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Karl Loren Introduction to Martin Weiss Research Inc.

I, Karl Loren, have compiled this Book and Report to include more than 200 pages of my own original material, but also including more than 400 pages of referenced material.

In this era of super-overwhelm of too much data, there are two factors which should determine WHAT data you decide to take your time to review, even trust.

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First, is the content in the area of your interest?

Second, is there some person you trust whose "SELECTION" of the data suggests that the data is not only in your area of interest but also significantly important for YOU to review at this time.

I, Karl Loren, with a Harvard MBA, having served in the Kennedy White House, having travelled and lived in more than 35 countries, and with lots more credentials ([see my background](#)) strongly suggest that Martin Weiss Research Inc., is the best source of current economic news I have found and I have looked at many others.

I have included a great deal of information in this Book, in addition to my own original material, taken, with permission, from the works of the Weiss Research Inc.

One other evaluation of his credentials for trusting his data and advise is excerpted below from a Government Accounting Office Report in 1983.

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GAO Report

United States
General Accounting Of flee
Washington, D.C. 20548
General Government Division
E258206

September 29,1994

**The Honorable Cardiss Collins
Chairwoman, Subcommittee on Commerce,
Consumer Protection, and Competitiveness
Committee on Energy and Commerce
House of Representatives**

Dear Chairwoman Collins:

Private rating agencies are in a position to play an important role in providing information to consumers about insurers' financial health.

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However, concerns have arisen about the usefulness of these ratings to consumers. In response to your request, this report (1) compares the rating systems of the five major raters of life/health insurers-A. M. Best (Best), Duff & Phelps (D&P), Moody's, Standard and Poor's (S&P), and Weiss Research (Weiss) over the period August 31,1989, to June 30, 1992, and (2) determines which raters were first to report the vulnerability of financially impaired or insolvent insurers.

Insurer ratings could not be easily compared across the five rating agencies because they did not all use the same approach and methods to rate insurer financial health. Rating scales and descriptions of ratings varied by agency and over time. Weiss placed far less reliance than the other agencies on analysts' judgment. Coverage differed-Weiss was the only agency to rate more than half of all insurers. Finally, Weiss and Moody's were less likely than the other agencies to assign insurers their top ratings. (See app. I.)

Best and Weiss provided the most comprehensive coverage of life/health insurers; between them, they rated the majority of financially impaired life/health insurers. Weiss' ratings reflected financial vulnerability first three times more often than Best in the cases we compared. On average, Weiss' ratings reflected financial vulnerability 8 months earlier than Best.

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The other agencies-D&P, Moody's, and S&P-rated, at most, five of the life/health insurers that became financially impaired during our comparison period. These five, among the six largest such insurers, were also rated by Best and Weiss. Weiss was the first to assign a vulnerable rating in five of

the six cases; Moody's--which rated only two of the six insurers--was first in the sixth case. In no case was Best, S&P, or D&P first to reflect financial vulnerability for these six insurers. In four of these cases, Best did not assign a vulnerable rating unGI after the first public regulatory action. (See app. II.) Our results are not projectible and apply only to the time period of less than 3 years that the data cover.

- Weiss placed less reliance on analysts' judgment than other raters
- Coverage differed--only Weiss rated most insurers
- Distributions varied--Weiss and Moody's assigned fewer ratings at the top of their scales than other raters.

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April 2, 2009: A Sneak Peek at the Future ...

by Larry Edelson

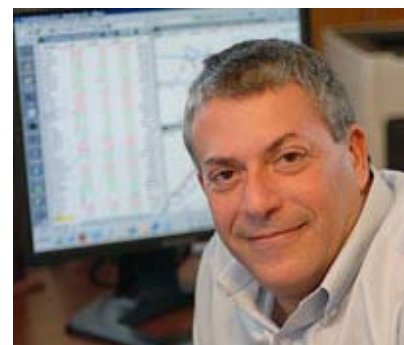
Dear Subscriber,

I'm buried monitoring the markets ... scrutinizing them virtually 24/7 ... checking every piece of news I can get my hands on.

I also have three Dollar Index charts on my trading screen: A monthly chart, a daily chart, and a 60-minute chart to check the short-term moves.

That's because there's a lot going on in the currency markets. They need to be monitored closely. Miss a development — no matter how small it may seem — and it can cost you big time!

That's especially true now because a very important G-20 meeting convened TODAY in London. And it has the potential to rock the currency markets.



So in this column of Money & Markets, I'm going to give you an important, complimentary look at the recently published March edition of my Real Wealth Report, which took an in-depth look at the G-20 meeting and the history of currency devaluations.

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I think it's critically important that everyone have the info I published in my March issue.

Naturally, I cannot give you the specific recommendations I make in that issue to profit from what I believe are the next moves by the G-20. Those are reserved for my paying subscribers.

Nevertheless, the content of that issue is crucial to your future. So let's get started ...

**April 2, 2009:
The Beginning of a
New World Monetary System**

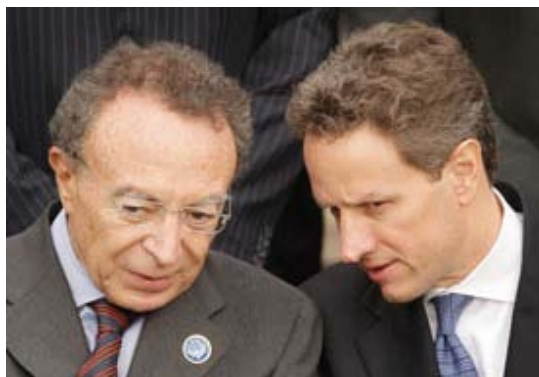
In recent issues, I've warned you about the massive forced currency devaluations and asset reflation scheme in the works at the highest levels of governments and central banks worldwide.

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And judging by recent comments from international leaders, the plan seems to be picking up momentum.

Undoubtedly, the spotlight at today's G-20 meeting will be on what leading finance ministers and central bankers plan to do about the global financial sewage. What you won't hear much about, though, will be the secret meetings hidden from the media to forge a radical overhaul of the world's monetary system.

Attendees at the G-20 meeting will strive to wipe the world's debt ledgers clean.



**The real goal of the G-20 meetings:
Creation of a new financial order based upon drastically new units of paper or fiat money to help wipe the world's debt ledgers clean.**

How? By systematically and progressively devaluing existing currencies, especially the U.S. dollar, and re-inflating ALL asset prices.

If the plan shapes up as I think it will, my current target for gold of \$2,270 could turn out to be ultra-conservative. Depending on how the new currencies are structured, we could ultimately be looking at \$5,000 gold ... or even higher!

Over the next few weeks, I recommend you keep your ears tuned to the media for phrases like "new financial architecture" ... "new monetary system" ... the "rules of the game" ... "Bretton Woods II" ... and other financial speak. They are essentially the cover words that will ultimately spell a dramatic change in the value of money.

And while the planning stages will occur behind closed doors, already the public cries for a seismic shake-up of the world currency structure are becoming louder and louder ...

French President Sarkozy recently declared, "We must rethink the financial system from scratch, as at Bretton Woods" ... and that it's time to "change the rules of the game."

British Prime Minister Brown touts "a new global financial order," describing this as a "decisive moment" for the world economy to adopt a "new Bretton Woods."

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European Central Bank council member Ewald Nowotny calls into question the "centrality of the U.S. dollar" and further states that the U.S., Europe, and Asia are developing a "tri-polar global currency system to replace the current dollar-centric reserve structure with more centers of gravity."

At the recent World Economic Forum, Russia's Prime Minister Putin explains that "Excessive dependence on a single reserve currency is dangerous for the global economy."

The People's Daily, the official newspaper of the Chinese Communist Party and the unofficial mouthpiece of the Beijing government, warns of the threat of a "financial tsunami" and urges action. "The world urgently needs to create a diversified currency and financial system and fair and just financial order that is not dependent on the United States."

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On March 19, the United Nations Commission on Reforms of International Finance and Economic Structures, chaired by the 2001 Economics Nobel Prize-winning economist, Joseph Stiglitz, recommended that the dollar be

replaced as the world's reserve currency.

On March 23, the People's Bank of China (PBOC), China's central bank, proposed replacing the U.S. dollar as the international reserve currency with a new global system controlled by the International Monetary Fund.

Changing the value of a currency is nothing new. Government officials have talked the talk before. Treasury Secretary Donald Regan floated the idea in response to the Latin American debt crisis in 1982. The next year, when the French franc nosedived with three successive devaluations, it was President Francois Mitterrand's turn to call for "a new Bretton Woods."

Then, spurred by the emerging-market financial troubles of 1997-98, British Prime Minister Tony Blair opined, "We should not be afraid to think radically and fundamentally ... We need to commit ourselves today to build a new Bretton Woods for the next millennium."

In the past, whenever an international financial crisis crops up, authorities in high places have often referred to a new Bretton Woods "solution" (i.e., changing the value of paper money).

This time, though, given the Great Depression II, it looks like the current generation of leaders is ready to walk the walk. Indeed, they may have no other choice.

Historical Background:

The First Seeds of Major Global Currency Tampering —

The 1933 London Monetary and Economic Conference

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The concept of changing the world's monetary system to wipe bad debts clean and to start anew with a fresh ledger or balance sheet, if you will, is not new.

It dates back to Roman times when emperors successively devalued the Roman denarius to wipe out debts and spark asset inflation.

More recently, emerging economies have engaged in chronic currency

devaluations to deal with their mountains of debt. But surprisingly to most analysts, the industrialized world has also tried to "change the rules of the game," which is central-bank speak for altering the value of paper money.

And interestingly, the most famous historical precedent — almost an exact analogy to today's emergency G-20 meetings — was a little-known but critically important meeting in 1933, called the London Monetary and Economic Conference.

At the depths of that Great Depression, the world's leading economic ministers met to find a cure for the global depression ... just like they're doing today.

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But when finance ministers, central bankers and government leaders met in London to work out a plan, President Franklin Roosevelt changed his mind at the last minute and refused to attend. By most historical accounts, he had decided that there was no time to bicker with other nations and that action needed to be taken immediately.

So instead of attending the meeting, Roosevelt declared a bank holiday for four days, closing all banks in the country — largely to stem an outflow of gold, but also so federal examiners could inspect them and declare them fit for duty. Those that failed the inspection remained closed permanently.

More importantly, Roosevelt issued the famous Executive Order 6102 confiscating most all privately-owned gold by Americans, taking America officially off the gold standard, banning gold exports, and devaluing the U.S. dollar by 40 percent against gold to stem the deflationary spiral of the Depression.

- Aside from the location of the meeting, there are tantalizing similarities between that 1933 Conference and next month's G-20 meeting ...
- Then as now, the global economy was in tatters from an international financial crisis.

Then as now, the global economy was suffering from massive debts gone bad and deflation.

Then as now, the main thrust of the 1933 initiative was to clear the deck of debt by changing the value of paper money.

I didn't expect President Obama, Fed Chairman Ben Bernanke, or Treasury Secretary Geithner to put a kibosh on today's G-20 meeting, as Roosevelt did at the London Monetary and Economic Conference.

The reason: Back in 1933, the U.S. was a creditor to the world. So

Roosevelt had the leverage to basically take the world by surprise and go it on his own.

In contrast, the U.S. is the world's largest debtor today. If America even thought about trying to go it alone, it would end up very alone indeed ... as our creditors around the world would then threaten to stop financing our debt needs, causing the U.S. economy to truly implode.

Bretton Woods, 1944

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In 1944, 44 Allied countries met at the Mount Washington Hotel in Bretton Woods, New Hampshire. Their objective was to formulate a plan to stabilize international exchange rates in the aftermath of World War II and help indebted European countries survive. Thus, a new monetary system was born.

The system they came up with, which went into effect when the war was over in 1945, established fixed exchange or "pegged" rates for currencies to the U.S. dollar and in terms of gold.

Member nations were required to establish parity of their currencies to the dollar and to the "gold peg" and maintain exchange rates within plus or minus 1 percent of parity by intervening as necessary (buying or selling) in the foreign exchange markets.

The official price of gold was fixed at \$35 an ounce. The agreement also established the International Monetary Fund (IMF) to bridge temporary imbalances of payment and the World Bank to provide loans and grants for economic development.

The problem: Bretton Woods was not immune to manipulation. For instance, while the U.S. maintained a commitment to convert dollars into gold, many other countries didn't.

So the system essentially broke down. In 1971, President Richard Nixon "closed the gold window" of the U.S. Treasury for good by unilaterally terminating the convertibility of dollars into gold.

Although the dollar was cut from the gold standard, the greenback managed to remain the world's reserve currency, largely because of the massive economic growth the U.S. experienced.

But now, as ground zero for the worst financial crisis since the Great

Depression, all that is obviously changing. Hence the calls for a new Bretton Woods, which means, at its core, a new monetary system.

The 1985 Plaza Accord: Coordinated International Action

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As I've just explained, deliberate official devaluation of currencies is nothing new. Ancient kings and emperors often skimmed on the gold and silver content or simply made coins smaller while saying they were still worth the same to skim extra wealth for their coffers.

Nowadays, it's much easier. Without the restraint of a gold standard or any other tangible backing, governments can simply crank up the printing press and create more money out of thin air. It's a fine line to walk, though, because overdoing it leads to a crisis of confidence in the currency (Zimbabwe comes to mind).

Sometimes, however, the system drifts so far out of whack that unilateral action isn't enough. Then cooperation among nations is required.

Currency manipulation in 1985 drove the dollar down 51 percent against the yen over the next two years.



The Plaza Accord of 1985 serves as a good example of coordinated currency manipulation. The main purpose of the agreement among France, West Germany, Japan, the United States, and the United Kingdom was to devalue the dollar versus the Japanese yen and German mark.

This was done to restart the global economy following the recession of the early '80s and help reduce the U.S. current account deficit. And it worked: The dollar fell 51 percent against the yen over the next two years.

Today, we are again facing a major, worldwide epidemic. Deteriorating economic conditions in the U.S., Japan, China, Germany, and elsewhere are virtually forcing nations into competitive devaluations to stimulate growth. It's become a "race to the bottom" to see who can drive their currency the

lowest, to help their current account balance.

The result is a flood of fiat paper money such as we have never seen before. The potential for disaster in this free-for-all melee is not lost on the G-20 ministers and bankers. That's why I'm certain they plan a coordinated devaluation of world currencies en masse rather than each country going it alone.

Fast-Forward to the Present: The G-20's Secret Debt Solution

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While world leaders might talk about a "New World Order" in global economics, they give few details of how this might be accomplished.

However, picking through the clues they've dropped and connecting the dots to fill in the missing parts, I've formed what I believe is the most plausible scenario of how the G-20 plan will shape up.

I unveiled this theory in my November 13 column of Money & Markets at the time of the first G-20 summit. It startled and shocked many readers as it spread across the Internet, quoted by numerous websites.

- **I know I've already spelled out the mass devaluation proposition in-depth with you. But let me review the highlights here again. I believe that the G-20 will agree to**

...

1. **Actively intervene in the forex markets to depress the dollar's value, thereby re-igniting asset inflation and alleviating debt burdens.**
2. **Ultimately create three new monetary units (new dollar, new euro, new pan-Asian currency), to eventually replace the dollar as the world's sole reserve currency.**
3. **Establish a new fixed-rate currency regime, abolishing the present floating rate foreign exchange structure.**
4. **Re-calibrate currency values to a common basis of value, most likely involving gold.**

And implement the currency overhaul via the IMF.

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As far-fetched as this scenario sounds, it's no wild speculation on my part. I arrived at these conclusions by methodical, inductive reasoning, examining the facts, and following their trail to the logical conclusion.

Think it can't happen?

The historical record I've described shows that such a scenario is not only possible, but entirely credible and predictable given the behavior of governments in similar circumstances in the past.

The longer term forecast that the world will end up with three reserve currencies is based on references by various influential parties to a "tripartite" or "tri-polar" system. That would diversify reserve currency duties among the three major currencies instead of relying on just one, the dollar.

I suspect the names of the new currencies will be changed to divorce them from any stigmas attached to the current ones and to make the devaluation easier to sell. People would certainly not be happy with a new "dollar" that's worth only one-tenth of their old dollar (ditto for the euro and yen).

And by resurrecting the Bretton Woods fixed-exchange structure, officials eliminate currency speculation, which often throws trade balances into chaos suddenly and unexpectedly. With no up-down spreads, speculators would have no interest in currencies, theoretically ensuring stable exchange rates indefinitely.

Please don't misunderstand: I do not foresee a return to the gold standard. There's simply not enough gold available, at any price, for the world to go back to a gold standard.

Plus, it's too restrictive, and central bankers and politicians abhor being handcuffed by an outside force. So the world is not headed in that direction.

For savvy investors who understand the process of currency devaluations, there's no need to bet on the return of a gold standard.

Instead, all you need to know is that the process of a deliberate devaluation of the dollar has already largely begun ... that the world's monetary system can and will be changed ... and that through the process of changing the value of money, debts can be effectively and largely forgiven ... and asset prices, albeit artificially, re-inflated.

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How high would the price of gold ultimately go? How would currency devaluation and the concomitant inflating away of debts impact other asset prices, such as real estate and stocks?

My Answers ...

The ultimate high for gold depends on how much of the U.S. debt the policymakers decide to "forgive" through reflation.

No one knows for sure what will be decided upon. But a little simple math based on just the debt position of the U.S. gives you an idea ...

To monetize only 10 percent of the U.S.'s mountain of bad debts, gold would be priced a shade over \$5,300 an ounce.

Anyone who doesn't own gold in this environment is foolhardy.

Ultimately, I expect the G-20 will monetize at least 10 percent of U.S. debt, which would send gold rocketing to more than \$5,300 an ounce.

Indeed, I suspect 10 percent is the minimum the G-20 would consider effective. It's entirely possible, albeit not at once, that debt monetization will eventually exceed 20 percent of U.S. debts.



How will this impact other assets prices? Virtually all asset prices — from real estate to stocks — will be inflated higher as debt levels are effectively forgiven in part by currency devaluation.

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Yes, that means real estate prices in general will head higher longer term. And it also means that someday we will be staring at a Dow, along with other major stock indexes here and across the globe, that explodes higher in value as earnings and assets get revalued in a devalued currency.

But that's not a good reason to run out and buy real estate or stocks in

general. The markets and the economy have many other problems to work out before it becomes reasonably safe to start diversifying and employing your cash to invest for the "Great Re-Inflation."

However, there is no substitute for owning gold at this stage. Anyone who doesn't own the yellow metal in this environment, even if I am dead wrong about the ultimate end game of the G-20's hidden agenda, is foolhardy.

My view: Do not let go of your core gold holdings, under any circumstances.

**Best wishes,
Larry**

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P.S. To get the specifics on my recommended core gold holdings and other positions to help protect your money and to profit in the months and years ahead, do yourself a big favor and subscribe to Real Wealth Report

Published here 04.06.09

Avoiding the NEXT Bear Market Trap ...

by Sharon A. Daniels

Dear Subscriber,

Today, we are in the midst of a savage, secular bear market that has already taken a terrible toll on investors' wealth.

Globally, \$50 TRILLION in net worth has vanished in the past 18 months alone. This includes more than \$37 trillion



in LOST stock market value worldwide, plus a sharp and ongoing plunge in real estate values both at home and abroad.

Our economy has fallen off a cliff ... in fact, we may be witnessing a second Great Depression in America ... which could still be in the early innings.

No one can say for sure how much lower markets will fall before reaching bottom, nor can we know in advance how long this crisis will last. But our mission today is to help you escape the dangers, avoid the devastation, and turn this crisis into an equally great profit opportunity in the long run.

If you're thinking it's too late to do anything about your portfolio now, think again!

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Here's the important point to understand today, April 6, 2009:

Everything we see, know and analyze tells us it's still not too late for you to defend your wealth from even more potential losses ahead as this secular bear market continues.

Given the dramatic financial and economic meltdown we've witnessed, several of my colleagues at Weiss Capital Management joined me recently for a special online Webinar briefing: Phase II: Bear Market Update. Over 12,000 concerned investors registered to view this Webinar, where we discussed: How long will this economic contraction last ... and what impact could it have on financial markets both short- and long-term?



Whether massive government bailouts will reverse the economic contraction, or just result in hyper-inflation down the road?

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Most important, we provided details about our Weiss Bear Strategy, a specialty investment program designed to perform in this environment.

If you viewed the Phase II: Bear Market Update video, then you may already be putting into action some of the strategies we discussed. If not, or if you want to review our briefing again to get all the details, there are still two ways to do so.

First, for a limited time, you can still watch an on-demand replay of the Phase II: Bear Market Update by going here. Or, if you prefer, you may read the edited transcript that follows in this special issue of Money and Markets

...

Phase II: Bear Market UPDATE

by Weiss Capital Management, Inc.†

Sharon A. Daniels, President

Sebastian Leburn, CFA, Chief Investment Officer

Mike Burnick, Director of Research & Client Communications

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(Edited Transcript)

Sherry Daniels: In the past several months, we have reviewed hundreds of portfolios of individual investors coming to Weiss Capital Management for guidance in this difficult investment climate. Can you summarize some of the biggest problem areas we are finding? In other words, what are some of the biggest potential landmines investors need to avoid in their own portfolios?



Sebastian Leburn: We see carnage almost everywhere. Almost invariably, the ones deepest in the red are those that contain some of the most "popular" investments. In other words, some of the same stocks, bonds and mutual funds that have been most widely followed and recommended on Wall Street for years.

Mike Burnick: Unfortunately, I believe far too many investors chase performance ... often straight over a cliff. They pile money into yesterday's

winners — whether it's blue-chip stocks that are supposedly "too big to fail"... OR five-star mutual funds that you are supposed to buy-and-hold, even in a bear market.

But this can be a recipe for failure, because all too often, these widely-held investments just lead to disappointing results.

Sebastian: Here's a case in point: Citigroup, General Electric, DuPont, American Express, General Motors ... what do each of these have in common?

All these companies are ... OR WERE, in the select club of stocks we all know as the 30 Dow Jones Industrials. These former blue-chip stocks were highly prized for their size, stability, profits and dividend growth, among other attributes.

But just look at their dismal performance since this bear market began:

General Electric ... DOWN 79%

American Express ... DOWN 81%

Alcoa ... DOWN 84%

General Motors ... DOWN 94%

And Citigroup — once the world's biggest bank by market value — now trading at about \$2.50 per share.¹

Meanwhile, shareholders of Fannie Mae, Freddie Mac, Washington Mutual, and Lehman, were basically wiped out.

Another thing these stocks had in common, besides terrible performance? All of them were routinely recommended by brokers for many years.

These declines of 80% or 90% in value, in just over one year, are more than double the 34% decline in the Dow Jones Industrials last year.² Yet, these are still some of THE most popular stocks in America — widely held by millions of investors. I see them in the portfolios we review for new clients all the time.

Mike: It's the same story with mutual fund performance. The fifty largest mutual funds by assets were down almost 40% in 2008 — once again, that's worse than even the Dow's dismal performance.³

Some of the biggest and most popular funds fared even worse...

Janus Twenty Fund ... DOWN -42%

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Hartford Capital Appreciation ... DOWN 46%

Fidelity Magellan ... down 49%

Fidelity Growth & Income ... DOWN over 50%!4

Sebastian: What's most striking in reviewing other portfolios is the lack of basic protection. It seems as if nobody on Wall Street knows how to play defense in a bear market. Very few of the portfolios I review contain ANY "hedges" at all — such as inverse funds — which can help protect you in declining markets.

Mike: In fact, even when investors ask brokers about using a hedge to help protect their wealth, you know what they've been told? "We DON'T use hedges." It's NOT part of their business, to hedge their clients against bear market declines.

Sherri: Incredible — even worse — some investors say it's difficult getting information from their broker. They're paralyzed by this market volatility — afraid to make any move. They are told to "just sit tight" because, "markets always come back."

It's shocking that even after one of the worst bear markets in history, many brokers continue to preach nothing but buy-and-hold. In fact, very few, if ANY money managers I'm familiar with even offer strategies that use inverse funds the way we do in our Weiss Bear Strategy.

But another way to help protect you in a bear market is to just sit on higher levels of cash and wait it out.

Sebastian: And we're seeing some cash in new client portfolios, but for many it's not nearly enough. You know, stock mutual funds did raise cash during 2008 ... they increased cash from 4.1% in January up to 5.2% by December — that's it! They boosted cash just 1% during last year's harsh market decline!5

Sherri: In other words, if you hold any stock mutual funds in your IRA or 401k, you were probably 95% exposed to last year's devastating bear market decline — and you may not have even realized it.

Granted, few of the "experts" in our industry had forecasted a decline of the magnitude we've experienced, but still — it was quite obvious that at least

some defensive actions were warranted — either reducing exposure to risky securities and raising cash or adding some type of hedge.

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Sebastian: Perhaps these portfolio managers were trying too hard to beat the market. So they took on more risk, after all, the depth and swiftness of this decline surprised many. Indeed, even at Weiss, some of our growth portfolios declined more than we would have liked, yet our higher levels of cash still helped considerably.

Sherri: That's right. At Weiss, for example, we held significant cash levels across nearly all of our strategies last year — at times as high as 40 or 50% in cash — a few times even more than that.

Mike: It's a shame that so many investors — both individuals and professionals alike — failed to cut losses and reduce risk, even with multiple warning signs.



Sherri: What investors need today are unique tools, such as inverse funds, AND investment strategies that are flexible and able to raise cash when market conditions obviously warrant a more defensive posture — rather than being fully invested all the time. I'm more convinced than ever that a proactive strategy like this is crucial to help preserve your wealth in today's market.

Mike: It's clear to me that we're locked in a secular bear market, and all the rules have changed. You need to change your investment assumptions too, or risk devastating losses. First, it's critically important to recognize that this is a bear market with temporary rallies. So, you need to be more active in seizing shorter-term profit opportunities.

Sebastian: You're right, the rules have changed, and in fact the very game has changed. Typically, the goal of a stock portfolio is to beat the index by a few percentage points over the long run. But if an index is plunging in value — as we've seen the past 18 months — that's just not good enough.

Mike: Second, your goal cannot be to lose LESS money than the broad market — your goal should be not lose ANY money if possible. I'm afraid the conventional wisdom of "stocks for the long run," and "buy and hold" goes right out the window at times like this.

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Sherri: For instance, during a sharp market decline, you may be able to "hedge" your portfolio from big losses using inverse funds. Let's run through a hypothetical scenario to illustrate this point.

Sebastian: Sure. If the S&P 500 Index falls 30% in value, and you're invested in the index on the long side, you'll lose, about 30% too ... or perhaps even more based on the poor performance of so many stocks and mutual funds last year.

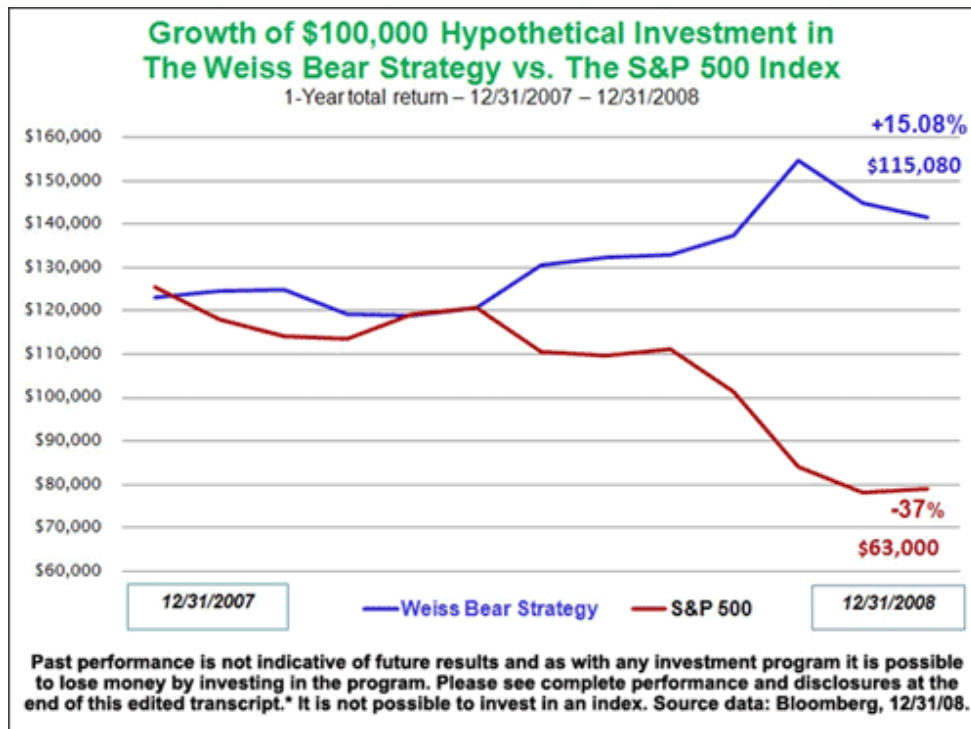
But with an inverse portfolio, instead of losing 30%, you could potentially earn gains of, say +15% on your money over the same period. Now, you'd be beating the market by +45 percentage points — and turning a sharp loss in your wealth — into a possible gain instead.

Sherri: Why only +15%? If the market falls -30%, why wouldn't you gain the same amount in an inverse fund, or +30%?

Sebastian: Too much risk.

Going 100% short using inverse funds is basically the same mistake (in reverse) that many investors make by staying fully invested in stocks and mutual funds most of the time. You don't want to risk 100% of your money by just buying and holding a selection of inverse funds. Markets are simply too volatile for this approach.

Instead, the idea is to properly hedge your bets, using only a portion of your investment portfolio. You also want to take your profits on these inverse funds along the way, since volatile markets can have many twists and turns. That's why I'm talking about a +15% gain instead of a +30% gain using inverse funds.



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But even capturing only half-as-much profit as the market is losing, created an impressive +45 percentage point performance difference for your investments.

Sherri: That's a great example Sebastian, because in reality, the returns you describe are almost EXACTLY the same as the ACTUAL performance difference between the S&P 500 last year (down -37%) and our Weiss Bear Strategy (up +15.08%) during 2008.6

I want to get into more details about how you're successfully navigating these treacherous markets using the Weiss Bear Strategy in just a few minutes.

But first, let's discuss our big-picture outlook for the markets and the economy.

In other words, why do investors today NEED a bear market defense strategy as a key part of their investment portfolio?

Mike, earlier you mentioned that we are still "locked in a secular bear market." Please explain why you believe this market could still have a long way to go on the downside.

Mike: I've written before in Weiss Advice, despite the greatest government bailout efforts of all time, the sorry reality on the ground is that the

economy has fallen off a very steep cliff.

We're in the midst of an unprecedented economic contraction, triggered by massive debt-deflation ... and sadly, it seems there's nothing anyone can do about it!

Washington has quickly piled up a total bail-out bill so far that's nearly \$9 TRILLION in government spending, lending, and other commitments. Think about that ... \$9 TRILLION is enough for the U.S. Treasury to send every man, woman and child in America a check for \$29,400 each!

But, in spite of throwing this massive amount of money at the problem, the economy and financial markets seem to be weakening at an even faster pace.⁷



Take a look at this chart of soaring credit default swap prices. These are essentially "life-insurance" policies against default by some of America's biggest corporations.

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As you can see, the cost of protecting against default recently surged to new highs, indicating the highest risk yet of bankruptcies since the crisis began!

This is telling me we're not out of the woods yet ... not even close.

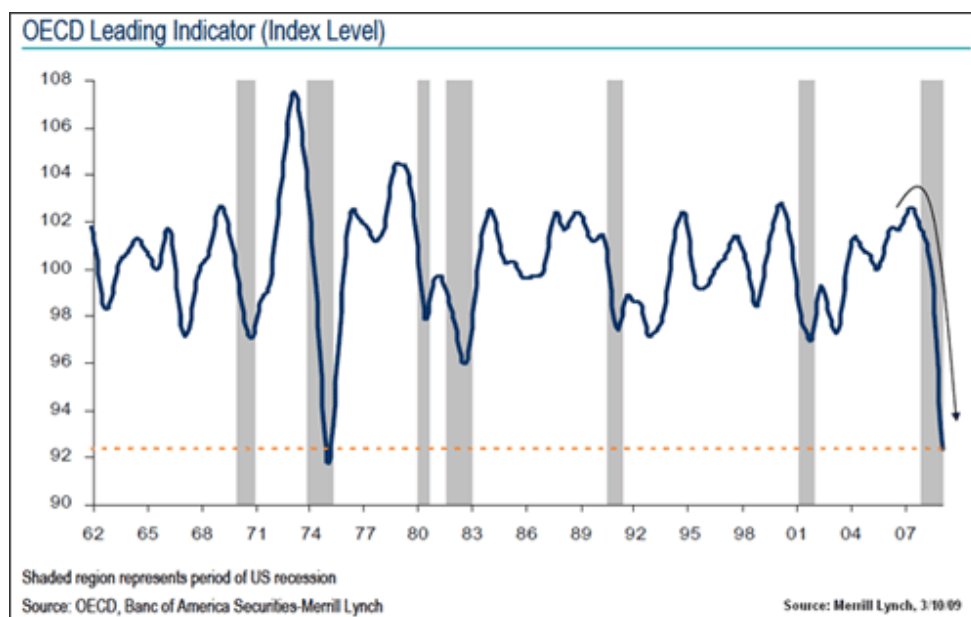
Sebastian: It's clear that last year's financial panic has spilled over with full-force and is hitting Main Street Americans very hard. Much of the U.S. financial sector is still teetering on the brink of insolvency. The housing

market remains in free fall, and our economy is on track for its longest recession since the Great Depression.

Mike: We're seeing more and more comparisons between the current crisis and the 1930's — a Great Depression II, if you will — and that may not be far off the mark. In fact, none other than Paul Volker, the respected former Federal Reserve Chairman, recently weighed-in.

He said, and I quote: "I don't remember any time, maybe even in the Great Depression, when things went down quite so fast, quite so uniformly around the world." These are very negative comments from a man who knows economic history better than almost anyone else.⁸

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Sherri: We analyze and discuss all of the incoming economic data during our regular Investment Committee Meetings at Weiss. Let's briefly review some of the indicators that are most revealing about the current state of our economy.

Sebastian: Many of the real-time indicators we follow, such as corporate bond spreads, credit availability, jobless claims and housing prices ... to name just a few ... are telling us that any rally we experience in the stock market is likely to be ONLY temporary.

Take a look at the leading economic indicators (above), which should tell us where the economy is headed, not where we've been ... these are signaling the deepest contraction in half a century.

This tells us that conditions are deteriorating extremely fast — so fast that

government officials can't even keep up with the plunging economy.

This also goes to show that you can't always take the raw data at face-value, or rely on it when making your investment decisions. It takes a lot of experience to interpret this information correctly and make it useful.

Mike: What's most striking to me is the sheer **MAGNITUDE** of the contraction in our economy, measured by multiple data points, not just one or two. We're seeing a lot of "historic records" being set; unfortunately they're **ALL** records of the **WRONG** kind.

Consider these:

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Consumer spending — the heart and soul of our economy — is plunging at an unprecedented rate of nearly **-9% annually** ... the largest decline ever recorded.

Discretionary spending is tumbling at a **-15% rate**. We have **NEVER** before seen such a steep fall-off in consumption as we're witnessing today.⁹

Soaring unemployment: **6.7 million full-time jobs** have been **LOST** since this recession began — the steepest decline since the 1940s ... and **3.5 million Americans** are out of work in just the past 3 months alone. That's another record of the wrong kind.¹⁰



Sherri: But many Wall Street analysts are asking, "Hasn't much of this bad news already been discounted by the market — isn't it already priced in?"

Mike: No. If anything, certain sectors such as housing, where this

deflationary spiral began, appear to be getting even worse, not better.

What we're experiencing right now is nothing less than a secular change in the way people think about money. Investors are changing their attitudes about spending, savings, investment, and debt. Notions such as "stocks for the long-run" are being severely called into question.

You can bet it will impact financial markets for years to come.

Sherri: Mike, given this outlook, what do you see as the biggest risk investors face right now?

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Mike: In a word: complacency.

Lately, we've heard a lot of talk about how stocks have already fallen so much — we may be at or near the bottom ... or, the economic news is so bad — the worst of this recession may already be over, and we'll see recovery in the second-half of the year.

Well, maybe. But I wouldn't bet what's left of your life savings on it!

Sherri: In other words, there could be many false starts that fool investors into believing that the worst is over, but only results in disappointment and more lost wealth, as the economy rolls over again. That's the definition of a long-term secular bear market.

Sebastian: We've had secular bear markets in the past, and typically they DO NOT end after 18 months ... or even several years. For example, the 1930s and 1940s was one long, secular bear market for investors. After the 1929 peak, stock investors were trapped for 27 years before they finally broke-even ... in 1956!



In 1966, the Dow peaked near 1000. It was 15 years later, in 1982, before the market finally moved beyond that level for good. There were many ups and downs for stocks in between, but the market essentially went nowhere for a very long time.

In Japan too, a secular bear market took hold in 1989 when the Nikkei peaked near 40,000.

There were huge rallies from time to time ... 40%... 50%... even 60% moves to the upside — some that lasted for a year or more, but the overall trend was DOWN.

This secular bear market continues to this day, with the Nikkei now at 7,300 – down over -80% from its peak value 20-years ago.

You see, secular bear markets aren't that uncommon. We are experiencing another one right now that began in 2000 and it may last well into the next decade. So complacency, as Mike said, may be an investors' worst enemy right now.

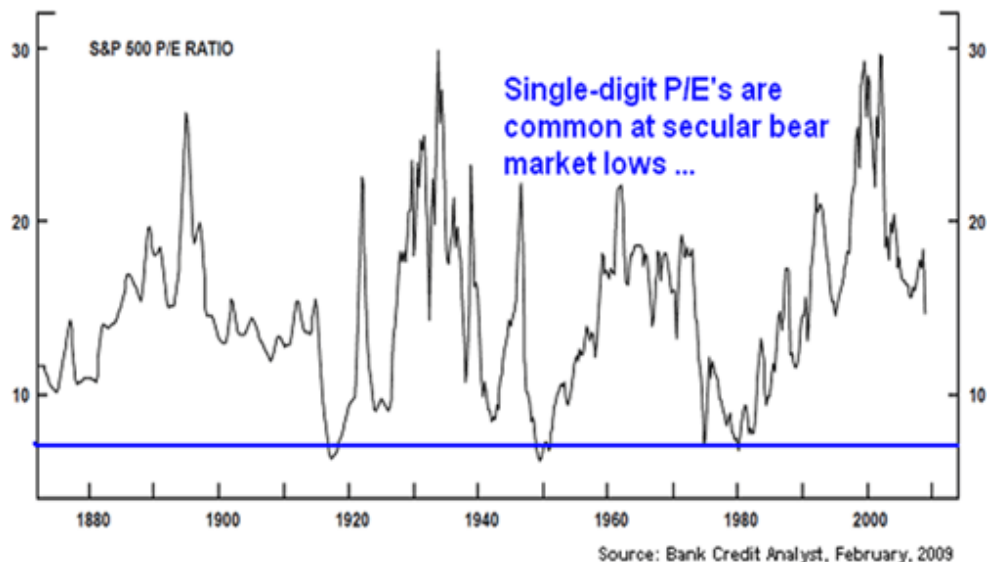
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Sherri: We hear some analysts saying that stocks are cheap again at today's levels. But are valuations attractive enough to dive back in, or is this just a "value trap?"

Sebastian: To determine whether stocks are really cheap, on a price-to-earnings (P/E) basis for instance, you've got to know what the earnings number is going to be.

Unfortunately, that's a moving target right now, because there is so little

visibility in the outlook for profits during this steep economic contraction. For example: In October 2008, Wall Street analysts expected S&P 500 earnings to GROW +46% in the fourth-quarter ... but profits plunged -67% instead.



Also, at historic market bottoms of the past, valuations were even cheaper than they are today. This graph, courtesy of BCA Research, shows the S&P 500 P/E ratio going all the way back to the 1880s — that's more than a century of data.¹²

You can see that several times stocks weren't really cheap until we saw single-digit P/E ratios. Unfortunately, with the S&P 500 at about 16-times earnings now, we just haven't reached this valuation trough yet.

Stocks May NOT Have Reached Bottom...



This graph of the inflation-adjusted DJIA from 1925–2009 shows stocks may still have further to fall to reach the bottom end of the historic range, marked here as "Support"

Source: chartoftheday.com; Dow Jones, 2/27/09

Mike: In terms of historic valuation, here's another interesting graph that shows the Dow Jones Industrial Average adjusted for inflation.

What you're seeing here is the real return of stocks factoring in purchasing power changes over the years.

You can see the extremes quite clearly, the 1929 extreme high was above the upper trend line, and the bottom that followed in the early 1930s touched the lower boundary.

The last time this lower boundary was reached happened during the early 1980s, at the end of the secular bear market that began in the mid-1960s ... 15 years before.

Sherri: Right now, stock prices are about in the middle of this range — not at the low-end at all.

Mike: And keep in mind, secular bear markets often overshoot "average" valuation levels on the downside ... so a return to the **BOTTOM** of this range can't be ruled out. That would mean the Dow falling to 4,000 according to this chart, which means about 400 or so for the S&P 500 Index.

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Sherri: Given this unprecedented scenario, what can you do as an investor to seek protection for your portfolio, AND potential growth of capital too? To

help answer that, let's revisit the Weiss Bear Strategy as one potential solution.

Sebastian, as the portfolio manager for the Weiss Bear Strategy, what moves are you making right now?

Sebastian: Sherri, we were fortunate to successfully navigate many of the market's twists and turns last year, with a gain of over +15% in the Weiss Bear Strategy during 2008, as we discussed earlier. Meanwhile, the S&P 500 Index declined -37% for the same period last year.

On a year-to-date basis in 2009, through the end of February, the Weiss Bear Strategy gained over +8%, while stocks slid even further. That said, I think it's important to point out that this is an aggressive strategy and so it's not for everyone. There's no guarantee that past performance can be repeated, and you can lose money in this program, just as with any investment.

But since inception in December 2000 through 12/31/08, the Weiss Bear Strategy gained +41.7% compared with a loss of -20.9% in the S&P 500 index — that's a 60% performance differential in favor of the Weiss Bear Strategy. And that's through the complete market cycle — both bull and bear markets.

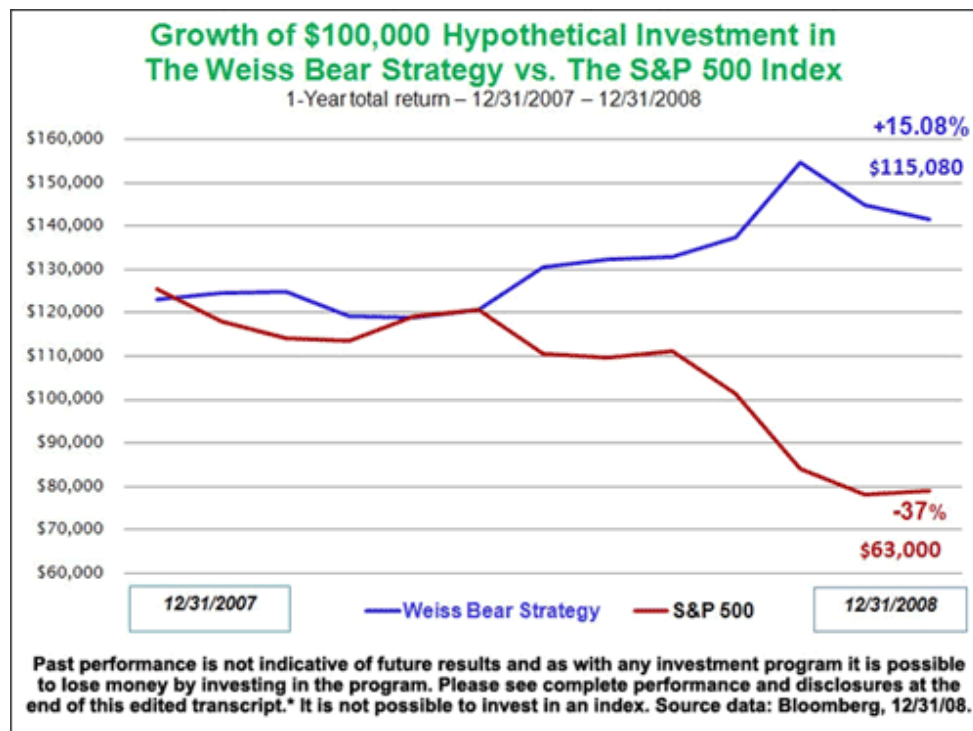
Sherri: That's impressive performance to be sure, my hat's off to you Sebastian. Of course each investor's performance depends on when they enter the Weiss Bear Strategy, but our clients should be very pleased that they have some refuge with positive returns in this difficult market.

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Sebastian: Thank you Sherri, but the credit really goes to the disciplined strategy we designed and have successfully followed since 2000 — this methodology serves us well.

Last year alone, a hypothetical \$100,000 invested in the Weiss Bear Strategy would have returned \$115,080, while the same amount invested in the S&P 500 would have shrunk to only \$63,000 by year end 2008. Of course, actual investor returns could vary based on many factors, such as when they entered the Weiss Bear Strategy.

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And since the program's inception, a hypothetical investment of \$100,000 in the Weiss Bear Strategy in December 2000 would have grown to \$141,770 by the end of last year — while the same amount invested in an S&P 500 Index would have withered to just \$79,080.

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Sherri: That's a swing in potential wealth of more than \$52,000 — in just one year — and an even bigger difference in wealth since 2000! Please provide us with more details on how this strategy works.

Sebastian: The Weiss Bear Strategy is specifically designed to stay in the relative safety of cash during periodic rally phases in the market. Our methodology tells us when it's time to effectively "go-short" using inverse funds, and when it's time to stay on the sidelines. The results, over the past 8+ years speak for themselves.

Sherri: There are very few, if ANY, investment professionals I know of that even offer a program like the Weiss Bear Strategy. Many Wall Street brokers seem to have followed little more than a buy-and-hold strategy during this bear market.

They rarely talk about protection — let alone the potential for earning profits in a bear market — but isn't that the whole idea behind the Weiss Bear Strategy?

Sebastian: Right, the Bear Strategy has two Big Picture goals:

#1: To provide a "hedge" for a portion of your portfolio to help protect your wealth during a bear market decline.

#2: To turn falling markets into potential money-making opportunities.

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Sherri: We've had a BIG and consistent surge of interest in the Weiss Bear Strategy, for obvious reasons recently. But a question we often get from our clients is one of timing: is now the best time for investors to take advantage of a bear strategy like ours?

Sebastian: Well, the worst time to be aggressively "short" is when stocks are severely oversold already ... when investors have just suffered through a steep decline. Psychologically, investors might think this is the time to "go-short," because all the news is negative and it's hard to believe stocks will ever rally again.

But the worst thing you can do now is let your emotions take control. Markets don't move in a straight line — either up OR down — your timing is critically important during a bear market.

Sherri: So right now, after the steep decline we've suffered already, it pays to be cautious when "hedging" your investments by going short.

Sebastian: Exactly. Look, the S&P 500 is already down 50% from its highs, and we haven't seen much more than a brief 20% rally in the past 6 months or more. So, you have to wonder how much more downside we'll see before we get a powerful bear market rally.

Mike: A rally certainly seems overdue for stocks — even during the Depression, stocks rallied 40% or 50% at times — and we saw exactly the same pattern in Japan during its long bear market, as Sebastian pointed out.

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Sebastian: That brings me to what may be the best time to take advantage of the Weiss Bear Strategy: AFTER stocks have just enjoyed one of these powerful bear market rallies — this is perhaps the best time to go short.

In a bear market, one of the most common triggers for a short, sharp rally is when investors have reached the point of maximum pessimism, and it looks like we reached such a point today.

Sherri: So right now, you're expecting a bear market rally, perhaps a sharp

move to the upside, at least in the short run.

Sebastian: I believe there's a high probability of just such a rally developing at any time. To illustrate just how oversold stocks are right now, an astounding 40% rally from the lows set recently on March 6 would **ONLY** take the S&P 500 back to where it was in January, just 3 months ago!

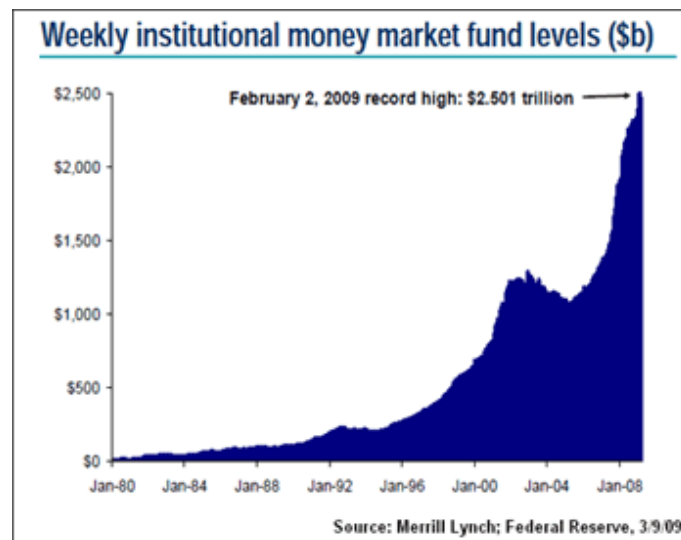
That's how far stocks have fallen in a very short time. If you watch CNBC for just 15 minutes, all you'll hear is doom-and-gloom. I'm not saying it isn't justified. It is, for all the reasons we have discussed. Investors face a very long, hard road ahead before the economy fully recovers.

Stocks could certainly move much lower from here, before finally hitting bottom, but this process may happen over time, not overnight.

Sherri: If we are close to a strong rally, what could be the trigger?

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Sebastian: Anything could trigger it. For example, there's a mountain of cash sitting on the sidelines right now ...



A total of \$3.6 TRILLION in retail and institutional money market accounts – that's an all time record high.

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And it's a lot of potential fuel that can move stocks higher quickly.¹³ Remember, for a rally to develop, we don't need to actually see GOOD news — we just need news that is NO WORSE than before.

Mike: So, if the news flow gets "less bad" it could trigger a strong rally

however misguided it may be based on long-term fundamentals.

Sebastian: That's right. Even if a powerful rally occurs, that doesn't mean the market has reached THE bottom, just a bottom from which to bounce. What I'm saying is: if stocks do move higher in the months ahead, that could hand you an great opportunity to prepare for the next phase of this bear market, by positioning yourself for another short-selling opportunity using the Weiss Bear Strategy.

Sherri: I think that's an important point, Sebastian. Please elaborate.

Sebastian: The Weiss Bear Strategy is not a one-size-fits-all "model" portfolio that you're left to follow on your own. This is a professionally managed strategy that seeks to take advantage of ever-changing financial conditions by adjusting to subtle shifts in market trends.

If you have money in our Weiss Bear Strategy, and the market is heading down, our goal is to earn PROFITS using inverse funds to effectively go short.

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But, if markets are going up, we switch gears and the goal is interest INCOME in the relative safety of cash.

In other words, we look for key turning points in the market cycle so you don't have to guess the market's next move.

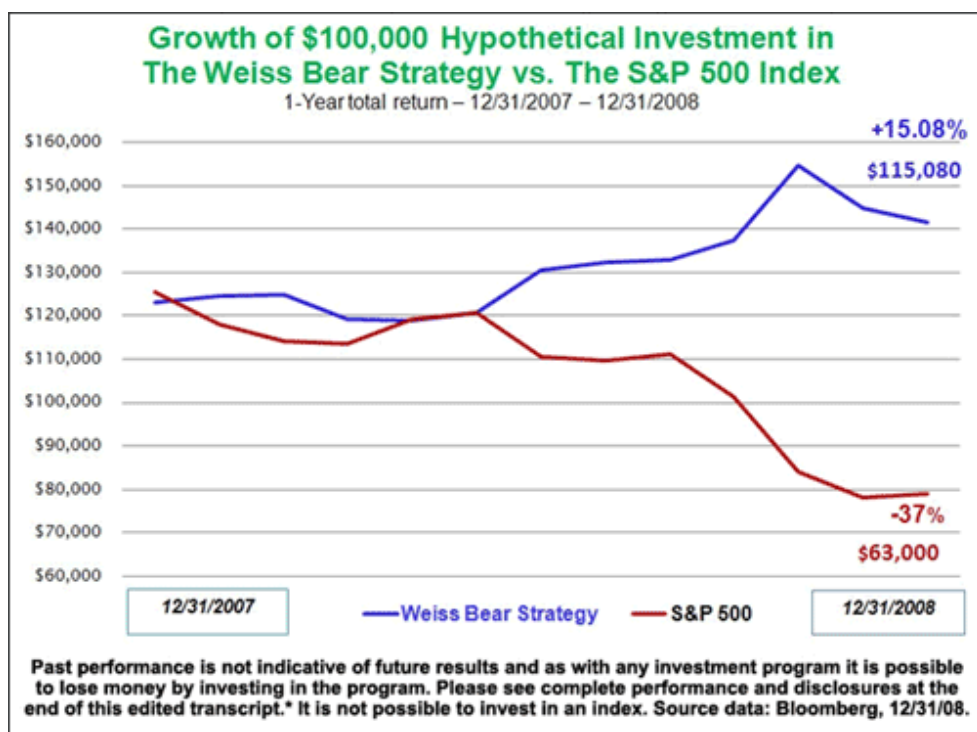
Instead, we act on your behalf, buying or selling according to our signals when the timing looks right.

This is where our professional oversight comes in — by strategically purchasing inverse funds only when the potential for reward appears greatest — our goal is to outperform a strategy that just buys and holds an inverse fund for the full duration.

Sherri: That's an important point, because the last thing an investor wants to do is add insult to injury by going "short" at just the wrong time and losing even more money should stocks rally. The Weiss Bear Strategy has been designed to help guard against this.

Sebastian: That's right Sherri. As we discussed, there could be many false starts in the economy and financial markets, as we work through this long-term, secular bear market. We have seen extreme volatility already, and trying to successfully navigate these twists and turns could prove too difficult for many individual, and even some professional, investors to

handle.



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Sherri: And when we DO get the next signal to "go-short" the market, you recently fine tuned the Weiss Bear Strategy to include even more opportunities to earn potential profits during the next phase of the bear market decline...

Sebastian: Yes, and I believe it's quite an improvement to our strategy. Since the beginning, the Weiss Bear Strategy basically relied on two inverse funds to produce profits: one fund is designed to rise in value when the S&P 500 Index falls and another is designed to rise in value when Treasury bond prices fall — and interest rates rise.

But these are only two of many potential financial markets that could suffer in the next phase of this historic bear market.

So recently, we expanded our universe of investments in the Weiss Bear Strategy, giving us the opportunity to take advantage of sell-offs in MULTIPLE markets outside of blue-chip U.S. stocks and Treasury bonds.

For instance, we added an inverse fund that tracks major foreign stock markets outside the U.S.

As we discussed, this economic collapse is not only limited to the U.S. In fact, it's even more severe in parts of Europe and Asia. Now, we use an inverse fund that targets these areas too, so we can potentially take

advantage of declines in overseas equity markets.

We've also added inverse funds that track other major domestic indexes, such as the technology sector, for instance — and another that focuses on small-cap stocks.

Bottom line: the Weiss Bear Strategy has performed well since inception. This track record was built using just two inverse funds. But starting now, we have significantly increased the universe of inverse funds we can use going forward to provide important diversification, and multiple opportunities to profit.

Sherri: Sebastian and Mike, thank you for your detailed insights. No doubt, these are very challenging times, but at Weiss Capital Management, we believe our investment solutions can help you navigate markets more effectively than many other firms — because we've done so in the past.

In my experience, there are few brokers, fund managers, or other financial advisers who know how to handle a bear market environment the way we do.

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We're here to help you manage your investments and achieve your long-term financial goals — a service we feel is especially vital right now. In this market climate, the Weiss Bear Strategy can help you achieve these goals for several key reasons:

First, the Weiss Bear Strategy may help you hedge a portion of your core, long-term investments, which could be vulnerable in the next phase of this bear market.

Second, you may be able to earn short-term profits during the next steep bear market selloff, which could come at anytime.

Third, when the market trend shifts into rally mode, even if it's ONLY a brief, bear-market bounce, we're confident the Weiss Bear Strategy can adjust by shifting to cash as it has in the past, to help protect your gains.

Fourth, The Weiss Bear Strategy has greatly EXPANDED its selection of investments — offering you more ways to potentially profit from a decline in multiple markets — not just U.S. stocks and bonds alone.

Fifth and perhaps the most important point of all, with the Weiss Bear

Strategy you ARE NOT on your own — you have an entire team of dedicated investment professionals guiding your portfolio at all times. In today's volatile investment climate, this peace of mind has NEVER been more important.

Please keep in mind, however that not every investor interested in the Weiss Bear Strategy can be accepted into this specialty program due to suitability requirements. That's why it's important you consult with one of our investment advisors to see if this strategy is right for you.

To establish a relationship with Weiss Capital Management, the minimum household investment is \$250,000 and you can choose from a number of our investment strategies that are a good fit for your financial goals, including the Weiss Bear Strategy.

**Sharon A. Daniels
President
Weiss Capital Management, Inc.**

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The preceding is a paid for editorial that may contain forward-looking statements regarding intent and belief with regard to Weiss managed strategies and the market in general. Readers are cautioned that actual results may differ materially from those statements.

Important Disclosures

Past performance is not indicative of future returns and, as with any investment program, it is possible to lose money by investing in the Strategy.

The Weiss Bear Strategy is suitable for investors with an aggressive risk tolerance. The program has a recommended holding period of three-to-five years. There are no guarantees that the program will be able to achieve its stated objectives.

Before investing, please read the Firm's ADV Part II and all program materials.

***Weiss Bear Strategy Complete Performance:**

PERFORMANCE: Returns are based on a composite of actual client accounts. Individual client returns may vary depending on, among other

things, account opening date, contributions, withdrawals, and fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Net returns cited include actual management fees, commissions, and other similar fees charged on transactions, and reinvestment of dividends, income and capital gains.

BENCHMARK: The S&P 500 Index is a capitalization-weighted index that consists of 500 large-cap US stocks, which assumes the reinvestment of dividends and capital gains, and excludes management fees, transactions costs and expenses. It is not possible to invest in an index. Index return data source: Bloomberg.

ENDNOTES (Other Sources):

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2 Ibid

3 Morningstar Direct 12/21/08

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5 Investment Company Institute: Trends in Mutual Fund Investing, 2/26/09

6 Weiss Capital Management Inc., Bloomberg data: 12/31/08

7 New York Times: Adding Up the Government's Total Bailout Tab, 2/4/09

8 Reuters: Soros sees no bottom for world financial "collapse", 2/21/09

9 Merrill Lynch: Fiscal plan little help to earnings, 2/2/09

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May 4, 2009: What to Do With Failed Corporate Giants, Monoliths, and Mammoths

The great dilemma today is not just companies that have already filed for Chapter 11

like Chrysler ... but also those that would be in bankruptcy today had it not been for taxpayer bailouts — Fannie Mae, Freddie Mac, Merrill Lynch, General Motors, Citigroup, AIG, and others.

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The great debate is not merely what to do with big companies that have already hit the skids ... but also how to deal with those that could meet a similar fate in the not-too-distant future — Ford, JPMorgan Chase, Wells Fargo, Goldman Sachs, SunTrust, Fifth Third Bank, and many more.

And the greatest challenge of all will not be strictly about the failure of giant corporations. It will also be about the next big shoe to fall — the failure of the U.S. government to fund its bailout follies without severe consequences.

Where do we stand? I see two phases in the evolution of this crisis:

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Current Phase: Prolonged Agony

Right now, we have nearly all the pain of failure but little hope of resolution. And nowhere is this "worst-of-both-worlds" outcome clearer than in the Chrysler failure ...

First, despite the infusion of another \$4.5 billion in taxpayer money to finance Chrysler in bankruptcy, its Chapter 11 filing last week is wrecking havoc on the auto industry anyhow:

We have a supposedly "temporary" — but TOTAL — shutdown of Chrysler production, pushing U.S. auto-parts suppliers to the edge of bankruptcy and disrupting the flow of parts to General Motors and even Ford.

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We see Chrysler auto dealers going broke in large numbers.

And we see a new phase in the collapse of auto financing, as lenders recoil in horror.

Second, despite massive commitments of taxpayer funds to back up the warranties on millions of Chrysler and GM automobiles, consumer confidence in the ailing auto industry has plunged, helping to drive all auto sales even deeper into the gutter.

Every major auto maker, whether failing or not, has reported dramatic sales declines from year-earlier levels: Not just Chrysler, which got whacked with a massive 48 percent loss in sales ... but also General Motors, down 33 percent ... Toyota, down 42 percent ... and even Ford, supposedly better off, suffering a 32 percent hit to sales.

Third, despite hopes and assurances that the Chrysler bankruptcy will be "quick and easy," we can already see signs of an imminent barrage of creditor lawsuits and claims hitting the courts. Their demands: Liquidate the company! Sell off the assets! Distribute the cash based on the contractual pecking order that gives first dibs to secured creditors!

In sum, we have BOTH a huge burden to taxpayers AND widespread pain for all those who rely on the auto industry for their livelihood!

In the final reckoning, the bailouts have bought nothing more than prolonged agony.

Next Phase: Tougher Love

The true pessimists of our time are those who assume the current pattern will simply continue indefinitely.

These pessimists include former U.S. Treasury Secretary Paulson, who literally dropped to his knees last September to beg Congress for \$700 billion to save the nation from a Wall Street meltdown.

They include Treasury Secretary Geithner, who's so terrified of bank failures that he's zealously pursuing the crazy goal of guaranteeing ALL bank credit.

They include Federal Reserve Chairman Ben Bernanke, who's so plagued by Depression-era nightmares that he's been willing to abandon the Fed's history, destroy the Fed's balance sheet, and sell the nation's monetary soul to the devil of unbridled money printing.

Plus, among them are all the Wall Street pundits and cheerleaders chanting for more.

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In contrast, I am an optimist in this sense: I am very confident their days are numbered and our nation will soon step up to the tougher task of truly putting this crisis behind us.

My optimism is not derived from wishful thinking or armchair philosophizing. It's steeped in practical, hard-nosed realities:

Hard-nosed reality #1

The market is not dead!

Even the most elaborate of government bailouts are not immune to powerful market forces. That's why Fannie Mae and Freddie Mac shares plunged to zero. That's why Bank of America and Citigroup shares have lost over four-fifths of their peak value (even after the recent rallies). And that's why Chrysler finally wound up in bankruptcy court last week, despite repeated government promises to the contrary.

"Isn't the government fighting to intervene massively in the market?" you ask.

Yes, of course. But fighting is one thing; winning is another. The undeniable fact is that the markets are not dead. They're still alive, kicking, and massively powerful. Despite delusional bureaucrats who may think otherwise, it's the marketplace — and not their mad-science experiments — that's ultimately driving the course of history.

Hard-nosed reality #2 **Easy to promise, hard to deliver!**

Anyone in power can step up to a podium, make speeches, and say they're going to spend or lend trillions of dollars. But even if directives are written and laws are passed, what's promised on paper is not the same as what actually happens in practice.

Right now, for example, the total tally of the government's bailout operations and commitments is \$14.7 trillion. But among that, only \$2.5 trillion has actually been spent or lent so far. Meanwhile, in 2008 alone, U.S. households lost \$12.8 trillion according to Fed data, or over FIVE times the bailouts thus far.

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Hard-nosed reality #3 **No free lunch!**

Anyone who thinks all the funding for the bailouts is going to simply appear out of thin air must also believe in the tooth fairy. The facts:

Congress cannot raise taxes without sinking the economy even faster.

The Treasury can't borrow the money without driving interest rates through the roof for everyone.

And the Federal Reserve can't print the money without destroying global confidence in the U.S. dollar and credit markets, gutting the economy even more.

Each of these — singly or in combination — will sabotage the same bailouts they're seeking to finance. Each, even if pursued initially, will soon backfire.

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Hard-nosed reality #4

The truth always comes out!

Last week, I told you about Six Egregious Lies perpetrated by Washington and Wall Street.

But I also showed you how the truth has already begun to pour forth — via leaked confidential memos, such as AIG's confessions of a likely insurance industry collapse, and dire official forecasts like the IMF's latest prediction of a massive global decline.

Hard-nosed reality #5 Not everyone is stupid!

There is a fast-growing, informed minority — skeptical investors and independent citizens — now rising in rebellion against federal bailouts.

That's why our petition drive against senseless bailouts has been such a resounding success!

That's why, two months ago, Thomas M. Hoenig, President of the Kansas City Federal Reserve, defied his own chairman ... declaring that the "too-big-to-fail" doctrine has failed ... recommending regulatory tough love for any failed bank, no matter how big. (See his paper "Too Big Has Failed.")

That's why, one week ago, FDIC Chairman Sheila Bair demonstrated equal defiance against her fellow regulators, stating, point blank:

"The notion of 'too big to fail' ... is a 25-year-old idea that ought to be tossed into the dustbin ...

"[It has] eroded market discipline for those who invest and lend to very large institutions. And this intervention, in turn, has given rise to public cynicism about the system and anger directed at the government and financial market participants. ...

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"Everybody should have the freedom to fail in a market economy. Without that freedom, capitalism doesn't work. ... Ultimately, this would benefit those better managed institutions and make the financial system and the economy stronger and more resilient."

Finding it hard to believe that one of our nation's top regulators is openly attacking

the shaky thesis underlying most of the government's bailout operations? Then read her speech for yourself.

This doesn't mean we agree with everything these voices stand for. But it does go to show how the days of unlimited bailouts are numbered ... and the epic fork in the road is now rapidly approaching.

The Consequences for Investors

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This is bad news for investors who are again taking risks — and good news for all Americans willing to make the sacrifices needed to get this crisis over with as soon as possible.

It means that:

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The supposedly "too-big-to-fail" banks like Citigroup or corporations like General Motors WILL ultimately be allowed to fail after all; their shareholders, wiped out; their creditors, suffering massive losses.

In the stock market, the seven-week rally we've seen will end; the financial stocks will give up all their gains and the broad averages will plunge to new lows.

Credit markets will freeze up once more, the government's stimulus package will be overwhelmed, and any pause in the economic decline will be over.

But it also means that any temporary revival of inflation will soon die ... the dollar will ultimately remain viable ... and we can still look forward to a real recovery in the future.

That's why I'm optimistic and why I'm delivering over 53,500 petitions to Washington tomorrow.

In the meantime, here's what I suggest you do:

First, review my one-hour video of April 7. (To download it now, [click here](#).)

Second, get your savings to safety. Just follow the instructions in my free report on banking survival.

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Third, if you haven't done so already, learn how to convert this great crisis into an

equally great profit opportunity for yourself and your family with my new book, **The Ultimate Depression Survival Guide**, now #2 on both Wall Street Journal and New York Times bestseller lists.

I don't make any money from the sales of the book, because I am donating all of my royalties to a national charity, the Campaign to End Child Homelessness. (Click here for our press release.) But I am confident it will help YOU make money both during and after this crisis.

Good luck and God bless!

Martin

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April 20, 2009: Big bank profits are bogus! Massive public deception!

by Martin D. Weiss, Ph.D.

Dear Subscriber,

A big bank CEO on a mission to deceive the public doesn't have to tell outright lies. He can con people just as easily by using "perfectly legal" tricks, shams, and accounting ruses.

First, I'll give you the big-picture facts. Then, I'll show you how big U.S. banks are painting lipstick on some of the fattest pigs ever raised.

Six of America's Largest Banks at Risk of Failure

As we have written here so often ... as we documented in our recent white paper ... as we showed in our presentation to the National Press Club ... and as we explained again with new data in our follow-up press conference, the nation's banking troubles are many times more severe than the authorities are admitting.

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First, look at the megabanks: The authorities SAY that all of the 14 largest banks have earned a "passing" grade in their just-completed "stress tests." But just six months ago, the authorities swore that, without a massive injection of taxpayer funds, those same banks would suffer a fatal meltdown.

Was the bad-debt disease magically cured? Did the economy miraculously turn around? Not quite. In fact, we have overwhelming evidence that the condition of the nation's banks has deteriorated massively since then.

How can our trusted authorities be so blatantly deceptive and still keep their jobs? Perhaps you should ask Fed Chairman Ben Bernanke. Not long ago, for example, he declared that the total losses from the debt crisis would not exceed \$100 billion, while conveying the hope that most of those losses could be soon written off. Also around that time, the International Monetary Fund (IMF) estimated the losses would be \$1 trillion, with only a small percentage written off.

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The IMF's latest estimate: \$4 trillion in losses, with only one-third of those written off so far. Bernanke's error factor: He was 4,000 percent off the mark, in a world where 50 percent errors can be lethal.

Meanwhile, based on fourth quarter Fed data, we find that, among the nation's megabanks, six are at risk of failure in our opinion (seven if you count Wachovia and Wells Fargo as separate institutions).

JPMorgan Chase is the nation's largest, with \$1.7 trillion in assets in its primary banking unit. It's massively exposed to defaults by its trading partners in derivatives — to the tune of 382 percent (almost four times) its risk-based capital. Plus, since it holds HALF of ALL the derivatives in the U.S. banking industry, JPMorgan is at ground zero in the debt crisis.

Citibank is the nation's third largest, with assets of \$1.2 trillion in its main banking unit. Its total credit exposure to derivatives is a bit lower than Morgan's, at 278 percent, but still extremely high. Plus, it has other troubles, especially the surging default rates in its sprawling global portfolio of credit cards and other consumer loans. (More on these in a moment.)

Wells Fargo and Wachovia now make up the nation's fourth largest bank with combined assets of \$1.17 trillion. But in the fourth quarter, they still reported separately, which is illuminating: Even without Wachovia's troubled assets, TheStreet.com Ratings has downgraded Wells Fargo to a D+. Wachovia, meanwhile, got a D. This tells you that Wells Fargo wasn't exactly the best merger partner,

unless you believe in some bizarre math wherein adding two negatives somehow gives you a positive result.

SunTrust, with \$185 billion in assets, is getting hit hard by the collapse in the commercial real estate. Its Financial Strength Rating is D+.

HSBC Bank USA has massive credit exposure to derivatives that's even greater than Morgan's: 550 percent of risk-based capital. We're not looking at its larger foreign operations. But the U.S. numbers are ugly enough, meriting a rating of D+.

Goldman Sachs, which reported for the first time as a commercial bank in the fourth quarter, seems to be taking the biggest risks of all in derivatives. Its total credit exposure is 1,056 percent of capital. Bottom line: It debuts as a bank with a rating of D, on par with Wachovia.

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Regional banks: Banking regulators have been largely mute regarding major regional banks. But several are also at risk of failure, including Compass Bank (Alabama), Fifth Third (Michigan), Huntington (Ohio), and E*Trade Bank (Virginia). Primary reason: Massive losses in commercial real estate loans.

Smaller banks: On its "Problem List," the FDIC reports only 252 institutions with assets of \$159 billion. In contrast, our list of at-risk institutions includes 1,816 banks and thrifts with \$4.67 trillion in assets. That's seven times the number of institutions and 29 times more assets at risk than the FDIC admits.

What Explains the Huge Gap Between Official Declarations and Our Analysis?

We all use essentially the same data. And conceptually, the analytical approach is also similar.

The primary difference is that the regulators have an agenda: Instead of protecting the people from bank failures, they're trying harder than ever to protect failed banks from the people. Specifically ...

They have forever hidden the names of the banks on the FDIC's "Problem List," making it almost impossible for average consumers to get prior warnings of troubles.

They have never disclosed their own official ratings of the banks — the CAMELS ratings — making it difficult for the public to find safe institutions they can trust.

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They have religiously underestimated — or understated — the depth and breadth of the debt crisis.

And as I explained a moment ago, they have rigged their recent stress tests to give passing grades to all of the nation's 14 largest banks, sending the false signal that even the most dangerous among them are somehow "safe."

Legal Cover-Ups, Flim-Flam and Sham In the Big Bank's "Glowing" First-Quarter Earnings Reports

Wall Street is aglow with the latest "better-than-expected" earnings reports by major banks. But take one look below the surface, and you'll see three of the most egregious accounting gimmicks in recent history.

Gimmick #1. Toxic asset cover-up. In their infinite wisdom, global banking regulators have now agreed to let banks cover up their toxic assets by booking them at fluffy-high values, bearing little resemblance to actual market prices. Like magic, the bad assets are suddenly worth more, as hundreds of billions in losses are defined away.

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Gimmick #2. Reserve flim-flam. Every quarter, banks are required to estimate their losses and decide how much to set aside in loss reserves. If they deliberately guess too much in one quarter and too little in the next, they can shove all their bad earnings into earlier P&Ls and make future P&Ls look rosy by comparison.

Gimmick #3. The great debt sham. Consider this scenario: A financially distressed real estate developer owes the bank \$4 million. His revenues have plunged. He's lost a fortune in his properties. And he's on the brink of bankruptcy.

Therefore, in the secondary market, traders recognize that loans like his are worth, say, only half their face value, or about \$2 million. So far, a very common situation, right?

But now imagine this: He walks into the bank one morning and claims that he really owes only \$2 million. Why? Because, in theory, he says, he could buy back his own loan for that price, thereby reducing his debt in half.

In practice, of course, that's a pipedream. If he actually had the cash to buy back his own loans on the market, then he wouldn't be financially distressed in the first place. And if he weren't financially distressed, his loans wouldn't be selling on the market

for half price.

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The reality is that he can't buy back his own debt and never will. And even if he could someday, he will still be on the hook for the full \$4 million unless and until he files for bankruptcy and the bankruptcy judge decides otherwise.

That's why the government would never let real estate developers — or hardly anyone else, for that matter — mark down the debts on their books and still stay in business. But guess what? The government lets banks do precisely that!

It's the ultimate double standard: The banks get away with inflating their toxic assets. But at the same time, they're allowed to mark to market their own debts, which happen to be trading at huge discounts on the open market precisely because of their toxic assets.

Accountants call it a "credit value adjustment." I call it cheating.
Finding all of this hard to believe? Then consider ...

How Citigroup Mobilized ALL THREE of These Gimmicks to Create One of the Greatest Accounting Shams of All Time in Its First-Quarter Earnings Report

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I'm outraged. But I'm glad to see that someone besides us is speaking out:

Meredith Whitney, one of the few no-nonsense analysts in the industry, says that the banks' latest reports are, in essence, "a great whitewash."

Jack T. Ciesielski, publisher of an accounting advisory service, calls it "junk income."

And Saturday's New York Times, picking up from their research, lays out precisely how Citigroup has transformed a massive loss into what appears to be a fat profit ...

First, Citigroup deployed the Toxic Asset Cover-Up. By inflating the value of the bad assets on its books, it was able to beef up its after-tax profits by \$413 million.

Second, Citigroup used the Reserve Flim-Flam gimmick: By (a) shoving most of its bad-debt losses into last year's fourth quarter and (b) greatly understating its likely losses in the first quarter, the bank legally rigged its books to look like it had made

major improvements. Even assuming no further deterioration in its loan portfolio, I estimate this gimmick alone bloated profits by at least another \$1 billion.

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Third, Citigroup went all out with the Great Debt Sham, marking down its own debt and creating an additional \$2.7 billion in purely bogus profits from this maneuver alone.

So here's Citigroup's true math for the first quarter:

So-called "profit" \$1.6 billion

Gimmick #1 \$0.4 billion

Gimmick #2 \$1.0 billion

Gimmick #3 \$2.7 billion

Total gimmicks \$4.1 billion

Actual result: \$2.5 billion LOSS!

And all this despite the fact that Citigroup's loan portfolios actually deteriorated further in the first quarter. Based on its Q1 2009 Quarterly Financial Data Supplement, we find that:

Net credit losses in Citi's global credit card business surged from \$1.67 billion at year-end 2008 to \$1.94 billion by March 31. And compared to March 2008, they surged by a whopping 56 percent! (Page 9 of its data supplement.)

Foretelling future credit card losses, the delinquency rate (90+ days past due) on those credit cards jumped from 2.62 percent at year-end to 3.16 percent on March 31 (page 10).

Credit losses on consumer banking operations jumped from \$3.442 billion on December 31 to \$3.786 billion on March 31. And compared to the year-earlier period, they surged 66 percent (page 12).

By almost every measure, Citigroup's first-quarter numbers are worse than they were just three months earlier and far worse than they were 12 months before.

My forecast: Citigroup's effort last week to twist this into an "improvement" will go down in history as one of the greatest banking deceptions of all time.

But Citigroup is not the only one. Nearly all other major banks are suffering similar surges in their credit losses and delinquency rates. Nearly all are using at least one of the same gimmicks to bloat their first-quarter profits. And every single one is destined to see massive new losses, driving their shares to new lows and the

banking system as a whole into a far more severe crisis.

Bottom line: Rather than the private-public partnership the government has called for to address the nation's banking woes, we see little more than private-public collusion to hide the truth from the public, paper over the problems and, ultimately, sink the banks into an even deeper hole.

My Recommendations

In my book, *The Ultimate Depression Survival Guide*, I give you very detailed, step-by-step instructions on what to do immediately. Here's a quick summary:

Step 1. Get away from risky stocks. Use the recent stock market rally as a selling opportunity — your second chance to get out of danger before it's too late.

Step 2. Get out of sinking real estate. If there's a temporary improvement in the market, grab it to sell the properties you've been wanting to sell all along.

Step 3. Raise as much cash as you possibly can — not only by selling stocks and real estate, but also by cutting expenses and selling other things you own.

Step 4. Make sure you keep your cash in one of the safe banks on the list we provide on the book's resource page. Or better yet, follow my instructions on how to buy Treasury bills. They're safer than any bank, with no limit on the Treasury's direct guarantee.

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Step 5. For assets you cannot sell, buy protection using exchange-traded funds that are designed to go UP when stocks fall. The more the market goes down, the more you make; and those profits can offset any losses you suffer in the stocks or real estate that you cannot sell.

Step 6. Later, get ready for the big bottom in nearly all markets. That's when you should be able to lock in relatively safe interest rates of 10 percent or more for years to come ... buy shares in our country's best companies for pennies on the dollar ... buy a dream home in a great location that's practically being given away.

The book is now a Wall Street Journal bestseller. You can effectively get as many copies as you want for free, because you earn a \$29.95 Weiss Research credit for each one you buy for yourself or others — either for a new service or a renewal. And I am donating 100 percent of my royalties to a national charity — the Campaign to End Child Homelessness.

**Good luck and God bless!
Martin**

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Perfect Storm



Five Economic Storms Raging NOW!

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by Martin Weiss on May 11, 2009 ·

Any economist fixated on so-called “signs of a recovery” needs to have his head examined.

Any such signs today are merely indicative of a deceptive and temporary calm as five major economic storms continue to rage:

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Storm #1. Plunging Jobs

On Friday, the Bureau of Labor Statistics announced that job losses were running at a slightly slower pace than in the first quarter. So Wall Street cheered.

But it's a joke, and the 539,000 additional Americans out of work aren't laughing.

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Nor are the 23 million people — 15.8 percent of the work force — who are officially unemployed ... are struggling with lower paying part-time jobs ... or have given up looking for work entirely.



[Karl Loren Note: Notice that the graph just above, like virtually ALL the graphs used by Dr. Weiss, and very similar to most graphs you will find used in many documents shows ONLY the vertical scale covering PART of the total picture. The "part" chosen for this graph, on the horizontal scale, shows an adequate range of years, but the part chosen for the vertical scale shows ONLY from "132 to 138" while the entire scale would exist of "ZERO to 138 (or higher)." Thus this method of using a graph emphasizes the plunging collapse when compared to a very small part of the vertical scale. If that same "plunge" were shown on a scale from Zero to 138, the "plunge" would look virtually trivial.

When an author wants to emphasize (or, perhaps, "exaggerate") some change in a statistic, this view of only part of the full range is often employed. A more representative method of using "graphs" would be, not as I've found "taught" in any school other than the one I went to. The method would be to ALWAYS have a graph that compares the SAME vertical range (not necessarily starting with zero) with a PARTIAL horizontal range.

In other words, the horizontal range can show any useful range of time, but the vertical range should be used over at least a several month time period. THEN the partial view of the vertical scale is OK because the emphasis is on CHANGE from one part of the time period to another part of the time period.

Thus, in the graph above, there is a very valid showing of the RATE of increase in employment from 2006 to 2008, compared to a very deep plunge in the RATE of change in the 2009 period. It is the RATE of change that is often more important than the absolute amount of change that is important.

I have studied the equivalent of a college degree in "statistical management" and while it is not used by Dr. Weiss, his graphs are still useful.]

In December 2007, there were 138.1 million jobs in America. Now, there are only 132.4 million.

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So even if you accept the government's tally of the narrowest unemployment measure, 5.7 million jobs have been lost.

Plot those figures on a chart and the picture is absolutely unambiguous: Jobs in America are collapsing.

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Where's that "slightly slower pace of collapse" Wall Street is raving about? You'd need a microscope to see it.

Storm #2

U.S. Housing Starts Down 77.6 Percent!

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Housing is the nation's largest industry. With it, the entire global economy boomed in the mid-2000s. Without it, a recovery is next to impossible.



The big picture: Housing starts, the best measure of the industry's health, peaked at an annual pace of 2.3 million units in early 2006.

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Now, they're running at barely more than a 0.5 million units.

That's a decline of 77.6 percent — three-quarters of America's largest single industry wiped out.

Yes, back in February, there was a tiny uptick: Starts rose from 488,000 to 572,000. And everywhere we heard voices cheering the "spectacular" jump in housing starts.

What they didn't tell you is that the so-called "jump" was actually smaller than six of the seven minor upticks we've seen in housing starts since 2006. Nor did you hear them say much when this measure fell anew in March.

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The only major change: Lenders have given up waiting for a recovery that never comes. So they're throwing in the towel, unloading huge inventories of foreclosed properties at fire-sale prices. And they're calling that a "recovery"?

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Storm #3 Auto Sales Down 44 Percent!

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At their peak in February 2007, U.S. and foreign-owned companies sold automobiles in America at an annual pace of 16.6 million units.

Last month, their sales pace plunged to 9.3 million, a decline of 44 percent (including the best performers like Toyota and Honda).

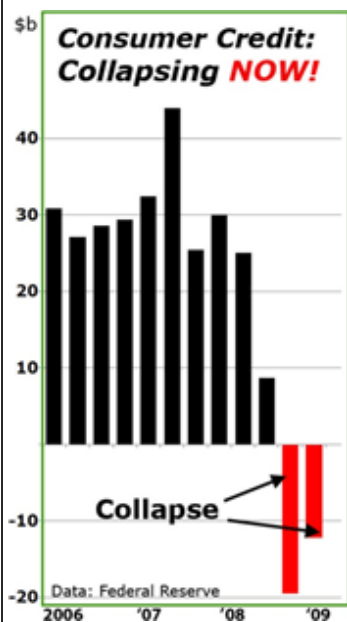
Again, as with housing, we saw a tiny uptick in the prior month, hailed by high officials as a “sign” of improvement. Yet, as with housing, it was weaker than all prior “signs of a turn” over the past 26 months — each of which was followed by a sharper plunge.

Any lights at the end to Detroit’s dark tunnel? Only those of three speeding freight trains:

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- The Chrysler bankruptcy, despite all the talk of a “quick and easy” procedure, is not only frightening U.S. car buyers away from the Chrysler brand, it’s also scaring them from other U.S. and foreign makers. And it’s not only hurting auto dealers and parts suppliers, but also smacking auto lenders. Meanwhile ...
- GMAC, the nation’s largest auto lender, is already in its death throes, with the government now estimating it could suffer additional losses of a whopping \$9.2 billion over the next two years. Will the Obama administration bail it out? Perhaps. But it would still have to downsize its operations, throwing another monkey wrench into General Motors’ sales. Meanwhile ...

- General Motors is now sinking even more rapidly toward bankruptcy than it was just a few months ago.



Storm #4

Biggest Decline in Consumer Credit Ever Recorded!

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In the third quarter of 2007, banks dished out \$44 billion in net new loans on credit cards, autos, and other consumer credit (excluding mortgages).

Then, just 12 months later, in the third quarter of 2008, that giant credit machine collapsed to a meager \$8.7 billion, *a decline of 80 percent!*

But the collapse didn't end there. In last year's fourth quarter, not only did new credit disappear, but lenders actually pulled *out* of the consumer credit market to the tune of \$19.5 billion.

And they did it AGAIN in the first quarter of this year, pulling out *another* \$12.2 billion.

It is the biggest collapse in consumer credit ever recorded.

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Storm #5 Big Banks!

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Whether the government lets big banks fail or not, the impact on the economy is similar: A massive contraction of bank loans and credit, sabotaging attempts to revive credit flows and stimulate the economy.

Reason: These banks must build capital quickly, and the only realistic way to do so is by cutting back on their lending.

The official stress test results released Thursday on 19 U.S. bank holding companies were supposed to help determine exactly how much capital they'll need, and the total came to \$75 billion.

That's no small amount. But the stress tests will go down in history as the world's most elaborate effort to paint lipstick on a pig.

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To show you why, first, let me provide our analysis based on data from TheStreet.com Ratings, the Comptroller of the Currency (OCC), and the banks' first-quarter financial statements. Then I'll show you why I believe the official results grossly underestimate how much capital the banks will need and how much pressure they'll be under to slash lending.

We find that ...

- Seven institutions — JPMorgan Chase & Co., Citigroup, Wells Fargo & Co., Goldman Sachs Group, GMAC LLC, SunTrust Banks, Inc., and Fifth Third Bancorp — are at risk of failure and may have to cut back lending dramatically to stay alive.
- Eight institutions — Bank of America, Morgan Stanley, PNC Financial Services Group, US Bancorp, BB&T Corp., Regions Financial Corp., American Express Co., and Keycorp — are borderline, meaning they could be at risk of failure with worsening economic or financial conditions and will also have to cut back on lending.
- Only four institutions — MetLife, Bank of NY Mellon Corp., Capital One Financial Corp., and State Street Corp. — appear to have adequate capital to withstand worsening conditions. But even they may voluntarily cut back their lending in an attempt to maintain their current financial health.

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Moreover, of the \$11.6 trillion in assets held by the 19 institutions, those likely to cut back dramatically represent \$6.56 trillion, or 56.5 percent, of the assets; while borderline institutions hold \$4 trillion, or 34.7 percent.

Only \$1 trillion — just 8.8 percent — of the assets are held by institutions with adequate capital, based on our analysis.

In contrast, the government is trying to persuade us that most have plenty of capital ... the rest can easily raise it ... and *none* will have to slash lending in a way that would sabotage the prospects for an economic recovery.

So what explains this discrepancy between the official conclusions and ours?

The simple answer: Three unmistakable deceptions in the government’s stress tests ...

First deception: The assumptions.

To come up with estimates of future losses, the government assumed what they call “a more adverse” scenario. But their *more* adverse scenario is actually *less* adverse than the current reality!

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Hard to believe? Then just look at their own numbers in the chart the Fed published recently:

Government’s “more adverse” assumptions for bank stress tests are actually LESS adverse than the current reality!

| | 2009 | 2010 |
|------------------------------------|----------------------|------|
| Real GDP | | |
| Average Baseline | -2.0 | 2.1 |
| Consensus Forecasts | -2.1 | 2.0 |
| Blue Chip | -1.9 | 2.1 |
| Survey of Professional Forecasters | -2.0 | 2.2 |
| Alternative More Adverse | -3.3 | 0.5 |
| Civilian unemployment rate | Actual: -6.1% | |
| Average Baseline | 8.4 | 8.8 |
| Consensus Forecasts | 8.4 | 9.0 |
| Blue Chip | 8.3 | 8.7 |
| Survey of Professional Forecasters | 8.4 | 8.8 |
| Alternative More Adverse | 8.9 | 10.3 |

Actual: Already 8.9% and rising!

Source: Federal Reserve, *The Supervisory Capital Assessment Program, Design and Implementation*, page 8.

- Their “more adverse” scenario is predicated on the presumption that the GDP will contract no more than 3.3 percent this year. But in actuality, the GDP is

already contracting at an annual pace of 6.1 percent!

- Their “more adverse” scenario also assumes that unemployment will average 8.9 percent this year. But unemployment has *already* reached 8.9 percent in April, and no one — not even economists fixated on recovery signs — is anticipating anything but a further rise.

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Either they’re delusional. Or they’re cheating at solitaire.

Second deception: No mention of systemic risk!

The banking regulators have published two major white papers on the stress tests — “[Design and Implementation](#)” plus “[Overview of Results](#).” However, in these papers, *they have failed to even mention the greatest risk of all: systemic risk.*

This is the risk that ...

- A few key players in highly leveraged instruments like derivatives could default on their trades.
- These defaults could set off a series of failures, with the most severe impacts felt by banks that hold the largest share of the derivatives in the country.

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This is the giant risk that the Government Accountability Office (GAO) wrote about in its landmark 1994 study, “[Financial Derivatives: Actions Needed to Protect the Financial System](#),” warning of “a chain reaction of market withdrawals, possible firm failures, and a systemic crisis.”

This is the giant risk that triggered the collapse of Bear Sterns, the failure of Lehman Brothers, and the \$180 billion bailout of America’s largest insurer, AIG.

It’s the giant risk that AIG executives themselves wrote about in their recent memorandum, “[AIG: Is The Risk Systemic?](#),” warning of a “cascading impact on a number of life insurers already weakened by credit losses” ... and “a chain reaction of enormous proportion.”

It’s the giant risk that the International Monetary Fund is most concerned about when it warns of another \$3 trillion in global losses due to the banking crisis.

It’s the giant risk that prompted former Treasury Secretary Henry Paulson to literally drop to his knees last September, begging Congress for \$700 billion in bailout funds for the banking industry.

Since that day, the U.S. economy has suffered the worst back-to-back GDP declines in over 50 years, burning the nation's fuse even closer to a blow-up.

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And yet, suddenly, in a massive undertaking that was supposed to accurately evaluate the banks' exposure to these dangers, it's also the giant risk that has been scrupulously scrubbed from 59 pages of official white papers, a half dozen press releases, plus multiple public pronouncements — all about the stress tests, all without a single mention of systemic risk.

This omission

means the stress tests have failed to fairly evaluate the credit exposure of each bank to defaults by their trading partners. And it means the tests are creating a false sense of security for investors and the public that can only lead to greater mistrust, more loss of confidence, even panic.

The omission is especially misleading for large banks that dominate the derivatives market ... would be at ground zero in any meltdown ... and would therefore be among the first to suffer massive losses.

The prime example: The OCC reports that, at year-end 2008, JPMorgan Chase (JPM) held \$87.4 trillion in notional value derivatives, including \$8.4 trillion in credit default swaps.

(To see for yourself, [click here](#) to download the OCC's latest report; scroll down to page 22; and check out the top line "JPMorgan Chase Bank NA." Note: The next to the last column "Total Credit Derivatives" is 99 percent made up of credit default swaps, according to the OCC.)

Why is this such a big problem? For several reasons:

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- Although it's cut back a bit, JPM still has 43.6 percent of all the derivatives held by all U.S. commercial banks, or \$17 trillion more than Bank of America and Citibank *combined*. Among the 19 bank holding companies in the stress tests, that puts JPM closer to ground zero than any other bank.
- It's well known that credit default swaps are the highest-risk sector of the derivatives market. And yet, in this sector, JPM has *52.8 percent* of the total held by all U.S. commercial banks, or nearly *double* the total held by BofA and Citi. This puts JPM even closer to ground zero.
- JPM execs insist they're smart and know how to handle their risks very neatly.

But if that were the case, why did they suffer a whopping \$2.5 billion loss in their credit default swaps in the fourth quarter? ([OCC](#), page 28, Table 7, line 1, last column.)

- The OCC also reports that, for each dollar of capital, JPM still has \$3.82 in total credit exposure. Mind you, that's JPM's exposure to just *one* kind of risk (defaults by trading partners) in just *one* kind of instrument (derivatives). In addition, JPM is also assuming *market* risks in derivatives plus a series of risks in its other investing and lending operations. ([OCC](#), page 13, table at bottom of page, line 1, last column.)
- Despite all this, in their "more adverse" scenario, the banking regulators estimate JPMorgan Chase's total "counterparty and trading losses" will not exceed \$16.7 billion, a fraction of the true potential losses in a financial crisis.

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With the omission of systemic risk from their analysis, the government concludes that JPMorgan Chase is in good shape and does not need any additional capital.

The same omission leads to a similar conclusion for Goldman Sachs, despite the fact that Goldman has over \$10 in total credit exposure per dollar of capital, or nearly triple the credit risk of JPMorgan Chase.

Both these institutions could need huge amounts of capital, driving them to cut back on new lending.

Systemic risk is the elephant in the room. Everyone knows it's there. Everyone understands the dangers. But they're afraid of the answers. So they dare not ask the questions.

Third Deception: Improper influence.

In its white paper, the Federal Reserve admits that the stress tests were based, to a large extent, on each bank's self-evaluation — not only for loan loss estimates that can be derived from past data, but also for the future performance of trading accounts, which can be far more subjective.

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Moreover, each institution was allowed to appeal the final results, and several banks strenuously negotiated for more favorable grades. They even got regulators to accept their projections of *future* revenues, treating those future revenues almost as if they were cash in the kitty.

In contrast, we never permit the companies we evaluate to influence our evaluation process or our results. To do so would defeat the entire purpose of the exercise. But much like conflicted Wall Street rating agencies, that's essentially what the bank regulators have done — from start to finish.

Put simply, the stress tests were too easy; the banks took the exams home with cheat sheets; and if they didn't like their final grade, they could get the examiners to give them a better one.

Yet despite all these fudge factors, the government still estimates these institutions could suffer \$600 billion in additional losses over the next two years.

My view: We *will* have a recovery someday. But only AFTER we honestly recognize the grave mistakes of the past and own up to the hard sacrifices still ahead.

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Hurricane warning: Huge stock plunge dead ahead!

by Martin Weiss on May 13, 2009 ·

Hurricane warning:
Huge new stock plunge
on the horizon *NOW!*

BREAKING NEWS:



- Home foreclosures exploding to a new all-time high — enormous new bank losses ahead!
- Retail sales plunging much faster than Wall Street had dreamed possible — huge new losses ahead at retailers!

• Massive NEW layoffs at GM and Chrysler; hundreds of thousands more jobs vanishing at dealerships and suppliers!

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TIME FOR ACTION: I've invested *one million dollars of my own money* to go for significant profits in the next phase of this great crisis — and every time I invest, I'll give you 48 hours advance notice so you can beat me to the punch.

But to seize this opportunity, this special enrollment period for my Million-Dollar Contrarian Portfolio **MUST CLOSE** on Sunday, May 31, 2009.

[Click this link](#) to activate your membership while you still can!

Dear Investor,

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This is the critical moment to take decisive action:

Just when they told us the worst was over ...

Just as gullible investors pushed stocks higher on news that would have been viewed as catastrophic in less insane times ...

Major new fault lines are now opening in the foundations of the U.S. economy, setting the stage for the next, even more devastating phase of this great crisis.

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Just in the last few hours, we learned that ...

• Consumer spending is plunging: The Commerce Department announced that consumers — a whopping 70% of the economy — unexpectedly slashed spending for a second straight month.

Conclusion: Get ready for even more disastrous corporate losses and stock declines ahead!

- **Home foreclosures are soaring:** RealtyTrac reported that home foreclosure filings skyrocketed 32 percent to a new all-time record high in April, making the March-April period the worst two-month surge in foreclosures ever with a record 682,000 homeowners receiving notices.

And as if that news isn't disturbing enough, they're also warning that the greatest surge in foreclosures of this crisis is still ahead.

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Conclusion: The housing bust that lit the fuse on this economic crisis is nowhere near ending.

- **A new explosion in loan losses is about to crush banks.** With Washington's bank stress tests already being seen as a sham by most, this new surge in mortgage defaults is already beginning to sour billions MORE dollars of bank assets.

Conclusion: The credit crisis that nearly triggered a global economic Armageddon last year — a world-wide, systematic shutdown — may well strike again in the months ahead!

- **New employment implosion taking shape NOW.** Yesterday, Chrysler dealers warned that the automaker is about to close 800 dealerships with thousands of employees. General Motors is following suit.

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Plus, with Chrysler bankrupt and GM less than three weeks away from its June 1 deadline, hundreds of thousands of workers at these two companies ... plus thousands of dealerships and suppliers ... are now only days away from losing their paychecks.

Conclusion: With U.S. unemployment already more than 8 percent, these new job losses can only cause MORE mortgage defaults ... credit card defaults ... auto loan defaults ... and make consumers MORE reluctant to spend in the weeks and months ahead!

- **The Social Security and Medicare day of reckoning is here, NOW.** Old news? Absolutely not! A new government report says that, with 70 million baby boomers officially beginning to retire this year, the crashing economy has left the two programs with more than \$53 TRILLION in unfunded liabilities.

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Conclusion: Washington simply cannot afford to save every "too-big-to-fail" company AND ALSO preserve Social Security and Medicare benefits for 70

million Americans. Something's got to give, and it's going to be the government's power to bail out the U.S. economy.

BOTTOM LINE: All of these new revelations — the probability of which was glibly ignored by the government's stress tests — can only kill the “green shoots” Wall Street stock hucksters have hyped in recent weeks ... crush bank stocks ... and trigger a new debt crisis that makes last year's pale by comparison.

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GM



GM Bankruptcy Unstoppable! Will Sink U.S. Economy!

by Martin Weiss on May 15, 2009 · [4 comments](#)

From Martin D. Weiss, the man who predicted a General Motors bankruptcy back in October of 2005 ...

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GM Bankruptcy Unstoppable! Will Sink U.S. Economy!

Outright bankruptcy for General Motors is now unstoppable; and anyone in the Obama Administration who tries to paint lipstick on this mammoth pig will get his headed handed to him.

The General Motors bankruptcy will:

- Gut America's auto dealer network
- Cause a chain reaction of failures among auto parts suppliers
- Drive GMAC so far into the red that even the Obama team will balk at pouring more good money after bad to bail it out
- Wipe out any positive effects from the economic stimulus package
- Drive an even larger hole in the balance sheets of America's largest

banks

- **Sink the U.S. economy into a new, hair-raising decline.**

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The Incredible Shrinking Economies

by [Bryan Rich](#) 05-16-09



Germany is the world's largest exporter. And in the broadest global recession on record, demand for its exports has come to a virtual standstill.

As a result, Germany, the core of the Eurozone, is shrinking at a record pace. And Germany isn't alone. Many of the world's largest economies have rested on the export model.

Americans became dependent upon overconsumption and leverage, and world economies became dependent upon supplying American demand. And now that that demand has dried up, the pain is playing out across economies, especially in Asia.

Take Japan for instance. In Japan, exports make up 17 percent of their economy. In total, the country's exports are down 46 percent from this time last year. And its all-important auto exports to the U.S., Japan's biggest customer, are down an astounding 76 percent!



Source: Bloomberg

As a result, Japan's economy is contracting at an annual rate of 12 percent. That means we're on pace to see the second largest economy of the world lose 12 percent of its value in a year.

Other export-driven economies in Asia are spiraling downward, too. Singapore is contracting at 20 percent a year; Thailand is contracting at 22 percent.

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Exports are king in Asia and account for:

- As much as two-thirds of the GDP in Hong Kong and Singapore,
- Almost half of the output of Malaysia and Thailand,
- And one-third of the output for South Korea and Taiwan.

What about China, the world's factory?

Goldman Sachs recently upgraded the growth outlook on China. They expect China to grow at more than 8 percent this year. Still shy of the numbers they were putting up over the past several years, but above the 6 percent area that is said to be the equivalent of recession for the Chinese economy.

However, it's widely known that reporting out of China is not exactly reliable ...

In reality, conditions in China are far from good. Exports are down 22 percent. Economist.com estimates that between one-third and one-half of all of the factories in China have closed in the past year.

China has stepped up and rolled out a stimulus package of more than half-a-trillion dollars. But experts suggest that this plan attempts to revive exports rather than domestic demand — exacerbating the global imbalance problem.



China's \$586 billion stimulus package attempts to revive exports rather than domestic demand — worsening its global imbalance problem.

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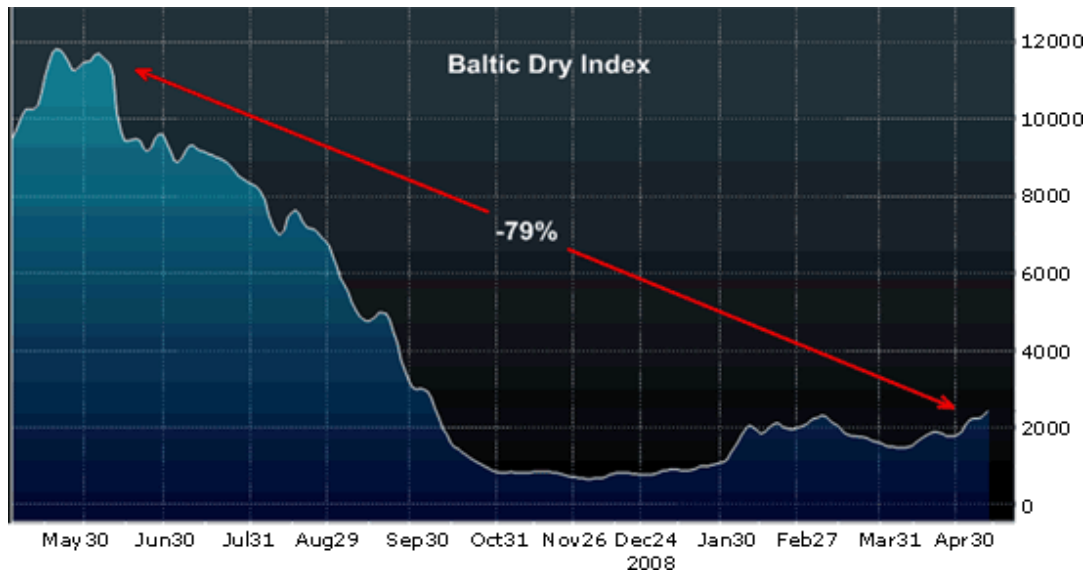
Furthermore, China has frontloaded its spending ...

More than 80 percent of the allotted stimulus for 2009 is said to have already been spent. So where does that leave the economy for the next seven months? Is China making a bet that the predictions of a late 2009 recovery for the U.S. are going to materialize? If so, they could be in for a rude awakening.

And so could those who think China is going to lead the world out of recession. Indeed, recent energy consumption in China, a good indicator of economic activity, fell 3.5 percent in April from a year ago.

Global Demand Tumbling ...

Take a look at the following chart of the Baltic Dry Index, which measures the price customers pay to have raw materials shipped. It's a good gauge of global demand and of future economic activity. From its peak in May of 2008, the index is down 79 percent.



Source: Bloomberg

This chart shows precisely why export dependent economies are having such a hard time.

It's common sense: An export driven economy can't recover without global demand. Right now, global demand has evaporated.

China, for instance, is an economy dominated by cheap labor and low margins in producing commoditized goods. Not exactly a sustainable economic model, nor one with the legs, at this stage, to morph into a more sophisticated economy.

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What's more, the IMF's study on historical recessions that share the two common features of this recession, global synchronization and financial crisis, suggests that the U.S. is only a third of the way through this recession. So economies expecting to recover from resurgence in demand from the U.S. have a long way to wait.

The more plausible answer is that world economies will have to fix themselves. They will have to endure the pain of slowly rebalancing their economies.

Global rebalancing means we're all in a rebuilding period. A period where more sustainable independent economies are developed. And in the process a more sustainable and efficient global economy is developed, too.

Trade surplus countries will have to focus on domestic demand. And trade deficit countries will be rebuilding the production model and improving innovation.

In a Highly Synchronized Global Recession, Imbalanced Economies are Becoming a Threat ...

According to the World Bank, government officials around the world have proposed more than 60 new trade



I expect the dollar to get stronger as the visibility of a global recovery becomes more and more cloudy. [Top](#)

So what does all this mean for currencies?

It likely means currency devaluations for those exporting countries that are struggling to find demand. And I expect to see a stronger dollar, as the visibility of a global recovery becomes more and more cloudy.

Regards,

Bryan

May 18, 2009, The Predictable Bankruptcy of GM

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MONEYANDMARKETS»

Monday, May 18, 2009

What To Do BEFORE GM Fails

by Martin D. Weiss, Ph.D.

Dear Subscriber,

Exactly four years ago, I warned Washington and Wall Street that General Motors is "likely to collapse ... the consequences for investors will be far-reaching ... and millions who depend on the company's value and retirement income will suffer shattering losses."

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Repeatedly and unambiguously, I issued the same warnings in our Safe Money, in special reports, and in this column. (See, for example, "GM Headed for Bankruptcy," October 11, 2005.)

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I emailed my warnings to hundreds of thousands of investors; posted them on the Web; distributed them to over 1,000 media outlets; and sent them to AP, Dow Jones, and Reuters.

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I begged readers to unload their General Motors shares, dump their General Motors bonds, and sever ties with the company or its subsidiaries. I used every piece of evidence and every ounce of reason I could muster to make my case and shout it from the rooftops.

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Fortunately, a lot of people received my warnings. Unfortunately, only a very small minority did anything about them.

Instead, many followed investment tycoon Kirk Kerkorian, who confidently upped his stake in the company. Others were soothed into complacency by Wall Street's lullabies. And despite well-known troubles ...

**Nearly Everyone in the World Believed
General Motors Was "Too Big To Fail."**

This belief prevailed even after Moody's and S&P, despite conflicts of interest that sugarcoat their grades, downgraded the company's bonds to "junk."

This belief continued to prevail even after the rating agencies belatedly downgraded the company to levels that implied "high risk of failure."

And even after the company's executives jetted to Washington last year — confessing to their imminent doom and begging for a government bailout — the overwhelming majority of Americans STILL did not believe General Motors would ever truly wind up in bankruptcy.

In less than two weeks, however, that's precisely what's going to happen.

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There's no stopping it now. Indeed, without a Chapter 11 filing, the termination notices GM sent to over 1,100 dealers last week have no legal validity.

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[Karl Loren Note: I, Karl Loren, will celebrate my 78th birthday on May 21, 2009, when Dr. Weiss predicts GM will formally announce or file for bankruptcy.

I have never owned GM stock, but I have bought GM Cars and I've listened to the time-to-time PR that "AS GM goes, so goes America."

It may be more true that you think.

Karl]

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