



Wealth Creation ... and Preservation

Independent, unbiased advice to help Americans prosper

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THE ECONOMIC CRISIS SCOREBOARD

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BIG GOVERNMENT	10									10	10	1
THE AMERICAN PEOPLE	0									0	0	0

Welcome to the latest edition of *Wealth Creation and Preservation*! Now that our government is claiming credit for fixing the economic crisis I thought it was time I discussed where we really are. Remember, I belong to no political party and have no political agenda except that I believe in the Constitution of the United States and the genius of the Founding Fathers. However, since President Obama has made deliberate statements about his plans to impose "shock and awe" on the American people, and because most of his efforts enjoy the support of Congress, the least I can do is to show you how his actions will rob you of your freedom and your money. I came up with a simple comparison between the economic crisis and a baseball game.

The first Global Economic Crisis is very real. It is not a political event, though politicians helped create it and are now (whether they realize it or not) doing all they can to extend it and make it worse. If you read the history of the Great Depression you can see clearly (even with all the "revisionist history" in print these days) that our government tried hundreds of things to get the United States out of the Great Depression. Almost all of them failed, and many of them made things worse. We are now in the early stages of Great Depression II . . .

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Charles W. Kraut, MBA
Lexington, Virginia

Please visit
www.wcandp.com

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from Doug Casey . . .

"The Stamp Acts catalyzed the American Revolution, the election of Lincoln catalyzed the Civil War, the Crash of '29 catalyzed the Depression/WW II era. What might precipitate the elements now floating in solution? The answer is practically any random event that's sufficiently traumatic. Any of the theses of current disaster/action novels and movies will do nicely. Perhaps the accidental or intentional release of a super plague vector. The crashing of an airliner into the Capitol during a joint session. An all-out assault on the IRS computers by an armed group. . . . Perhaps a financial disaster that cascades into the Greater Depression. In any of these, or a hundred other scenarios, the federal government will almost certainly act precipitously and with a heavy hand, which would bring on a whole other set of consequences.

"There's no way of telling where the Crisis will lead, or how it will end. That's going to depend not only on exactly who's in control, but what they do, who they're up against, and a hundred other variables we can't even anticipate.

"One thing that seems certain is that real crisis brings out strong leadership. Because of its age and size, it will come from the Boomer generation, and it will be in the mold of Roosevelt or Lincoln - both very dangerous precedents. The boomers in elderhood will be dogmatic, harsh, puritanical, and quite willing to burn down the barn in order to destroy whatever rats they see. . . ."

NOTE: This article was written in 1997.

As you can see from the Scoreboard above, we are only in the first inning of this crisis and the Government is "winning". Let me explain by listing some of the things our government has done since the crisis began (some of it prior to President Obama's election). My comments in red after each item indicates their current status and what it will cost you:

1. The immense increase in the power and authority of the Federal Reserve is unprecedented and unconstitutional. Ben Bernanke testified several times in recent weeks about how the Fed needs to be granted *much more power* if it is to rescue our country from this financial crisis. The Fed has recently created trillions of dollars out of thin air, which has caused many who hold our dollars overseas to question their value. The American people will lose as the value of their dollars continues to decline. **IN EFFECT. The price you pay: All dollars will be lose value, and the dollar may collapse.**

2. The SEC has seized or been given vast, sweeping new powers to control and regulate the markets. It failed to do its job in major events like the Bernie Madoff scandal, and now wants to become much larger and control many other aspects of our financial industry. **IN EFFECT. The price you pay: Your taxes will rise to support new, massive, ineffective and wasteful bureaucracies.**

3. General Motors has become "Government Motors". Whether it will be a temporary thing or not, it throws competition out the window. Only in a socialist or communist country (or other totalitarian form of government) does government own the means of production. Will the government award contacts to GM because it owns GM? Let me think about that and get back to you . . . **IN EFFECT. The price you pay: The entire capitalist system is threatened with destruction as private ownership is replaced with State ownership.**

4. The government is converting its shares of preferred (non-voting) shares in America's major banks to common (voting) shares. The President of the United States is now the de facto CEO of some of the largest companies in the U.S. because has taken upon himself the authority to hire and fire. **IN EFFECT. The price you pay: Remember the old 5-year plans in the Soviet Union and China? "The shortages will be distributed equally among the peasants".**

5. In one of the greatest single incidents of redistributing wealth in U.S. history, Obama ignored the valid claims of GM bondholders - most of whom lost their entire investment - to favor the unions and give them a significant chunk of stock in the reorganized company. **IN EFFECT. The price you pay: Loss of confidence in the markets and loss of billions for the unlucky bondholders. The government stole more money than Bernie Madoff.**

6. President Obama signed the Lilly Ledbetter Fair Pay Act, which allows pay discrimination lawsuits to proceed years or even decades after the alleged discrimination took place. This changes the statute of limitations provisions of labor law in ways that will make it much more difficult for companies to deal with their employ-

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ees. This law overturns a correct Supreme Court decision, one in which the Court refused to "legislate from the bench". **IN EFFECT. The price you pay: Increased legal costs to corporations and some disorder in hiring policies.** Trial lawyers won another big victory.

7. "Shock and awe" is the official program of the U.S. Government. I have personally heard President Obama announce that program on more than one occasion. Please read Naomi Klein's book *The Shock Doctrine: The Rise of Disaster Capitalism* to understand why you should be terrified of "shock and awe". The President of the United States has initiated a massive program to bring America to its knees so that he may replace our culture, our way of life, our values, and our government with the Orwellian nightmare he wants. (Please read on for details.) **IN EFFECT. The price you pay: The conversion of this once-free land into a welfare state.**

8. Legislation is before Congress that will place the federal government in full control of **student loans**. This legislation will shift admissions policy from the colleges and universities to the federal government, and can lead to all sorts of "unintended" consequences. **EXPECTED TO PASS. The price you pay: the Federal Government will now exercise enormous authority over which universities and colleges will receive students and which will not, thus controlling the ideologies students are taught.**

9. President Obama's new **mortgage bailout program** is just one more massive redistribution of wealth from the many who obtained appropriate mortgage financing to the few who did not. This action greatly increases the possibility of responsible homeowners being forced out of their homes by the taxes they were assessed to bail out irresponsible homeowners. **IN EFFECT. The price you pay: Your hard-earned money will bail out those who shouldn't have been allowed to borrow in the first place.**

11. President Obama has actually said "We have to spread the wealth around, we have to redistribute the wealth of this country through taxation." That statement should send shivers up and down your spine. Karl Marx couldn't have said it any better. This means that Americans who work hard and pay their taxes should prepare to pay more taxes to support those who won't work and pay no taxes. **There is no better way to destroy a people's incentive to work and be productive and innovative. Partly IN EFFECT and partly built into current Legislation before Congress. The price you pay: The Federal government will create millions of additional dependents, people who will not earn their own way but instead rely on government handouts. Guess who gets to pay for those handouts?.**

There is much, much more that the federal government is doing now to destroy our once-great Republic. Some of it is a continuation of policies that have crept into federal policy over decades; much of it is new to President Obama.

Shock and awe

Shock and awe is a military term, though it was not invented by the military. It was used by clinical psychiatrists dealing with the mentally ill as a technique of wiping out a person's memories and behavioral traits, then replacing them with - well, *something*. It involved the use of legal and illegal drugs, and massive amounts of electroshock therapy. In other words, your worst nightmare.

There were two problems with "shock and awe"; one, the victims (politely called "subjects" were so badly damaged by the treatment that they could never resume a normal life, and two, no way was ever found to replace what had literally been brainwashed out. (See *The Shock Doctrine* for all the gory details.)

Milton Friedman became a great proponent of economic "shock and awe", urging his followers to take advantage of or create events in their countries that would so shock and disrupt the economy and the government that a new plan (Friedman's economic policies) could be injected into the erased national memory. Unfortunately, this led to enormous "unintended consequences" - at least, I would like to believe they were unintended. Countries all over the world were "privatized", which is a codeword for theft of their industry and natural resources. Since there were always those who remembered the past, those who could help the nation remember what they once had must be

S-I-R

Savings

ING Direct is currently paying an FDIC-insured 1.5% 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. 10-12% 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) and other types of annuities.

The balance - up to 50% , 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.



The "Millennial"

"These are today's young people, who are just beginning to be well known to most Americans. They fill K-12 schools, colleges, graduate schools, and have recently begun entering the workplace. We associate them with dramatic improvements in youth behaviors, which are often underreported by the media.

"Since Millennials have come along, we've seen huge declines in violent crime, teen pregnancy, and the most damaging forms of drug abuse, as well as higher rates of community service and volunteering. This is a generation that reminds us in many respects of the young GIs nearly a century ago, back when they were the first boy scouts between 1910 and 1930.

"Unlike the Baby Boomers, who are largely individualistic and anti-establishment, the Millennials are good team players. We hear a lot these days about working together for a common cause, volunteerism, and the need for stronger government institutions, largely because these are the new priorities of the Millennial Generation. . .

"If you're the type of individual that tends to get steamed up by larger and more intrusive government programs, you may want to take a few deep breaths and resolve yourself to the fact that this phenomenon is likely to get far worse before we see a return to celebration of individual rights. (And the cycle shows that we *will* see such a return - about 40 to 50 years from now . . .)"

Well, it *sounded* like good news - right up to the last two paragraphs.



eliminated. Kidnaping, disappearances and murder became part of the Friedman "shock and awe" program. Again, because Milton Friedman received the Nobel Prize for his work, I would like to think that he did not anticipate these terrible consequences. However, the doctrine is consistent; you must wipe out all memory of the past so that you may start with a clean slate.

When the military adapted the policy, they developed methods of destroying a country's ability to resist, often wiping out culture and national identity in the process. The United States military implemented the practice in the Iraq War, and it was devastatingly successful until President Bush declared "Mission Accomplished". That's when everything started to go south, for those in favor of "shock and awe" had not prepared to replace the Iraqi culture and government with anything the Iraqi people could understand or work with.

President Obama has now invoked "shock and awe" on the American people. Unfortunately, he did not initiate the policy, though he is giving it great force. Previous American Presidents took advantage of "shock and awe" to implement their unconstitutional programs, going all the way back to Woodrow Wilson and World War I, and Franklin D. Roosevelt and the Great Depression. These leaders told us that we needed much more government control to prevent further conflict, to stabilize the economy, to restore the American Dream, and to do many such things that sounded high-minded, but which were full of devastating consequences.

The U.S. Government grew and grew, and the power wielded by the Federal government over the people of the United States increased greatly, slowly at first, then much more quickly. When the United States was attacked by terrorists on 9/11, Congress immediately responded to that "shock" by passing the PATRIOT Act, which President Bush signed into law six weeks later on October 26, 2001. The PATRIOT Act was a major leap forward in depriving Americans of their rights and privacy, and brought about a major increase in the size of Big Brother-type government. The PATRIOT Act was renewed and strengthened in 2006 despite serious concerns about its power for invasion of privacy.

The current "shock" is the global economic crisis. President Bush used it to pass a stimulus bill that squandered hundreds of billions of dollars we didn't have. It did a lot of bad things, such as rewarding the Wall Street geniuses who had created the mess, but it had no positive effect on the economy. Now, President Obama has taken advantage of that same "shock" and leveraged it to destroy the opposition (Republicans and conservatives) and massively extend the power and reach of the federal government.

President Obama is going several steps farther to change the culture of the United States and seriously damage our economy.

He is very much in favor, as was Bill Clinton, of amnesty for illegal aliens, knowing full well that they will vote for those who shower benefits on them.

He has promised to repeal the Defense of Marriage Act even though it has the support of more than 60% of the American people.

He has sworn to sign into law the Freedom of Choice Act, which will abolish all pro-life regulations across the nation.

He has nominated an often-reversed and very liberal judge to the Supreme Court, a woman who strongly believes in "legislating from the bench".

He has thrown capitalism out the window by effectively "nationalizing" several American companies.

His programs for wealth redistribution will make millions more Americans dependent upon government handouts.

America may never recover from this "shock and awe".

The "error"

Please note the "error" indicated on the Scoreboard. The error is the Senate's failure to certify Barak Hussein Obama as a valid candidate for the office of President of the United States. This is part of their Constitutional responsibility, and they failed to act appropriately. Whether Obama is a natural-born U.S. citizen or not, the Senate had an obligation to act, and for some reason decided not to. The United States Senate has a long history of ignoring responsibilities it didn't want to fulfill and taking on other tasks outside their jurisdiction.

Dozens of lawsuits have now been filed in an attempt to locate the records that will prove that Obama was indeed born in Hawaii, as he claims. Of course, if he had been born in Hawaii, he would have immediately produced his birth certificate on request *because he was required by law to do so*. If you were running for elective office, wouldn't you want to make sure you were qualified to run before you spent millions of dollars campaigning?

However

Update on the first Global Economic Crisis

I must respond to the claims that the crisis is over and the economy is "fixed". Nothing could be farther from the truth. What is true is that our government has seized enormous power well outside its Constitutional authority to do so, and has made decisions and implemented programs that have every likelihood of destroying the economy. That's what "shock and awe" is all about, and President Obama has sworn to implement it. I couldn't believe my ears when I heard him say that. His program may forever change our country from a Constitutional republic to a socialistic wasteland.

If you think that our federal government is not seizing power, consider what nationalized health care and "cap and trade" will do to us. Those disastrous programs will be two nails in the coffin of our economy, and once in place they will not be removed.

If you have read *Wealth Creation and Preservation* for any length of time you should know that I

- 1) do not make sensational and unsubstantiated statements,
- 2) have an amazingly good track record at predicting future events, and
- 3) make every effort to stay away from politics in my writing unless they directly affect my clients.

I dearly wish that the statements on Pages 1-4 were completely false. They are not. All you have to do is read the newspaper every day and you can see how "shock and awe" is being implemented.

Predictions

Here's a prediction: Nationalized Health Care will pass (60% likelihood at present - this isn't the first time around and the Democrats can force it through Congress with almost no Republican votes), but it will not cost the "mere" trillion dollars the Obama administration is claiming. It will cost several times as much, even though government bureaucrats will now have the power to determine whether you will live or die, and whether you will qualify for that life-saving operation or expensive drug therapy. (That power was granted to the government when legalized and on-demand abortion became the law of the land; there are very few steps between the two, and they have all been taken.)

President Obama has promised that his national health care program will allow you to retain your own doctor. That's very unlikely for the plan currently before Congress could destroy private health care plans currently in effect. (See www.insurancenewsnet.com, "Insurers Say Government-Run Health Care Would

The Wealth Creation and Preservation Portfolio

NOTE 1: 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*. You will need your email address and password to access the *Current Investment Portfolio* portion of the site.

NOTE 2: Since the information published in these pages is quickly out of date I will be focusing less on current recommendations and more on strategy. My strategy changes frequently as the markets change. Unlike many professional managers, I am in a position to be flexible not in what I buy for my clients but whether I buy.

NOTE 3: 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)

I. This quarter I am recommending we buy some short positions, ETFs that go up when their underlying index goes down. Generally, I recommend that you use them only when you have a position in the commodities themselves. For example, if you have 500 shares of Harvest Energy (HTE) and have sold covered calls against it, you might want to buy 100 Shares of DUG, which moves inversely to the XOI Oil and Gas index. If you own silver - in coins, bars, Eagles, or paper through certificates or ETFs like SLV you might want to buy some ZSL. The same is true for the stock market, but that it a short-term trade for now.

The Wealth Creation and Preservation Portfolio

(Continued)

2. Buy the Cohen & Steers Premium Income Realty Fund (RPF) below \$3.75. It is supposed to pay a huge dividend and is down 91% from its 2007 peak. It is real estate, but at a very depressed price. It is selling at a 16% discount to its Net Asset Value (NAV). (TrSt \$.30)

3. Buy Harvest Energy (HTE) at \$4.75 or better. Sell a covered call (\$5 or \$7.50 call) or use a \$.30 trailing stop. I think the covered call will work well.

4. Buy Corridor Resources (CDDRF) as a fairly speculative play. CDDRF has been beaten down in recent months, but it looks like a good value for the money below \$2.50 per share.

Current Positions:

We currently own mostly commodity stocks including silver (DBA and SLV), silver mining (CDE), other mining companies and funds (GDX), energy income trusts (HTE, ERF, PVX, PWE, BTE), and some energy stocks, (HTM, NGLPF, SWFCF, WGPWF).

We also own high yield ETFs or closed-end funds (FAX, GDF, HYF and NOX.)

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 \$.85, a significant decline from our initial purchase price. QCC experienced a bad quarter and has suspended their dividend for a time; I'm not really sure what to do with it right now...

Wreck Private Health Coverage"). Remember, the law currently in effect says that even if you have the money to pay the physician of your choice, if you are enrolled in Medicare (we all are after age 65) and pay any doctor a separate fee for services, he could lose his right to Medicare participation - and with it, his practice.

Here's another prediction: "cap and trade" will pass (60% likelihood, despite serious objections from the U.S. Senate), and your out-of-pocket costs for utilities - particularly electricity - will instantly rise significantly, perhaps as much as \$1,000 per year or more. That will only be the beginning, for Congress will raise "cap and trade" taxes on businesses frequently. After all, they will claim, it's the corporations that pay the taxes, not their customers. Remember, when the 16th Amendment enabled the Federal Income Tax, the intent of Congress was that no American would ever pay more than 3% of his annual income to the IRS. Programs and bureaucracies take on a life of their own, and like vampires they reproduce but never die.

Regarding 'cap and trade' President Obama was quoted in USA Today as saying "It is paid for by the polluters who currently emit dangerous carbon emissions". There is so much wrong with this statement it is hard to know where to begin, but I must try.

1. The statement demonizes industry and utilities by labeling them polluters. The Clean Air Act has been utilized for decades to reduce air pollution to a fraction of what it might be without the legislation, and the air in this country is more polluted because of China than because of anything done by Americans.

2. In order to show a profit, corporations must pass all their costs on the their customers. This is why double taxation of dividends is such a bad idea, as is America's tax on businesses (we have both, and they are the highest in the world). Any emissions tax must be passed directly on to you and me, and Obama knows it or he should be sent back to school for Economics 101.

3. There is not one shred of proof that the carbon emissions made by American industry and utilities are dangerous. The Clean Air Act took care of that. This has to do with global warming, not danger. There is absolutely no evidence I can find (and I have been looking for several years) that definitively proves that CO₂ emissions from the United States

a) contribute significantly to the total amount of CO₂ in the atmosphere or

b) have had any effect in producing global warming or

c) are dangerous in terms of public health or global warming. Please prove me wrong on this point, but I have read dozens of books and articles on this topic and have reached the conclusion I have reached after thorough analysis.

4. This statement is a typical political ploy to set up a "straw man". It's a way of shifting our attention from the real issues to something invented as a distraction. The real issue is that Americans may be forced to pay a huge new set of taxes. We are not told how those taxes will be utilized; we assume they will be used to establish several new, well-funded bureaucracies. Nothing in the legislation says anything about actually reducing carbon emissions and the direct effect doing so will have on the atmosphere. (Just Google H.R. 2454, the bill just signed by the U.S. House of Representatives and see for yourself.)

Remember, the Federal Government knows how to squander your money better than anyone else. "Cap and trade" is a cleverly designed ploy to take your money and give it to someone else. There are numerous provisions in the bill for "credits" for those whose incomes are low enough that they would be disadvantaged by its passage. Of course, the President stated that people won't pay these taxes, corpo-

rations will. You know, if I could learn to talk out of both sides of my mouth at the same time like Obama does, I might be able to learn circular breathing, a technique that has eluded me all these years I have played the clarinet.

One more prediction: We have better than a 50/50 chance of a new Value Added Tax on almost everything we buy. The media will love it because it will be just like a Flat Tax, except that it will punish consumption (and, by the way, the government is telling us that only more consumption will get us out of this economic crisis). What the government and the media will not say is that the Value Added Tax will not *replace* the income tax; it will merely *supplement* it. Expect to see the new Value Added Tax at 15% or higher in our lifetimes.

Why all these new taxes and programs? Americans failed to stop our government from shredding the Constitution with things like the PATRIOT Act. Thus emboldened, the government will grab more and more power. Money is power, especially when you have the authority to take it from one group and use it to buy votes from another group.

Still interested in predictions? The next one is already being fulfilled. In thousands of American homes three and even four generations are now living under one roof because the economy is bad, unemployment is high, and keeping your own home when you are "under water" with your mortgage is financial suicide. That will free up hundreds of thousands if not millions of housing units all over the country. Do you still think that the housing market is going to come back any time soon? Just because some builders are foolish enough to begin building again is no indication of an economic recovery.

I wish the nightly news would cover any of these stories. Instead, the Congress is now reviving the old "fairness doctrine", which states that some bureaucracy has the power to determine what speech is "fair and balanced" and which is not. I can see the day coming when I could be jailed for the paragraphs above.

In mid-June I attended a National Committee Meeting of the Constitution Party. I am not a member of the Constitution Party, but I had read their platform and decided to find out whether they had a plan. After two days of listening to some pretty good speakers on the Constitution and talking with Party leaders I decided that the Constitution Party is, at this moment, ineffective and almost comatose. That's too bad, because I am reasonably sure that only a party that truly supports and sustains the Constitution has any chance of restoring America to its Constitutional foundation.

The best news I have heard in thirty years

I recently read an article that gave me more hope for the future of our country than anything I have read in thirty years. Unfortunately, the article came from the Canada Free Press; none of our liberal media outlets would touch a story like this.

What is happening is that many of these United States are beginning to re-assert their states' rights. I had heard stories about Georgia, Tennessee, Montana, and a couple of others, but I had no idea how big this thing is becoming. Quoting the article:

". . . Although more than 40 states are in the process of re-establishing and re-asserting Tenth Amendment rights, only 38 states (¾) are actually needed for the final stage of reclaiming the people's control over the runaway Fed."

This article and others I have seen since discuss the fact that dozens of states - by which I mean governors or state legislatures - have decided it is time to take back some of their Constitutional authority from a federal government that has far exceeded its Constitutional authority. This is a vitally important step in returning America to its Constitutional foundation, for the states were granted many powers by the Constitution which they have long failed to exercise. Judicial review, for example, was taken up by the U.S. Supreme Court under John Marshall and never

The Wealth Creation and Preservation Portfolio

Current Positions (Continued)

Closed-end funds and High-yield stocks:

GDF, MGB, WIW, NOX, GLAD, HYF, NOX, MGB

Speculative stocks:

BCTE, SCLL, ITRO, MGB, HTM, XSNX, CDDRF, RPBC, SITO, VCTPF, ERII

Other Information

If you have lots of energy stocks you should own some DUG, the ProShares UltraShort Oil & Gas ETF. 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. 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.

Right now I am waiting for silver to fall below \$8.40. When it does we will buy a contract.

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 *Moneywise* at a discount. 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 will make one trip to Texas and California in August, and give as many public presentations and do as many book signings as possible. Please let me know if you belong to any group I might speak to (Rotary, church, neighborhood, PTA, fellow employees, you name it).

I will send out an email of my schedule when it has been firmed up.



surrendered, though the Constitution provides that only the states themselves may determine the Constitutionality of any federal legislation.

I encourage you to learn about and get involved in this movement, for it can change this country and the world for good - and forever.

Recommended Investment Allocations

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 High-yield Bond Funds. You may also use the closed ended funds WIW, GDF, TIP, MGF, MGB and MSD (only some of which focus primarily on high-yield 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, MGB, TIP, NOX, HYF**
- ★ High-risk penny stocks: **AENS, BCTE, ITRO, SCLL, ETRUF, PEGX, SWFCF, HTM, WWAT, XSNX**. All of these stocks have fallen sharply.
- ★ High-yielding energy-related stocks and ETFs: **PWE***, **ERF***, **PVX***, **DIG, HTE**
- ★ **Short "Commodity" stocks: DUG (Oil), SDS (S&P 500), ZSL (Silver)**. These go up when the underlying commodity goes down.
- ★ "Commodity" ETFs: **DBA, SLV**
- ★ Mutual Funds: Fidelity High Income Fund SPHIX

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

- ★ 70% Fidelity High Income Fund SPHIX
- ★ 10% Fidelity Select Gold Fund FSAGX
- ★ 20% Fidelity Select Energy Fund FSENX

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.

I appreciate the opportunity to be of service. Please utilize *Moneywise*, this newsletter, and my *Wealth Creation and Preservation* website to your best advantage.

Charles W. Kraut

The Charts

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

Please note the letters a,b, and c and the numbers 1 and 2 on the right side of the chart. They indicate the Wave 2 rebound which began on 6 March 2009. The blue lines show the Elliott Wave pattern that should form between now and the end of 2009.

We are now in Wave 2 up, which will subdivide into Waves a-b-c. When it ends, a devastating Wave 3 down will begin. Wave 3 down will take the S&P as low as 100-300. It could begin as early as 1st Quarter 2010.

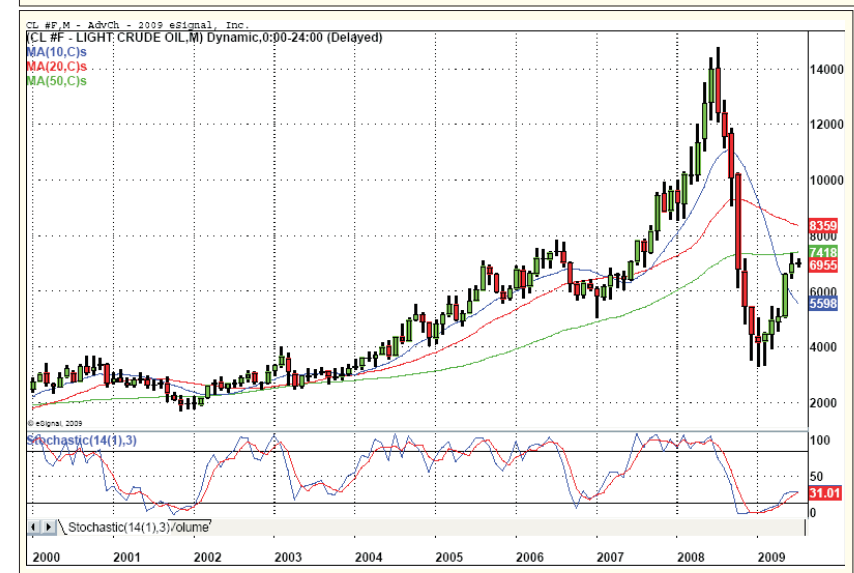
The U.S. Dollar

I inserted this chart for perspective. Notice how the dollar index hit a "glass ceiling" at 90 and just couldn't go any higher. Robert Prechter says it will break through on the next attempt; I'm not so sure.

I must emphasize here that markets move in cycles and in waves. Don't let anyone panic you into making an investment decision by telling you you will "miss out" if you don't act now. Sometimes the charts give a perfectly clear indication of what will happen next, and sometimes they don't. They will, through the use of Fibonacci retracements and other technical tools, tell you how high or how low something should go. Indications like that are better than money in the bank once you understand how to read them.

Crude Oil

The final chart shows Crude Oil over a 10-year period. It was December 1998 when crude oil was bumping along very close to \$10.00 per barrel. Now that India is making \$2,000 automobiles and hundreds of millions of people in India and Asia will soon own their first car, I don't see how oil can ever go back to \$10 again - except in a heavily manipulated market, and you are going to see a lot of manipulation in the months to come because the manipulators know they will not be punished. Remember "too big to fail?" They can't be punished for manipulating 1,000 contracts, but you would be for trying to move the market with one or two.



Charts provided courtesy of eSignal

The "Behind the Charts" Market Update

Data as of 1 July 2009

U.S. Stock Markets

Dow Jones Industrial Average (DJIA). 8,504.06. The stock market has made a temporary peak, and may remain soft for several weeks. I expect the bear rally to resume and continue through the fall, perhaps through December 2009. Longer-term, I expect the stock market to fall for at least two more years.

S&P 500 (S&P). 923.33. 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, 1481.34. This too resembles the Dow. The tech-heavy NASDAQ not fall as far in this bear market and has rebounded better than the S&P 500.

Bond Markets

US Treasury Bonds. 118.075, continuation contract. Treasury bonds hit a new all-time high in December 2008 as the flight to quality became a tidal wave. Bonds are bouncing right now from a lengthy decline to 111.25. 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. High yield bonds are having a wonderful year. We purchased them at a significant discount after their price had fallen dramatically; they have rebounded somewhat from their lows.

Commodities

Crude Oil, \$69.60/barrel, continuation contract. This is a gain of 42% since April 14th!

Oil is soaring despite huge supplies. Oil found a very nice double bottom at \$33, at least for now. Demand is still down significantly due to the economic crisis.

We are still holding on to some positions in the energy trusts. Most dividends are down and some were eliminated. I am currently hedging my energy positions in anticipation of a countertrend and temporary decline.

Natural Gas, \$3.78/mcf, continuation contract.

Natural gas has gone exactly nowhere over the past three months, as opposed to oil which is up 42%. There seems to be much more gas available than we had realized previously. Wait till "cap and trade" forces coal-fired power plants to shut down and new, natural gas-fired plants to be built.

Real Estate

My comments are unchanged from the last issue. 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. We have begun to buy shares of RPF now that it is down over 85%, but it is speculative at this point, as is URE.

Gold and silver. Gold \$940.30, Silver \$13.75 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 am maintaining core positions in SLV (that's a change; we took big profits on SSRI) and adding to my holdings of physical silver. I encourage all my readers to continue buying silver coins and bars and storing them at home, if possible.

The Euro \$1.4147, continuation contract.

The Euro seems to be in a trading range between \$1.25 and \$1.45, waiting to see whether the U.S. Dollar strengthens or falls. Robert Prechter says that the dollar will rise significantly in the next few weeks, which is why I have reduced our holdings in the Euro, Australian dollar and Canadian dollar. As the crisis gets into its 2nd and 3rd innings the Euro may fall right alongside the dollar, instead of moving in the opposite direction as it used to.

What to do now

1. Buy Silver! This is a good buying opportunity, but a better one may be coming. 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. 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 your home heating, cooking and hot water to propane and bury a tank in your back yard, consider doing so. Electricity is less expensive than propane in some areas, but not all. Buy the tank and enjoy the discount for buying larger quantities at longer intervals.

3. 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.

4. Get involved in community organizations and help your neighbors understand that most of what the government is telling us isn't true, and this crisis is only going to get worse because nothing the government has done so far has helped in the least.