are many ways to get out of a stock; I discuss them in *Moneywise*.

What rate of return is "appropriate" for the DJIA? Let's look at a table showing the average returns for different periods:

Dow Jones Industrial Average (DJIA) Historic Returns

Time Period	DJIA, January 1	DJIA, December 31	Annualized Percent Gain / Loss
1900-2007 107 years	66.61	13450.65	5.04%
1928-2007	203.35	13450.65	5.38%
1933-2007	59.29	13450.65	7.50%
1945-2007	152.58	13450.65	7.37%
1973-2007	1031.68	13450.65	7.61%
1988-2007	2015.25	13450.65	9.96%
1992-2007	3172.42	13450.65	9.45%
2003-2007	8607.52	13450.65	9.34%
1900-1950	66.61	235.41	2.51%
1950-2007	200.13	13450.65	7.52%

1900-1972	66.61	1020.02	3.81%
1972-2007	889.3	13450.65	7.84%
		Total change	
Best five years	1924-1928	214.07%	
Worst five years	1928-1932	-70.39%	
Best ten years	1989-1998	323.39%	
Worst ten years	1929-1938	-48.41%	

These numbers speak volumes, though we won't go into much detail here. Note that for the first half of the 20th century, from 1900 through 1950, the DJIA averaged a gain of just over 2 1/2 percent per year. Over the next 57 years through December 2007 that annual rate tripled to just over 7 1/2 percent per year. That's the fundamental change I mentioned earlier.

Note also that from 1988 through 2007, despite the fact that the DJIA fell almost 39% between March 2001 and October 2002, the average annual return rose to just under 10%. But that's enough of a difference to make 1988 the year of another fundamental change in thinking about the stock market.

In fact, the DJIA returned just over 6% per year on average between 1950 and 1988. That gives us three distinct return periods for the Dow:

1900-1950	2.5% per year average return
1950-1988	6.0% per year
1989-2007	10.1% per year

As we will discuss in chapters 8 through 14 of *Moneywise*, the way in which investors look at the fundamental data pertaining to a stock, an industry, or an index like the DJIA changes from time to time. Most investors take the wrong approach to the fundamentals. When the market has fallen for a long time people tend to think it's going to continue to fall, and vice versa. Most of us have a "herd mentality" and find it very difficult to be contrarians, or to go against the crowd.

Peter Lynch, who became famous for managing the Fidelity Magellan Fund, remarked that even though his fund had seen extraordinary gains for several years, the average investor in the fund was only averaging about 3 1/2 percent per year. This was due to the fact that most investors do a poor job of timing the market.

Let's make a couple more points about these numbers. First, we speak only of average *gains*. We can safely do so because the DJIA has risen over most periods of time greater than one year since 1900. We can also do so because the DJIA cannot go negative; the most it can fall over any period of time is 100%. Therefore, since the likelihood of the 30 stocks in the DJIA going to zero is very small, we have learned to expect gains.

Second, let's not forget those years of losses. The Great Depression was only one of several periods in which the market took away most investors' money very quickly.

Do I believe that the stock market has more risk solely because it has moved to a period of "exponential" gains? No. There are many factors involved. Some of them are subjective and based upon opinions and attitudes; others are objective and

based upon hard data. Still others are based upon inaccurate or even fictitious data. Some of those factors contributed to the exponential rise, and some made it possible. We will discuss them in Chapters 8 and 10.

I believe that the US stock market has entered a new phase in which *volatility* will be a key consideration. A volatile market moves more quickly in both directions. It is more difficult to make money in a volatile market, because the odds of your getting in and out of an investment at good prices are not as good.

The other reason why I believe the stock market has greatly increased risk - and the reason why this book is so important right now - is that the stock market has reached a critical level. The S&P500 has now double-topped, first in 2000 and next in 2007. I believe the market may not have decided its future direction. Strong arguments can be made for movement in either direction, and that means that your uncertainty about the market is greater than usual. My research indicates that it could be several years before the DJIA moves above this double top.

This is why the right Equity Index Annuity can be helpful in minimizing risk while offering the potential for significant gains. In Chapter 13 of *Moneywise* I discuss the EIA concept in more detail.

Everything Else

Here's a list of the investments outside the US stock market I frequently recommend for my clients:

1. Silver:

1-ounce silver eagles,

“junk” 90% silver dimes, quarters and half dollars minted before 1965, and

10- or 100-ounce silver bars.

2. Natural Resources ETFs and mutual funds.

3. Foreign currency ETFs with covered call options against them.

4. Gold and silver precious metals ETFs and mutual funds.

5. High-yielding closed-end mutual funds and ETFs selling at a significant discount to their actual value.

6. \$20 gold “double eagle” coins minted by the US Mint prior to 1933 and graded by either NGC or PCGS at MS-63 or higher.

7. Energy trusts that pay a large, reliable dividend.

8. Alternative energy ETFs and mutual funds.

This is a peculiar list both because of what it includes and what it excludes. Note that I say that these investments are outside the US stock market, but many of them trade on those same markets. We don't have much choice in that if we are to get the marketability I insist upon. Also, these investments are primarily in commodities rather than paper securities - at least, the mutual funds and ETFs (except for #3 and #5) are based in certain commodities, all of which have an intrinsic value.

In summary

Most Americans are honest, hard-working, respectable people who work very hard and would like to get more out of life. The *Wealth Creation way* provides a middle ground where, if you are willing to learn and do a little work, I can help you to make better financial decisions and to do better financially.

There is more that separates *The Wealth Creation way* from the Wall Street herd. In the pages that follow you will gain insights as to how and why *The Wealth Creation way* was developed. Much of my work involves finding ways to reduce the risks in investing without sacrificing the potential for gains. I will show you several strategies that can help you do this successfully. You will learn how you can do this yourself.

There is an old saying that “those who can, do; those who can’t, teach.” The *Wealth Creation way* is not a static thing. I practice what I preach every day as I manage money for my clients. I have personally tested the methods and strategies you will learn about in this book, and I am constantly working on refinements and new methods. I believe you too can profit from what I do.

I would like to help you learn how you can create real wealth for yourself, and protect your family during these very uncertain times.

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