

Safe Money

REPORT

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Dr. Martin Weiss, Editor

28% of US companies are telling half truths or outright lies about their earnings.

Here's how major corporations manipulate their earnings reports, luring you into a deadly trap ... and how you can turn the tables on them.

In corporate boardrooms across America, managers are knowingly manipulating earnings statements ... bloating their stock prices ... goosing up the value of their own options ... and cashing in big — all at the expense of investors. But when the shenanigans come to light, their stock gets killed, literally killed.

- **Sunbeam Corp.** improperly booked \$96 million in income recently. When the scandal came to light, its stock was torn to smithereens, dropping from \$53 to \$6 — \$4.7 billion of investor capital up in smoke.

- When **McKesson HBOC Inc.** was forced to restate 3 years' worth of revenues, citing "accounting improprieties," over half the company's

market cap — \$9.5 billion — was wiped away in a day.

- Just this week, **Dycom Industries** disclosed it had jimmied up earnings with unbilled revenues. The stock plunged 22%.

All told, an index we've developed to track earnings anomalies shows that 28% of US corporations are suspect.

The abuses are so widespread, the SEC is up in arms. This year alone, the SEC has alerted 150 major corporations that their financial statements will be scrutinized for earnings manipulations.

Even Warren Buffet has recently launched his own, personal campaign against earnings manipulations. Meanwhile ...

• **Yahoo** recently reported second quarter operating earnings of 11 cents per share. But actual earnings was a loss of 7 cents per share if you consider a slew of costs that should be deducted.

• **Amazon.com** reported three different numbers for its second quarter results, ranging from a loss of \$67 million to a loss of \$138 million. Which loss was featured in the company's financial statements? You guessed it: The smallest loss.

• **Nortel Networks**, North America's second largest manufacturer of telecommunications equipment, reported second quarter net operating earnings of \$368 million. But look further into the company's operations, and you will notice it actually *lost* \$138 million. The difference — \$506 million in additional costs — was buried.

Glittering Profits That Turn To Dust

All told, the operating income of 665 major companies reviewed by the *Wall Street Journal* rose 9.6% in the first quarter of this year. But when adjusted for all costs that would normally be charged under generally accepted accounting principles, *actual corporate earnings fell 4%!*

It's a powder keg that can explode at almost any time, ripping individual stocks to shreds and driving the entire market into a far worse crash than anyone believed possible.

The Circle of Greed

It all starts on Wall Street, where investment bankers make huge bucks from underwriting — the business of bringing issues to market.

To support their business, so-called "research analysts" hype up favored companies with glowing earnings forecasts.

The exaggerated earnings forecasts build up investor expectations. The stock price is driven into the stratosphere. And suddenly, the company's managers are in a quandary. They know that if they don't meet Wall Street's rosy forecasts, their stocks could crash.

They're faced with two — and only two — choices: Either risk financial disaster ... or push the envelope of "creative accounting."

At every step of the way, greed is rampant — greed by the Wall Street firms to beef up their lush underwriting profits ... greed by the corporate executives to snag some of the huge carrots that have been dangled before them ... and greed by investors who are willing to overlook almost anything as long as the paper profits keep growing on their brokerage statements.

But investors won't be able to overlook this much longer, as one earnings gimmick after another comes to light ...

The Bad "Goodwill" Swindle

A Fortune 500 company buys up

MY TURN

J. Irving Weiss
(1908 - 1997)



Dad could not have anticipated the myriad of earnings manipulations that are so widespread today, but before he passed away, we had several discussions about similar kinds of deceptions on Wall Street in the 1920s. Here's my best recollection of what he told me — Martin

I learned accounting when I was a teenager, in the High School of Commerce in Manhattan, and I'll never forget my teacher's very first lesson about basic principles — no fudging, no cutting corners, no nonsense of any kind.

So when I first went to Wall Street and saw some of the shenanigans that were going on there, I was shocked by the accounting gimmicks.

In fact, some of the very same companies that were leading the bull market were also among the most expert in the art of stretching the truth.

It was only *after* the debacle that the authorities began to take any serious action. In 1930, the New York Stock Exchange formed an ad hoc committee to investigate the role that "creative accounting" played in the crash. Other regulators jumped in and started a whole series of "special investigations." But by then, the horse had left the barn.

Today, I think you're going to run into exactly the same thing. You're going to see companies do all kinds of crazy things to make their financials look good. Don't fall for it! Get rid of those stocks immediately. And when the time comes to buy, make sure you dig deep to find real value.

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a hot new upstart firm for \$10 billion, an outrageous price that's 10 times greater than the actual market value of the company's assets.

The accountants are then given the job of allocating the purchase price to the company's assets. But they say: "Hey! We can only find assets worth \$1 billion. What are we supposed to do with the other \$9 billion?"

Management's response: "Create a 'goodwill account' and slap the entire \$9 billion into it."

This, in itself, is a big hoax. Since when is it normal for 90% of a company's assets to be in an intangible, mostly bogus, asset? Yet, it's a deception that Wall Street has bought into lock, stock and barrel.

And the shenanigans don't stop there. Each year thereafter, the accountants are supposed to charge off a portion of that goodwill. If they stretch it out for, say, 10 years, that would mean \$900 million per year in costs.

But no. The managers don't want to do that because it would mean their earnings will be *reduced* by \$900 million each year.

So they find all kinds of gimmicks to get around it. First, they stretch it out for 40 years — the absolute maximum allowed, using all kinds of wacky rationalizations for why the goodwill has such an incredibly long lifespan.

The resulting exaggeration of earnings is mind-boggling in its dimensions. For example, if the company had a profit of \$1 billion and charged its goodwill over 10 years — at the rate of \$900 million per year — its bottom line would be \$100 million. But if it stretched it out over 40 years, the charge would be only \$225 million per year, leaving

a profit of \$775 million or nearly *eight* times the actual profit.

Then, guess what: Three or four years down the road, the company has either a great year with windfall profits ... or a horrendous year with humongous losses.

If it's a great year, they say: "Let's declare the goodwill worthless after all and charge it all off right now. Since we have such huge profits this year, no one will notice the difference anyhow."

If it's a horrendous year, they say the same thing: "Let's declare the goodwill worthless. Our stock has already gotten clobbered because of our huge losses. So who cares if we take an even bigger loss this year?"

Either way, the 40-year asset is conveniently transformed into a 3-year asset ... past and future earnings are grossly exaggerated ... and investors get screwed.¹

If you think that's bad, consider this:

The Great "Pooling of Interest" Deception

With the surge in mega-mergers, more and more companies aren't even creating a goodwill account to begin with.

Instead, they just pool their assets and bury the huge overstatement of values in their balance sheets.

With this method, called "pooling of interest," shareholders are deceived twice: First, they're led to believe that the company is worth far more than it really is, with no easy way to figure out its true value. Second, since the company doesn't have

to worry about goodwill charges, it's free to exaggerate earnings to its heart's content.

With this method, instead of reporting \$100 million profit or even \$775 million profit, the company could report the full \$1 billion ... and shareholders wouldn't have a clue that it's totally bogus, with no adjustment whatsoever for the fact that the company is valued at 10 times fair market value.

Sound impossible? Then consider this real-life example:

Yahoo recently acquired Geo Cities, paying a whopping \$3.6 billion in stock for assets worth only \$130 million. Under the standard and widely accepted "purchase method" accounting, Yahoo would have had to allocate the difference — \$3.47 billion — to goodwill, which it then would have to charge to earnings in future years.

Instead, Yahoo used the pooling of interest method, which lets it hide the over-valuation and exaggerate its earnings now and *every* year ... for decades to come.

Ditto for the mega-mergers of Lucent and Ascend Communications ... Cisco and Cerent ... Allied Signal and Honeywell.

Nearly every major merger was an investor rip-off of mammoth proportions ... and is now a landmine ready to explode at any time.

The Great Options Boondoggle

The big pay-off for managers in all this is their fat and juicy stock option deals.

(continued on page 6)

¹ The companies find a handy rationale for this gimmick in the Financial Accounting Standards Board's FAS 121, which encourages them to review assets yearly and write them off if they have become "impaired." But the companies are going far beyond the original intent, using this as an excuse to wipe goodwill off the books and exaggerate future earnings.



Mr. CONSERVATIVE

A Portfolio For The More Conservative Investor

The Dire Consequences Of Sacrificing Safety For Yield!

Just a few weeks ago, huge money market funds like the **Schwab Value Advantage**, **Centennial Money Market Trust** and the prestigious **Alliance Capital Reserves** came close to seeing their net asset values fall below \$1 per share.

They had invested their customers' monies in obscure derivative financial instruments backed by a little-known insurance company that failed. Over 30 major money market funds were on the hook for nearly \$5 billion!

My advice: Keep most of your money in ultra-safe Treasury securities (see below for recommended funds).

Viatical investments explode!

Four months ago, in issue #301, I told you to steer clear of viatical investments — obscure contracts where investors buy out life insurance policies of terminally ill patients. Reason: No federal regulation ... no guarantees on stated investment returns ... and lax supervision.

Now, over \$140 million of investor money has been lost in viatical debacles — defaulted agreements, misappropriated funds and other fraudulent activities.

My advice is unchanged: Don't touch them with a ten-foot pole.

Portfolio Update

1. Three-month T-bills or Treasury-only money funds (60%

of your portfolio assets). By far the safest place to keep the bulk of your funds right now.

Recommended sources: Buy T-bills directly through the **Federal Reserve Bank** nearest you or from the **Treasury Department** (call 202-874-4000 for details). Or you can use a Treasury-only fund such as **American Century Capital Preservation Fund** (800-345-2021); **Dreyfus 100% US Treasury Fund** (800-645-6561); **Fidelity Spartan US Treasury Fund** (800-544-8888); **US Global Treas. Sec. Cash Fund** (800-873-8637). Also consider our own **Weiss Treasury Only Money Fund** (800-289-8100).

2. 3- to 5-year Treasury notes (20%).

3. 30-year Treasury bonds (10%). Despite a second Fed rate hike, long-term bonds are up over 1 full point in the past few weeks, or \$1,000 per \$100,000 worth of bonds. Expect more of the same in the months ahead.

If you prefer a bond mutual fund, we suggest **Vanguard Fixed-Income Long-Term US Treasury Portfolio** (VUSTX; 800-662-7447). Alternatively, several of the short-term Treasury-only funds listed above also offer long-term Treasury bond funds.

4. British pounds or Swiss francs (10%). The best hedge against a dollar decline. Contact **Mark Twain International Markets**, a division of the Mercantile Bank, 800-926-4922.



Large US Corporations Disclose Y2K Costs

IBM, Hewlett-Packard, Microsoft, and Other Fortune 1000 Companies With Significant Y2K Costs

As part of research on the risk of your stocks, we evaluate how far each Fortune 1000 company has progressed in fixing its computers for Y2K, based primarily on an analysis of its Y2K budgets and expenditures.

Trouble is, many Fortune 1000 companies have failed to disclose the costs of their Y2K fixes, despite efforts by the Securities and Exchange Commission (SEC) to urge such disclosure.

According to SEC guidelines, each company should reveal its total estimated Y2K budget plus its Y2K expenditures to date.¹ However, many report only partial cost data or none at all. Specifically:

- IBM and Hewlett-Packard have failed to provide any information regarding their actual expenses, disclosing only their estimated Y2K budget — \$575 million and \$250 million, respectively.

- Bristol-Myers Squibb, Dell Computer, Enron, Merck, Microsoft, and SYSCO have disclosed neither actual Y2K costs nor Y2K budget estimates, failing to include this information in their 1998 or 1999 10K or 10Q statements.

- All told, we have been unable to obtain complete cost data from dozens of major companies.

What's their excuse? Almost all of them — whether making full dis-

Report

Corporations Fail To Costs To Investors

Merck, and Microsoft Among Serious Disclosure Gaps

closure or not — include standard language in their statements that Y2K costs are “not material.” However, this appears to be in conflict with the SEC’s opinion that “for the vast majority of companies, Year 2000 issues are likely to be material.”²

I agree. A company’s Y2K cost and budget information is very important for investors — not only because of its potential impact to the bottom line, but also because it provides an approximate indication of the company’s progress in fixing its Y2K problems.

Right now, however, whether due to weak regulation or poor compliance, the end result is that shareholders are simply not getting these critical numbers from many large companies, raising the specter of some potentially unpleasant surprises early next year.

Major Corporations Still Lagging In Their Y2K Fixes

Among the Fortune 1000 companies for which we could get sufficient first quarter data, 263 failed to make adequate progress in their Y2K expenditures, based on our standards. Moreover, new data, reflecting the status at the end of the second quarter, tell us that many of these are still lagging.

(continued on page 8)

mr. speculator

Buy LEAPS on Amazon.com

Fed Chairman Alan Greenspan’s interest rate hikes are about to knock a hole in the stock market the size of a barn.

Already, in addition to the lousy performance in the broad market we’ve been telling you about, we’re starting to see signs of severe weakness in some key blue-chip sectors including ...

- **Banks:** The Philadelphia Bank Stock Index is down 15.5% since early May. When bank shares flounder, it means their earnings — and those of their big corporate clients — are about to turn sharply lower.

- **Airlines and other transportation stocks:** The Dow Transports, which includes 6 airlines and 5 railroads and other transports, has fallen 15.8% since mid-May — another sign of an imminent crash in the blue chips. The AMEX Airline Index, with 10 major airlines, is down 20.3%.

- **Internet companies:** These took huge hits and have since recovered some ground. But even with the widely publicized recovery, the Inter@ctive Week Internet Index is still 21% below its recent highs.

The most vulnerable company: **Amazon.com.** Rated “Very Risky” on our stock ratings, we believe Amazon will be hit hard by the bear market. **Buy the January 2001 Amazon LEAP put option, with a strike price of 40 (ZCR MH);** pay up to 8 points (\$800).

Portfolio Update

1. S&P LEAPS. Hold! We’re entering the most dangerous time of the year — early fall — notoriously a terrible time for the stock market. If it’s anything like last year, these LEAP put options will soar in value.

A good companion investment to S&P LEAPS is the **zero-coupon Treasury bond due 8/15/2003.** (More details coming soon.)

2. J.P. Morgan (JPM - NYSE). Subscribers who acted on our advice are short this stock from \$135 or higher. Keep a protective buy stop at \$158 or 17% above your short sale price, whichever is higher.

3. Short Archer-Daniels Midland (ADM - NYSE). ADM’s share price has cracked the \$13 1/2 level just as we suspected. Deflation is this company’s number 1 enemy. Stay short with your good-till-canceled protective buy stop to \$16 1/2.

4. Rydex Ursa Fund (RYURX), Rydex Arktos (RYAIX) and Comstock Partners Capital Value Fund (DRCVX). Hold — and look for considerable gains soon.

If not already on board, you can purchase Rydex funds and Comstock with a minimum investment of \$5,000 and \$1,000, respectively, through Jack White & Co. (800-233-3411) or Charles Schwab (800-435-4000).

5. Short positions in German WEBS (EWG on the AMEX). Stay short and maintain a good-till-canceled stop order at \$25. New subscribers: Focus on our other recommendations for now.

Large Companies With The Biggest Discrepancy Between Actual Cash Flow And Reported Earnings

Company (Ticker)	Weiss Risk Rating	Company (Ticker)	Weiss Risk Rating
3Com Corp (COMS)	Risky	Level 3 Communications Inc (LVLT)	Risky
Adobe Systems Inc (ADBE)	Risky	Limited Inc (LTD)	Very Risky
Allergan Inc (AGN)	Risky	Linear Technology Corp (LLTC)	Risky
Altera Corporation (ALTR)	Risky	LSI Logic Corp (LSI)	Risky
Amazon.com Inc (AMZN)	Very Risky	Maxim Integrated Products (MXIM)	Risky
Amerada Hess Corp (AHC)	Risky	Maytag Corp (MYG)	Risky
AMR Corp/Del (AMR)	Risky	McGraw-Hill Companies Inc (MHP)	Risky
Apache Corp (APA)	Risky	Mediaone Group Inc (UMG)	Very Risky
Apple Computer Inc (AAPL)	Risky	Medimmune Inc (MEDI)	Risky
Applied Materials Inc (AMAT)	Risky	Micron Technology Inc (MU)	Risky
At Home Corp - Ser A (ATHM)	Risky	Minnesota Mining & Mfg Co (MMM)	Risky
AT&T Corp - Liberty Media (LMG/A)	Very Risky	Mobil Corp (MOB)	Risky
Atlantic Richfield Co (ARC)	Risky	National Semiconductor Corp (NSM)	Very Risky
Avery Dennison Corp (AVY)	Risky	Nextel Communications Inc-A (NXTL)	Very Risky
Baker Hughes Inc (BHI)	Risky	Nortel Networks Corp (NT)	Risky
Bell Atlantic Corp (BEL)	Risky	Novell Inc (NOYL)	Risky
BellSouth Corp (BLS)	Risky	NTL Incorporated (NTLI)	Risky
Best Buy Company Inc (BBY)	Risky	PE Corp-PE Biosystems Group (PEB)	Risky
BMC Software Inc (BMCS)	Risky	Phillips Petroleum Co (P)	Risky
Boston Scientific Corp (BSX)	Risky	PMC - Sierra Inc (PMCS)	Very Risky
Broadcom Corp-CI A (BRCM)	Risky	Providian Financial Corp (PVN)	Very Risky
Burlington Resources Inc (BR)	Risky	Quaker Oats Co (OAT)	Risky
Campbell Soup Co (CPB)	Risky	QWest Communications Intl (QWST)	Risky
Chiron Corp (CHIR)	Risky	Ralston-Ralston Purina Group (RAL)	Risky
Cisco Systems Inc (CSCO)	Risky	RealNetworks Inc (RNWK)	Risky
Citrix Systems Inc (CTXS)	Risky	Reliant Energy Inc (REI)	Risky
CMGI Inc (CMGI)	Very Risky	Rockwell Intl Corp (ROK)	Risky
Compaq Computer Corp (CPQ)	Risky	SBC Communications Inc (SBC)	Risky
Computer Sciences Corp (CSC)	Risky	Schlumberger Ltd (SLB)	Risky
Consolidated Natural Gas Co (CNG)	Risky	Sealed Air Corp (SEE)	Risky
Dell Computer Corp (DELL)	Risky	Sempra Energy (SRE)	Risky
Delta Air Lines Inc (DAL)	Risky	Siebel Systems Inc (SEBL)	Risky
Echostar Communications - A (DISH)	Very Risky	Southwest Airlines (LUV)	Risky
Electronic Data Systems Corp (EDS)	Risky	Sprint Corp (Fon Group) (FON)	Risky
FDX Corp (FDX)	Risky	Stmicroelectronics NY-NY Shs (STM)	Risky
FPL Group Inc (FPL)	Risky	Sun Microsystems Inc (SUNW)	Risky
Frontier Corp (FOR)	Risky	Tandy Corp (TAN)	Risky
Galileo International Inc (GLC)	Risky	Tellabs Inc (TLAB)	Risky
Gap Inc (GPS)	Risky	Teradyne Inc (TER)	Risky
Gateway Inc (GTW)	Risky	TIX Companies Inc (TIX)	Risky
General Instrument Corp (GIC)	Risky	United Healthcare Corp (UNH)	Risky
Georgia-Pac (Georgia-Pac Gp) (GP)	Risky	Univision Communications-A (UVN)	Risky
Global Crossing Ltd (GBLX)	Risky	Unocal Corp (UCL)	Risky
GTE Corp (GTE)	Risky	US West Inc (USW)	Risky
Guidant Corp (GDT)	Risky	Vastar Resources Inc (VRI)	Risky
Hewlett-Packard Co. (HWP)	Risky	Verisign Inc (VRSN)	Risky
Intel Corp (INTC)	Risky	Waste Management Inc (WMI)	Risky
Intuit Inc (INTU)	Risky	Winn-Dixie Stores Inc (WIN)	Risky
JDS Uniphase Corp (JDSU)	Very Risky	Xilinx Inc (XLNX)	Risky
Kroger Co (KR)	Risky	Yahoo! Inc (YHOO)	Risky

Cover Story (continued from page 3)

And therein lies an even greater deception: The stock options are clearly a form of compensation to the managers and should be deducted from earnings as an expense.

But they're not deducted. Again, earnings are exaggerated ... and investors are screwed.

To sweeten the deal for themselves even further, if the stock in the company falls, the board members (often options holders themselves) simply replace the old options with new, better options.

An illustration: Let's say you're a senior executive at XYZ Corp. To fatten your compensation package, the company has given you options to buy 10,000 shares at \$120. That, in itself, is a great deal.

Now, the shares fall from \$100 to \$60. You still have the option, and you still have the chance to make a bundle when the stock recovers.

So you say: "I don't want to wait for the stock to recover. I want the company to restore the value of my options to what they were before the stock fell. Instead of an option to buy XYZ Corp. at \$120, I want you to change it to an option to buy at \$70."

Unbelievably, they do just that, again voted in by board members who themselves may have a direct or indirect interest in the options.

This practice — called "rolling down the strike price" — was so widespread during the market decline last summer, managers cashed out with far more than the profits anticipated in their original compensation packages.

Again, outside investors got ripped off — big time! Indeed, ac-

cording to Smithers & Co. Ltd., a highly respected research institute in London, if US corporations properly accounted for the costs of just the stock options they granted, their aggregate published profits would have been 56% lower in 1997 and 50% lower in 1998.²

Warren Buffet is so outraged by this, when he acquired General Re, he decided to completely do away with stock option programs in the company. He got the managers to convert their options to cash bonuses on the spot and charged the entire expense to earnings.

But few companies — if any — are following Buffet's example. They know that if they came clean, they'd have to report a serious drop in corporate earnings, their shares could be knocked for a loop, and their own glorious riches would be history.

What they don't realize is that all this is going to happen to them anyway, very soon. No one can keep a lid on explosive truths like these for very long.

The SEC is already hot on their tail. Soon investors, too, will wake up. Someone will shout ...

“The Emperor Has No Earnings” ... And The Gig Will Be All Over

Investors will shed any vestige of tolerance for earnings manipulations. In its place, you will see a groundswell of rebellion against all companies, whether their earnings are exaggerated or not.

All they'll want to do is pick up their phone, call their broker and ut-

ter one, simple four-letter word: SELL.

Which will be among the first victims?

Our Earnings Reliability Index Provides The Answer

This is a special formula that measures the reliability of a company's reported earnings.

It helps weed out the companies with earnings severely out of line with actual cash flows, indicating the real possibility that something fishy might be going on.

Our Earnings Reliability Index is already built into our Weiss Risk Ratings for stocks. But this month, to zero in on the problem of earnings manipulations, we are listing the large companies that have the worst scores on this index — to help you identify those with the most suspect earnings. (See page 6.)

The consequences of earnings manipulations — to investors and to the economy — are enormous.

First and foremost, widespread earnings manipulations are the prelude to a violent stock market crash. *Even if you accept every exaggerated earnings report at face value, stocks are still ridiculously overvalued.*

Add in the potential that hundreds of companies have overstated their earnings — and their shares are even more overvalued.

Second, when the truth about earnings reaches the surface and the earnings bubble pops, consumers will snap shut their wallets ... and the economy will go into a tailspin.

If you're following my advice, you should have no stock holdings right now.

But if you must own shares — for whatever reason — at least get rid of those companies most likely to have manipulated their earnings (see page 6).

Then, put the proceeds into mostly short-term Treasury securities (page 4).

There are many Treasury-only funds to choose from, and all of them are safe. Just make sure you get out of the way to the on-rushing freight train and move your hard-earned funds to a safe haven.

Special Note: I'll be speaking at two conferences coming up very soon ...

San Francisco Money Show, October 29-31, 1999: In addition to the excellent features of the Money Show, join me at a special, intensive Weiss Research conference. To register for the Money Show, call 800-970-4355. And for details about our special Weiss conference, call the *Safe Money* hotline at 800-236-0407.

Blanchard's gala New Orleans '99 Investment Conference, November 4-7, 1999: Lock in the absolute lowest available early-bird pricing by calling 800-648-8411. But you have to mention *Safe Money* to qualify for the discount.

Both are great conferences ... and in two of my favorite cities. I'll be there to map out your strategies for year-end and for the new millennium. So be sure to bring your questions.

I'm looking forward to the opportunity to answer them in person.

²Options costs must be carefully calculated and disclosed in footnotes to financial statements, according to guidelines set forth in FAS 123. But very few companies include them in their compensation costs, reporting instead deceptively high earnings results to investors.

Y2K Report

(continued from page 5)

Example: At June 30, 1999, United Technologies had spent only \$110 million of its \$175 million Y2K budget; and Chevron, \$130 million of \$200 million.

Surprisingly, some large high-tech companies appear to be even further behind in their pace of Y2K spending. At mid-year, Sun Microsystems had spent only \$17 million, less than half of its \$37 million Y2K budget; while 3Com had spent \$6.4 million, less than one third to one fourth of its estimated budget range of \$20 to \$30 million.

But by mid-year 1999, with only six months remaining before the date change, most companies should have allocated at least three quarters of the Y2K budget to actual remediation expenses.

Separate from our Risk Ratings for stocks, we issue Y2K ratings on nonfinancial corporations based on changes in their Y2K budgets over time, the rate of Y2K expenditures, and comparisons with other companies in their peer group. If you want to check the Weiss Y2K rating of a Fortune 1000 company, visit our website — www.martinweiss.com.

¹ According to the SEC, “[c]ompanies must disclose material historical and estimated costs of remediation. This includes costs directly related to fixing Year 2000 issues, such as modifying software and hiring Year 2000 solution providers. *Interpretation: Disclosure of Year 2000 Issues and Consequences by Public Companies, Investment Advisers, Investment Companies, and Municipal Securities Issuers.* SEC Release Nos. 33-7558; 34-40277; IA-1738; IC-23366; International Series Release No. 1149. <http://www.sec.gov/rules/concept/33-7558.htm>.

² *Ibid.*

PROFESSOR INVESTOR

Special Questions

From Our Readers

Q: Thank you for getting me out of my stocks last August. Even though the Dow has made new highs, my stocks are still way below the level I sold them. Unfortunately, I did keep two smaller ones, which have lost 40% of their value since then. Should I just hold on?

A: No. The blue chips are the last bastions of strength in this market. When they go, they'll drive the broad market even lower.

Q: I own \$50,000 in AA corporate bonds, which have lost about \$4,900 in value this year. My tax advisor recommends a bond swap, so I can take the loss this year while still be holding another bond. What do you think?

A: This should be a great year for tax-advantaged bond swaps. Bonds have lost from 6.6% to 11.5% in value, depending on the quality of the issue, with 30-year Treasuries losing the least. Two caveats: First, since there are many tax issues involved, make sure your tax advisor is involved. Second, the new purchase should be in US Treasuries, the safest securities in the world.

Q: If I can't liquidate my gold and silver holdings, can I hedge against a decline with futures or options?

A: Yes. But there's no such thing as a perfect hedge. So seek professional guidance to make sure you correctly match up your portfolio with your hedges and to avoid overhedging.

Q: Two increases in interest rates — and the market makes a new high. What gives?

A: The rate hikes are already impacting most stocks. It's just the Dow that made new highs. And never forget the uncanny parallels with previous periods: Before the crashes of 1929 in America and 1989 in Japan, the authorities raised rates to dampen stock market speculation — just as they are today. It wasn't until the final hike that the blue chips really got slammed.

Q: A prominent gold analyst has published an article indicating that the US government secretly disposed of the gold in Fort Knox during the Vietnam war. What does Larry think?

A: It's pure nonsense spun by gold bugs desperate to get a bull market going. Rumors like this will abound during gold's last leg down to the \$200 level. Ignore them!

Q: My mother is living on a fixed income and needs help to maximize it. Treasuries just aren't enough. Why don't you recommend corporate bonds or Ginnie Maes?

A: They're not as safe. Your first priority must be to guarantee the return of your capital — not the return on your capital. The slightly higher yield available on some other investments is not worth the additional risk (see page 5 for more specifics).

Q: The US has the worst trade deficit ever. So, why don't you expect the dollar to take a big hit?

A: I do anticipate a setback in the dollar, and one has already begun. Indeed, it was precisely because of this scenario that I've recommended some hedges against the dollar in *Mr. Conservative*. Stick with them.