

MARTIN WEISS'

# Safe Money

## REPORT

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## Major U.S. Bear Market Just Beginning to Unfold!

### Prepare for Dow 7200; Nasdaq 1100

The bear is back.

The 20%-plus decline in the Dow has fulfilled our repeated warnings of a Wall Street meltdown ... confirmed our fervent forecast of a recession ... and validated our strategy to load up on contrary investments designed to rise when the market falls.

Still, some pundits are prematurely searching for a bottom. They tell you to ignore the reality of daily life in America, turn a blind eye to the financial bombs exploding all around you, and hold on to your stocks "for the long term."

We think they're not only wrong, but may also be intellectually dishonest; and for reasons that we'll make abundantly obvious in just a moment, we believe the stock market is headed far lower.

**Our forecast:** If the Dow Jones Industrial Average simply *matches* the decline that has *already* occurred

in the nation's most important sector — banking — it will fall to approximately 7200. The chart tells the story in a nutshell ...



The KBW Bank Index (BKX), tracking the country's largest financial institutions, has plunged 53% from its peak, erasing 100% of its gains since bottoming in 2002. If the Dow does the same — not an unreasonable assumption — it would put the average back near its low of 7197 on Oct. 10, 2002, another 37% decline from the Dow's close of

11,350, on June 30, 2008. In tandem, the S&P 500 could fall to around 770; the Nasdaq, to 1100.

Also supporting this forecast: The dire economic and financial conditions in America are now equivalent to those of 2002, or worse. Already, as of this writing:

\* The **Dow Jones Industrial Average** has plunged 21% in the past 10 months, clearly in bear market territory ...

\* The **PHLX Housing Sector Index** has made new lows for the year, signaling a new, deeper decline in the housing market, while ...

\* The **Retail HOLDRs Trust (RTH)** has also turned sharply lower, foreshadowing a likely collapse in consumer spending.

But this represents merely the first salvos from the many forces amassed against most stock investors ...

### ***Bearish Force #1*** **The Great Oil Shock of 2008 Is Gutting Corporate Profits**

The financial press focuses on the oil shock's impact on household budgets. But the impact on corporate profits is even greater. The most immediate victims:

**General Motors (GM)** is trading like a company headed for bankruptcy — falling to levels not seen in more than 50 years. It has plunged more than 50% this year

alone and is now off a whopping 87% from its all-time peak.

The immediate reason is clear: Surging energy prices are crushing its high-margin truck and SUV business, with sales of light trucks down a shocking 22% in the past year. But GM's long-term problems are even more challenging: A decades-long reliance on cheap credit to spur sales, a chronic inability to compete with foreign auto manufacturers, and sinking finances.

**Ford (F)** is in the same boat. Its shares recently plunged to a 23-year low, and its bond ratings are about to be slashed deeper into junk territory. U.S. sales plunged to 28% in June alone. The company, which lost \$12.6 billion in 2006 and \$2.7 billion in 2007, could lose another \$2 billion or more this year.

Meanwhile, in the airline industry, **Delta (DAL)** is slashing U.S. capacity by 13% ... **U.S. Airways (LCC)** is deferring the delivery of certain planes ordered from Airbus ... American Airlines' parent **AMR (AMR)** is retiring 85 jets ... and **Continental (CAL)** is cutting 3,000 jobs and eliminating service to 15 cities worldwide. With few exceptions, *all* major world airlines are on a collision course with possible bankruptcy.

Reason? Worldwide, they're on track to lose as much as \$6.1 billion this year. But they're running out of cash. So many will be hard-

pressed to avoid defaulting on debts coming due.

Industries that supply the airlines are next on the chopping block. **Boeing (BA)** shares have plunged to a two-and-a-half-year low amid fears that orders will dry up. **BE Aerospace (BEAV)**, which makes products like oxygen delivery systems and airplane seats, is off 49% this year alone.

Among the few that benefit: Energy and alternative energy companies.

**Our forecast:** These stock declines foreshadow cash shortages, debt defaults and, in many cases, outright bankruptcies. But for the first time since the Great Depression, the federal government — already bogged down in questionable rescues for banks and homeowners — will *not* be able to lend a helping hand.

Result: A chain reaction of failures, massive layoffs and a panic in the Dow.

### ***Bearish Force #2*** **Inflation Explosion**

In a thinly veiled attempt to disguise its inability to raise interest rates, the U.S. Federal Reserve has declared that "inflation will moderate this year and next." But all the evidence unanimously points to out-of-control inflation:

■ In May, year-to-year import prices surged by a whopping 17.8%, the biggest rise the government has recorded in the quarter-century it has been keeping track.

■ Wholesale price inflation in the U.S. has now busted through the 7% level. And that's just for the finished goods index, which tracks things like what a retailer pays its supplier for a cotton t-shirt. The prices of in-

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intermediate goods (e.g., the cotton yarn the shirt is made of) jumped 12.6%. And prices for crude goods (example: cotton itself) soared by an eye-popping 41.5%.

■ Inflation, as measured by the government's own Consumer Price Index (CPI), is now 4.2%, the highest since the early 1990s. Meanwhile, according to John Williams' *Shadow Government Statistics* ([www.shadowstats.com](http://www.shadowstats.com)), the true consumer inflation rate, as measured by the same procedures used in the early 1980s, is much higher — 11.8%.

If this were happening at almost any other time in U.S. history, the Federal Reserve would have responded long ago with higher interest rates.

But with the economy already sinking, large banks suffering major losses, and the threat of a financial meltdown still very real, decision-makers at the Fed are frozen like deer in the headlights. To gauge how utterly off target they are, just look at the facts ...

**Fact:** To get halfway serious about averting double-digit inflation, the Fed would have to raise its official rates to a level that's *at least two full percentage points higher than the official inflation rate*. (For the past 28 years, those rates have actually been 2.4% higher, on average.)

**Fact:** The Fed is actually doing *precisely the opposite* right now. The Fed's official target for short-term interest rates (federal funds) is 2%. But even accepting the government's understated numbers, consumer price inflation is 4.2%. Therefore ...

**Fact:** The level of *real* interest rates (after deducting inflation) is *2.2% below zero* (2.0 minus 4.2)!

Banks aren't just getting their money cheap. In effect, they're getting *paid* to borrow.

**Conclusion:** To make a meaningful dent in inflation, *the Fed would have to more than TRIPLE the fed funds rate almost immediately*.

But Ben Bernanke is no Paul Volcker. He has neither the intestinal fortitude nor the political courage to hike rates by more than tiny increments. And no matter who's at the helm, the reality of massive home foreclosures and bank losses makes it almost impossible for the Fed to truly prioritize inflation fighting.

**Our forecast:** Don't be surprised to see consumer price inflation approach, or even exceed, double digits before the end of 2009. Bond investors, fearful of being paid back in devalued dollars, will recoil in horror. Bond prices will plunge. And long-term bond yields (which the Fed cannot control) will move sharply higher.

### ***Bearish Force #3*** ***Sinking Economy***

Never before in all our years watching Wall Street have we seen the pundits go to such extraordinary lengths to deny the inevitability of a recession. There's just one problem: Reality keeps getting in the way. Specifically ...

■ Over the last 12 months, the Conference Board's consumer confidence index has plunged all the way from 105.3 to 50.4 (its lowest level in 16 years), while an index that measures future expectations has nosedived to 41 (the lowest level in *four decades*).

■ In May alone, the economy shed 49,000 jobs, the fifth consecutive month of declines. The

unemployment rate surged from 5% in April to 5.5%, *the biggest monthly rise in more than 22 years*. And according to *Shadow Government Statistics*, the true U.S. unemployment rate, properly accounting for part-time and discouraged workers, is now 13.7%.

■ Industrial production slumped another 0.2% in May, while a measure of how much factory space is being utilized dropped to its lowest since September 2005 (the month Hurricane Katrina struck the Gulf Coast).

How is all this impacting corporate earnings? Just ask **United Parcel Service (UPS)**. The company warned that it's getting crushed by rising energy costs and slumping U.S. growth. Meanwhile, competitor **FedEx** is losing money for the first time in 11 years — bleeding \$241 million in its fiscal fourth quarter.

Retailers are also getting clobbered. First-quarter profits tanked 66% at **Home Depot (HD)** ... earnings at **Lowe's (LOW)** fell 18% ... **Target's (TGT)** slipped 7.5% ... and **Kohl's (KSS)** profit plunged 27%.

**Our forecast:** No change from the forecast we made last year: One of the deepest U.S. recessions since the Great Depression. The only saving grace: Continuing growth overseas and strong U.S. exports.

Face it: You simply can't have airlines practically shutting down ... automakers collapsing before your eyes ... housing prices tanking non-stop ... banks losing hundreds of billions of dollars ... consumer confidence imploding ... and joblessness rising ... without a severe impact on the broad economy.

*(continued on page 6)*



**Mr. CONSERVATIVE**  
A Portfolio For The More Conservative Investor

## Three Immediate Steps to Protect Your Portfolio in a Deep Bear Market ...

With the obvious troubles now striking from all sides, you simply cannot afford to bury your head in the sand. You must take immediate steps to protect yourself:

**Immediate Step #1. Go through your entire portfolio and trim the fat.** Sell your losers. Take gains on your winners. The goal: Greatly reduce your stock market risk. For our model portfolio, for example, we recommended in our Flash Alert of June 27 that you **sell all your shares of Coca-Cola (KO) at the market.** And in our earlier issues, we recommended trimming your other holdings to the bone.

**Immediate Step #2. Build a comfortable cash hoard.** Our model portfolio has a suggested cash allocation of just over 50%. But, except for the amounts needed for small transactions, we don't recommend keeping that money in a bank. Personal checking accounts generally pay little to no interest, while certificates of deposit lock up your money for a fixed period of time. And bank safety is a growing concern.

Instead, use short-term Treasuries or equivalent, still the highest rated and most liquid securities in the world. You can buy 3-month Treasury bills through your broker or via the Treasury Direct program (<http://www.treasurydirect.gov> — 800-722-2678). Or to maximize liquidity and convenience, use a Treasury-only money fund, which invests all of your money in short-

term U.S. Treasury securities (plus other securities that are 100% backed by U.S. Treasuries).

Examples: American Century Capital Preservation Fund (CPFXX), 800-345-2021; Dreyfus 100% U.S. Treasury Money Market Fund (DUSXX), 800-645-6561; Fidelity U.S. Treasury Money Market Fund (FDLXX), 800-544-6666; and Weiss Treasury Only Money Fund (WEOXX), 800-242-8092.

**Immediate Step #3. Hedge!** It used to be a lot tougher to do so. You had to short stocks or use more complicated instruments like futures and options. But now, you can simply use inverse ETFs and mutual funds, designed to go up when the market goes down. And you can buy them like any other stock or ETF in your regular stock brokerage account.

The primary goal for conservative investors: Protection against any remaining exposure in your stock portfolio.

The primary goal for speculators: Large profit potential when the market declines. (See next page for more details.)

### Portfolio Update

**Kinder Morgan Energy Partners LP (KMP):** This pipeline company has been prospering from rising energy prices, and it recently raised its quarterly payout to 96 cents per unit — an indicated dividend yield of about 6.9%. The outlook: With distributable cash

flow up 49% year-over-year, Kinder Morgan should be able to continue raising its dividend down the road. Hold. If you don't yet own it, buy 25 shares at the market (assuming a total portfolio of about \$100,000).

**General Mills (GIS)** keeps pushing through price increases, helping it prosper despite rising input costs. It hiked cereal and soup prices in the low single-digits over the past several weeks and will likely do so again later this year. Hold.

**CurrencyShares Japanese Yen Trust (FXJ):** The Japanese yen had been struggling in recent weeks, losing ground against the dollar. But it's starting to perk up as the broad market declines. That's because the yen is an "anti-risk" currency that rallies in times of turmoil. Hold. Or buy 50 shares at the market if you're not yet on board. But let's also enter a stop-loss order at \$90.20 on a good-till-canceled basis.

**Prudent Global Income Fund (PSAFX):** This contra-dollar fund has delivered nice, long-term returns. Hold. Or buy if you're not yet on board. Our recommended allocation is 200 shares.

**Progress Energy (PGN),** an electric utility with operations in Florida and the Carolinas, is throwing off dividends of 61.5 cents per quarter, good for an indicated yield of nearly 5.7%. Hold.

# Mr. Speculator

## Time to Load Up on Inverse ETFs!

If you haven't done so already based on our earlier recommendations, the time to load up on inverse ETFs is right now. They serve a dual purpose:

1. To hedge against stocks you may own (based on our recommendations or not, in portfolios you control, or those that are locked in trusts or a business), plus ...

2. To go for potentially large profits in a market decline.

Here's what we've recommended so far:

**\* UltraShort Real Estate ProShares (SRS):** This ETF is designed to rise 20% for every 10% decline in the value of the Dow Jones U.S. Real Estate Index. The index includes major commercial real estate companies like mall operator Simon Property Group, office building manager Vornado Realty Trust, and lodging firm Host Hotels & Resorts.

With consumer spending waning and unemployment rising, these Real Estate Investment Trusts (REITs) are in big-time trouble. We've already seen this inverse ETF tack on more than \$20 a share from its May low, and we expect similar gains in the weeks ahead. If you're not yet on board, purchase 50 shares at the market, assuming a \$100,000 portfolio.

**\* UltraShort Technology ProShares (REW):** This ETF is also designed to rise 20% for every 10% decline — but in the Dow Jones U.S. Technology Index, which includes the likes of

Microsoft, Cisco Systems, and Hewlett-Packard. We took profits on half the position earlier, and you should still be holding the balance. Not on board yet? Buy 25 shares at the market.

**\* Short Dow30 ProShares (DOG):** Unlike the above two, this ETF is not leveraged. It's designed to rise 10% (instead of 20%) for each 10% decline in the Dow Jones Industrial Average. Hold, maintaining a stop-loss order at \$58.50. Or if you're not in it yet, buy 50 shares at the market.

**\* Rydex Inverse Government Long Bond Strategy Fund (RYJUX):** This is another inverse play, but with two differences: It's a mutual fund available in small units at most major brokerages — not an ETF. And instead of targeting stock indexes, it targets long-term bonds. When the price of long bonds falls and interest rates rise, the value of this fund climbs. Hold. Or if you're not yet in it, buy 300 shares at the market.

Now, in addition, we recommended **50 shares of the UltraShort Consumer Services ProShares (SCC) at the market.** The SCC, like the first two we cite above, is a double-leveraged ETF. It's designed to rise 20% for every 10% decline in its index — the Dow Jones U.S. Consumer Services Index.

The index has a 54.2% weighting in retailers (including Wal-Mart and CVS Caremark) and a 28.6% weighting in media shares (Walt Disney, Time Warner), with travel and leisure making up most of the

balance. These are precisely the kinds of companies that we believe are most exposed to the economic declines we told you about in our front page article. If you didn't buy SCC on our Flash Alert recommendation on June 27, do so now at the market.

### Portfolio Changes and Update

**iShares Dow Jones EPAC Select Dividend Index Fund (IDV):** We still like the long-term outlook. But it's bound to fall some more on the heels of a prolonged decline in the U.S. **Sell at the market.**

**Zimmer Holdings, Inc. (ZMH):** This company manufactures replacement joints. A recent *Barron's* article highlighted one of the reasons we like its long-term prospects: Baby Boomers are aging, driving up demand for Zimmer's replacement hips and knees. Hold. Or if not on board, buy 50 shares at the market.

**China Life Insurance (LFC):** You should have been able to add 50 shares of this Chinese life insurance giant at a price of around \$64.48.

Recent Chinese media reports say the company is pouring money into stock funds. That's a sign China Life thinks domestic shares are undervalued and poised to rise. The company is also diversifying by purchasing stakes in Chinese banks. It has added positions in nine such firms over the past three years. Hold.

# Inflation Out of Control! Fed in Denial! Gold to Surge to New All-Time Highs!

Who does the Federal Reserve think it's kidding — besides itself? At the last meeting, Chairman Ben Bernanke and his Fed fellows announced, with a straight face, that "overall economic activity continues to expand" and that inflation will "moderate later this year and next year." Right. And pigs can fly.

The truth is the U.S. economy is floundering and inflation is careening out of control. So, with its hands tied, the Fed's has adopted a speak-no-evil response, while the rest of us are forced to see, hear and live with the reality of spiraling inflation.

Nothing could be more bullish for gold!

Meanwhile, the World Gold Council reports that demand for the yellow metal reached U.S. \$20.9 billion in the first quarter of 2008, a 20% surge compared to the same period in 2007 — and more than *double* the

level of four years earlier. A big factor: Demand for gold ETFs has surged 100% over Q1 2007. Worldwide, demand is up 4% in volume to 3,547 metric tons in 2007, while gold supply is *down* to 3,469 metric tons.

This supply-and-demand imbalance is not limited to gold. Nor is it just a short-term phenomenon. And Macquarie Capital Securities confirms: "The physical tightness of many commodities is expected to persist into the next decade, keeping prices well above normal for the long term."

Bottom line: If you don't own the core positions we've been recommending, now's the time to jump on board ...

## Portfolio Update

**Core position in gold bullion:** If you haven't already done so, you should allocate up to 5% of your port-

folio to gold bullion. You can purchase gold bars, focusing on those that weigh a kilo (32.15 ounces) or smaller ingots. Or you can buy gold bullion coins — your choice of Mexican Pesos, Austrian Coronas, South African Krugerrands, American Gold Eagles, or Canadian Maple Leafs.

**SPDR Gold Trust (GLD):** You should have bought another 50 shares in our June Flash Alert bringing your total allocations to 75 shares. Hold. If you don't own it yet, buy 75 shares at the market now.

**Sterlite Industries India (SLT)** has entered into an agreement to buy all the operating assets of Asarco, a Tucson, Arizona-based mining, smelting and refining company currently in Chapter 11, for \$2.6 billion in cash. Asarco is the third largest copper producer in the United States, producing 235,000 tonnes of refined copper in 2007. Hold.

## Cover Story (cont. from p. 3)

### Bearish Force #4

#### No End to the Housing Bust

The list of casualties in the housing sector gets longer every month:

■ Home builder **Caruso Homes**, which builds subdivisions in Maryland and Virginia, filed for bankruptcy on June 23 — joining other companies like Levitt & Sons and Touse, which were crushed by heavy exposure to distressed markets like Florida.

■ Shares of condo developer **WCI Communities (WCI)** have plummeted under pressure from bankruptcy concerns. They're now down 96% from their peak.

■ **Hovnanian (HOV)** is off more than 50% from its March high.

■ And the industry index **HGX** just sank to a 5-year low. It's easy to see why: Home prices plunged 15.3% from a year-earlier in April, according to S&P/Case-Shiller. That's the biggest drop on record, with declines in *all twenty* of the metro areas it tracks.

Business is so bad, builders started construction on single-family homes at an annual rate of just 975,000 in May — down a whopping 32.1% from a year earlier and at the second lowest level since 1982.

**Our forecast:** A renewed decline in real estate. Our reasoning: When we first predicted a housing

bust in our blockbuster edition of *Safe Money* more than three years ago, we based our prognosis primarily on the utter absurdity of the mortgage bubble and the obvious inevitability of a credit crack-up. Now, tack on three *more* housing market killers ...

■ Surging energy costs — a factor that not only pinches household budgets, but also threatens to drive Americans away from suburban homes — homes that are more expensive to heat in the winter, to cool in the summer and to commute from all year round.

■ Rising mortgage rates — a force that knows no regional boundaries.

■ Recession and layoffs — trigger-

## Safe Money Model Portfolio

Company Name	Ticker	Reco Date	Entry Price	Quantity	Stop	Dividend Yield (%)	Current Reco	(What to do if you don't own it.)
<b>Mr. Conservative: Approx. 4/5 of Model \$100,000 Portfolio</b>								
<b>Energy Investments</b>								
Progress Energy	PGN	01/07/08	\$48.37	50	N/A	5.86	Hold	
<b>Gold &amp; Silver Investments</b>								
Gold Bullion	N/A	11/08/99	\$289.75	4	N/A	N/A	Hold	(Buy equal to 5% of total portfolio)
Sterlite Industries India Ltd	SLT	11/05/07	\$24.07	200	N/A	N/A	Hold	
SPDR Gold Trust	GLD	02/24/05	\$43.33	12.5	\$62.00	N/A	Hold	(Buy 75 shares at market)
SPDR Gold Trust	GLD	11/21/05	\$48.99	12.5	\$62.00	N/A	Hold	
SPDR Gold Trust	GLD	06/27/08	\$91.47	50	\$62.00	N/A	Hold	
<b>Other Funds &amp; Stocks</b>								
CurrencyShares Japanese Yen Trust	FXV	03/10/08	\$98.33	50	\$90.20*	N/A	Hold	(Buy 50 shares at market)
General Mills Inc	GIS	06/09/08	\$62.42	50	N/A	2.58	Hold	
Kinder Morgan Energy Partners LP	KMP	05/05/08	\$59.63	25	N/A	6.46	Hold	(Buy 25 shares at market)
Prudent Global Income Fund	PSAFX	01/09/06	\$11.87	100	N/A	5.65	Hold	(Buy 200 shares at market)
Prudent Global Income Fund	PSAFX	12/11/06	\$12.91	100	N/A	5.65	Hold	
<b>Cash and Equivalents 1/3 of Conservative Portfolio</b>								
3-Month T-Bill	N/A	12/31/00	N/A	N/A	N/A	N/A	Hold	
<b>Mr. Speculator: Approx. 1/5 of Model \$100,000 Portfolio</b>								
<b>Reverse-Index Funds</b>								
Short Dow30 ProShares	DOG	08/07/06	\$68.87	50	\$58.50	2.51	Hold	(Buy 50 shares at market)
UltraShort Technology ProShares	REW	11/19/07	\$56.74	25	N/A	2.99	Hold	(Buy 25 shares at market)
Rydex Inverse Government Long Bond Strategy	RYJUX	04/18/08	\$17.39	300	N/A	3.81	Hold	(Buy 300 shares at market)
UltraShort Consumer Services ProShares	SCC	06/27/08	\$100.51	50	N/A	1.91	Hold	(Buy 50 shares at market)
<b>Positions</b>								
China Life Insurance Co	LFC	06/09/08	\$56.71	50	N/A	1.73	Hold	
iShares DJ EPAC Select Dividend Index Fund	IDV	05/05/08	\$44.07	50	N/A	8.27	Sell at market	
UltraShort Real Estate ProShares	SRS	03/10/08	\$125.01	50	N/A	1.48	Hold	(Buy 50 shares at market)
Zimmer Holdings Inc	ZMH	04/07/08	\$78.41	50	N/A	N/A	Hold	(Buy 50 shares at market)

The table includes all open positions recommended in the monthly *Safe Money* newsletter or flash alerts. The model portfolio assumes a total investment of \$100,000. If your portfolio is larger or smaller, you should adjust the specific recommendations accordingly. For any remaining funds not invested in our recommended stocks and mutual funds, we recommend a Treasury-only money market fund for safety and liquidity. New Subscribers: Follow the recommendations in parentheses.

\* Newly raised stop

ing a whole new round of mortgage defaults and foreclosures.

### **Bearish Force #5 The Banking Crisis**

Financial stocks have been a veritable bottomless pit, swallowing billions of investor dollars. But this stock decline is not taking place in a vacuum. It reflects massive hemorrhaging of capital, with the expectations of worse to come.

The reality: Financial companies are drowning in losses on residential and commercial construction loans, credit cards, auto loans and derivatives. In response, they're diluting existing shareholders by selling more shares, with Goldman Sachs estimating they'll need still another \$65 billion by year-end.

Shares of the two industry giants — **Bank of America (BAC)** and **Citigroup (C)** — have plunged to

their worst levels since 9/11 and October 1998, respectively. And as a whole, banking stocks have just suffered their worst month since Russia defaulted on its debt and sent the markets into a panic almost a decade ago.

In key subsectors of the financial industry, the outlook is even darker. Mortgage insurer **MGIC Investment (MTG)** is trading at its lowest level since 1991. A competi-

tor, **Triad Guaranty (TGIC)**, was just forced to stop selling policies amid rising losses tied to the housing bust. Its shares have plummeted from more than \$60 in 2004 to \$1-and-change today.

Credit card and auto lenders are getting beaten up with a two-by-four. **American Express (AXP)** warned in late June that “Business conditions continue to weaken in the U.S. and so far this month we have seen credit indicators deteriorate beyond our expectations.” That sent its shares to the lowest level in almost five years. Subprime auto lender **AmeriCredit (ACF)** is down 64% in the past year.

**Our forecast:** Same as in our January 2008 issue: Banks, brokers and other investors will lose \$1 trillion in mortgage-related investments, or more.

Regardless of the ultimate tally, however, the key thing to remember is this: You must not underestimate the impact of a credit collapse of this magnitude on your entire financial future — not just your stock portfolio, but also your banking, your insurance and your profit potential.

### What to Do About Each ...

**Your stock portfolio:** Sell, hedge ... or be prepared to suffer severe losses in the bear market of 2008 and beyond. See page 4.

**Your banking:** Move cash to a Treasury-only money market, fund plus a modest allocation to a strong foreign currency and gold.

**Your insurance:** Stick with insurers rated B+ or better by the nation’s only independent insurance rating provider. (More on page 8.)

**Your profit potential:** Buy the inverse ETFs we recommend on page 5.

## PROFESSOR INVESTOR

Special Questions From Our Readers

**Q. I’m worried about insurance companies that might get caught in the real estate bust. Where can I get a rating I can rely on?**

**A.** Follow these steps: (1) On the Internet, go to [www.TheStreet.com](http://www.TheStreet.com). (2) Near the top right of your screen, find the menu item “Portfolio & Tools.” (3) Select “Insurers and HMOs Screener.” (4) You will see a green box to enter your information. Under “Insurer Name,” type in *only the first word* of your insurer’s name. (5) To the right of each insurer name, you will see its rating. **A** is excellent, **B** is good, **C** is fair, **D** is weak and **E** is very weak. (6) Some general guidelines to go by: If your insurer is rated **B+** or better, we believe it’s secure. If it’s **D+** or lower, seriously consider avoiding the risk and inconvenience of a possible future failure by switching to another institution. If it’s in-between, check the rating a couple of times per year to make sure it hasn’t fallen below **C-**.

**Q. Great call on the credit crisis NOT being over! You saved me a lot of money by telling me to stay the heck away from the bank stocks. What’s next?**

**A.** More writedowns. More loan losses. And more bank failures. Look for losses that were previously concentrated in mortgages and home equity loans to spread to auto loans, credit cards and other consumer loans.

**Q. The folks at the Fed says inflation will moderate. But it seems to me they’re lying through their teeth. Is that typical?**

**A.** Sometimes, but rarely to this extreme. Here’s what we think happened: To avoid sabotaging already weak banks, the Fed decided to leave

interest rates unchanged in June. But then it had to justify the decision. So it said “inflation will moderate this year and next year.” But it presented no evidence to back up its forecast. Nor could it.

**Q. You mentioned “Forex” in one of your emails. What does that stand for?**

**A.** “Forex” is shorthand for the “FOREign EXchange” market, where currencies like the U.S. dollar, British pound, euro, Swiss franc, Japanese yen and others are traded. Separately, Weiss Research provides recommendations on three instruments: Currency ETFs, World Currency Options (traded on the Philadelphia Exchange) and cash currencies.

**Q. I’m seeing forecasts of \$150 ... \$175 ... even \$200 a barrel oil. What could drive oil that high?**

**A.** Rising global demand, especially from emerging markets. Sharply declining production in key countries such as Mexico, Venezuela and Nigeria. Strong opposition in the U.S. to domestic exploration and production. And the falling dollar.

**Q. What impact do you think the upcoming elections will have on the markets?**

**A.** Policymakers will do everything in their power to prop up the markets and the economy. They’ll sacrifice the dollar to boost exports. They’ll keep interest rates artificially low to help homeowners. And they may even push through a second stimulus package. But investors are finally beginning to realize what we’ve been saying all along: That the economy’s troubles are too vast to be papered over by Washington — a key reason why the bear is back.

If you want even more ways to profit in the energy markets — from oil, to natural gas, to solar energy — my colleague Sean Brodrick's special report is a MUST read! — Martin

# Energy Panic!



## How The *Next* Oil and Natural Gas Price Surge Could Make You Richer Faster.

### Inside This Alert

- Why crude oil could jump to \$157 or even \$200 a barrel in the next 18 months
- Why the next rise in natural gas prices could be even more dramatic
- 7 red-hot stocks for the new explosion in oil and natural gas
- 3 sizzling hot funds with the best mix of sleeping stock giants and exposure to red-hot energy prices.

Dear Investor,

Just when it seemed the energy crisis couldn't possibly get any worse, it's doing just that — causing major supply bottlenecks, triggering truckers' strikes in several industrial nations, prompting widespread cutbacks by U.S. airlines, and fast becoming an energy *panic* of historic dimensions.

Meanwhile, I believe oil's performance over the next 12 to 18 months will blow the doors off Wall Street, leaving any remaining oil bears in the dust. And as hot as oil may be, natural gas is even hotter, promising to deliver gains that make the oil price surge seem relatively tame by comparison.

But this isn't the first time I've predicted surging energy prices. In January, for example, I recommended a portfolio of stocks and funds in my oil report, *Running on Fumes*. And already, those stocks have gone ballistic, delivering rapid and robust gains to investors who followed my recommendations.

Now, in my new, 57-page report, "*Energy Panic — The Next Profit Bonanza*," I have a brand new set of recommendations that I've picked out for investors for the next major leg up in this market.

I'll give you a preview of those picks in a moment. But first, let me show you the eight

*(Over, please...)*

powerful forces, which, combined, are creating the perfect storm for an energy panic ...

## #1 — Saudis Producing the Wrong Kind of Oil

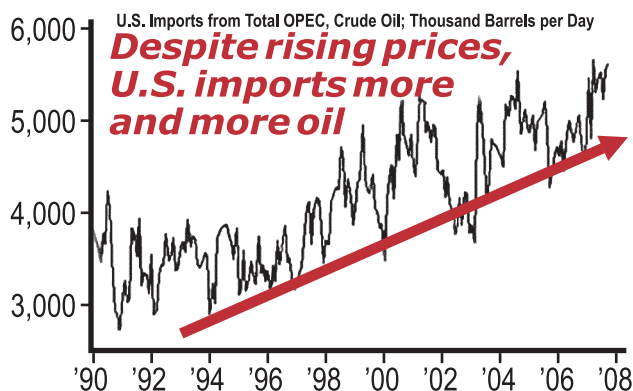
Saudi Arabia is the biggest exporter of oil in the world, and it is the only OPEC producer with any significant spare production capacity. It's also the #2 supplier of U.S. imported oil.

Problem: It supplies mostly the heavy oil that, regardless of any production increases, will have little impact on the market that matters the most for U.S. consumers: Gasoline! Gasoline is refined mostly from *light crude*, a market where supplies remain tight and the premiums over heavy crude are soaring to their highest levels of all time.

Moreover, despite any short-term production hikes, in the long term, the Saudis aren't motivated to pump enough oil to bring down prices. Why should they? Since America is addicted to oil, they have a steady customer no matter how high prices go. Indeed ...

## #2 — America Has an Unquenchable Thirst for Foreign Oil

The U.S. consumes about 20.6 million barrels of oil per day (bpd), or roughly 25% of global demand. China is the second-largest consumer, at 7.2 million bpd. Japan, with 5.2 million bpd, is third.



As you can see, we devour *a lot* more petroleum than other countries. Heck, China has more than four times the population, but uses only a third of the oil.

They're catching up, though, along with other emerging markets. Indeed, the new reality of today's global economy is the fact that ...

## #3 — Emerging Markets Are Becoming the Biggest Energy Guzzlers

Here's something that should make you nervous: *This is the first year that emerging markets will consume more oil than the U.S.*

I'm talking about countries like China, India, Russia, and parts of the Middle East. According to the International Energy Agency (IEA), those countries are expected to consume 20.67 million barrels a day this year, an increase of 4.4%. Meanwhile, the IEA predicts that U.S. demand will contract 2% to 20.38 million barrels daily.

China is the giant mover and shaker in the energy markets, as its gasoline and diesel demand has soared. The main reason: Last year, Chinese bought 5.5 million cars, minivans and SUVs, plus 3 million commercial vehicles, up from just 1.6 million vehicles sold in 1997. This year alone, sales are expected to grow *another* 15% to 20%. And through 2015, China's auto sales are expected to grow by an average of 1 million vehicles *annually*.

Meanwhile, India is poised to zoom past China as the world's fastest-growing car market, with sales of passenger cars in India increasing 12.17% to 1.5 million this past year.

## #4 — Mexico's Oil Production Is on a Collision Course with Calamity

Mexico is our #3 source of imported oil — 1.2 million bpd, or 12.6% of our imports, and the decline in production from its super-giant Cantarell oil field can only be described as catastrophic.

Last year, Mexico’s oil production fell 5.3%, and then fell *faster* in the first quarter of this year, by 7.8%. Mexico’s crude oil exports dropped even more sharply, down 12.5% to 1.49 million barrels per day in the first quarter.

Worse, in April, Mexico’s oil output fell to a *nine-year low* of 2.8 million barrels a day, mostly because of a decline in the Cantarell field. At current rates of decline, Mexico will become a *net oil importer* by 2016, and maybe sooner, according to Mexico’s Energy Ministry.

Since Mexico is a key source of oil for the U.S., this is not only a crisis for Mexico, it’s also a crisis for us.

And it’s not just Mexico. Venezuela, another big supplier of U.S. imported oil, is hemorrhaging oil production due to the slipshod management by its deluded president, Hugo Chávez.

Result: The combined net oil exports from Venezuela and Mexico to the U.S. have dropped by 414,000 bpd from 10/07 to 3/08, an astounding annual decline rate of 32% a year!

### #5 — A Potentially Devastating Hurricane Season

When La Niña is strong, hurricanes are also more powerful than normal. Well, batten down the hatches, because a strong La Niña is expected to last through the summer, delivering worse-than-average storm activity THIS season.

The Gulf of Mexico provides 20% of the natural gas and 30% of the oil produced in the US. Some of the oil and gas production knocked out by hurricanes Rita and Katrina in 2005 has never come back. While the industry has worked to harden its platforms and facilities in the Gulf, a monster hurricane could wreak havoc this year.

And while offshore platforms have been reinforced since hurricanes wreaked havoc in the Gulf of Mexico’s “Energy Alley,” all it

would take is one bad storm in the wrong place to knock out the Louisiana Offshore Oil Port (LOOP) which supplies 13% of the nation’s oil — not to mention the fleets of U.S. and Mexican rigs in the Gulf of Mexico.

### #6 — The Only New Oil We’re Finding Is Expensive Oil

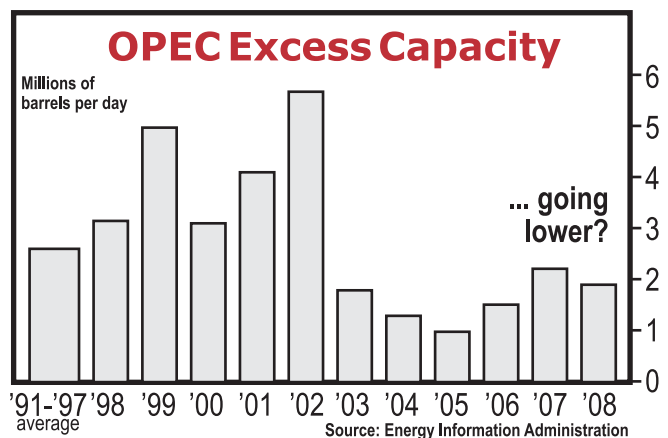
Prior to the first exploration by man, estimated crude oil reserves on the planet totaled roughly 1 trillion barrels. And since commercial production began, approximately one-third of those reserves have been consumed. In addition, the average recovery rate of an oil field is only about 35%, meaning that 65% of the oil in a field is left in the ground.

Bottom line: We are fast approaching the bottom of the barrel of cheap, easily recoverable oil.

Indeed, half of the world’s oil production comes from less than 120 giant fields, each producing more than 100,000 barrels per day. But the majority of these fields are over 50 years old, while the average size of new discoveries is declining. Problem: We’re getting between 3% or 4% *less* production out of existing oilfields every year. This is why ...

### #7 — Peak Oil Is Dead Ahead!

“Peak Oil” is a simple concept with complex — and potentially catastrophic — implications. It means that the world’s oil production

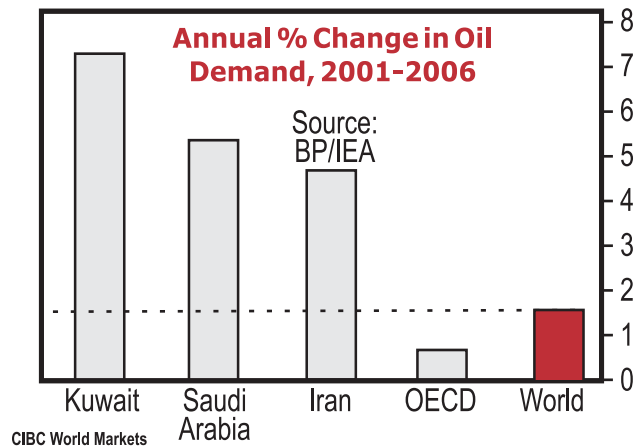


is not only peaking, but also that, regardless of how many new wells are drilled, total production will continue to decline.

And unfortunately, in an age when millions of Chinese and Indians are trading bicycles for cars and demand is increasing, that automatically translates into much higher prices.

I believe we are at, or very close to, Peak Oil right now. According to government data, the top five oil exporting countries — Saudi Arabia, Russia, Iran, United Arab Emirates and Norway — responsible for *half* of world net oil exports, are using more and more of their own oil. At the same time, their production is flat or falling, driving their exports into an accelerated decline.

Sure enough, according to the U.S. Department of Energy, the volume of petroleum products shipped by the world's top oil exporters fell 2.5% last year, despite a 57% increase in prices, and the same trend is holding this year. In other words, it doesn't matter if we pay more — they just don't have more oil to give!



As for smaller exporters, as I told you, Mexico, the #3 source of imported crude for the U.S., will hit zero in net exports in just eight years. And Venezuela is leading most other oil exporters down the slippery slope of production cutbacks. At the same time, Indonesia and Great Britain, both exporting oil as recently as two years ago, are now importing oil, *compet-*

*ing* with the U.S. for scarce energy resources.

If current trends continue, the top five oil exporters will approach zero net oil exports around 2031.

### **Long before that, Peak Oil could slam into the global economy like a runaway freight train.**

According to a report from CIBC World Markets, soaring internal rates of oil consumption in oil producing nations will cut crude exports by as much as 2.5 million barrels a day by the end of the decade. That's about 3% of global oil demand. In fact, *that decline is actually more than the total current spare capacity in the oil markets.*

That's when the shortage in oil markets could go beyond just an imbalance of supply and demand, turning into the kind of outright *physical shortage* that causes gas lines, production bottlenecks and other upheavals in every aspect of our daily life.

After all, you can get through a day without a lot of things. But just try and get through a day without traditional sources of energy or the myriad of products made from petroleum!

### **#8 — Peak Natural Gas Is Coming, Too!**

Even as everyone fixates on high oil prices, there is an equally dramatic crisis quietly building in the world of natural gas.

America will likely have only 3.1 trillion cubic feet of gas in storage at the end of October — almost 1 trillion cubic feet below full storage, just as we go into prime heating season. And if we have a long, hot summer that pumps up demand for natural gas at power stations, prices could go through the roof before the first frost.

Meanwhile, natural gas production in the U.S. is flat, despite many more wells being

drilled. Production in Canada, which supplies over 80% of our imported natgas, has peaked. America is building facilities to import liquid natural gas (LNG), but with demand rising rapidly in other consuming and exporting nations, it remains to be seen if we can import nearly enough. American LNG imports dropped a whopping 31% in 2007 as higher-priced markets in Asia and Europe outbid us.

The good news is there is a lot of unconventional natural gas in America. The better news is I'm going to tell you about the companies that are making the most of it.

### **Next: \$200 Oil and \$25 Natural Gas**

Remember: The oncoming energy panic isn't taking place in a vacuum. It's happening in the context of massive shifts in the global economy, battles over dwindling resources, and geopolitical instability. It's the combination of all these forces that could drive crude oil to over \$200 a barrel and natural gas to more than \$25 per million BTUs.

America is flailing around, trying to find what's next in energy. In my special report, I'll go over the options with you — ethanol, coal-to-gas, solar, wind and more — and I'll give you the scoop on what works and what is likely just a pipe dream.

I think millions of investors, waiting for Wall Street to give them their clue, are going to miss the boat entirely — and perhaps suffer severe portfolio losses. But not you. You can protect your portfolio, and you could profit handsomely to boot.

That's the goal of my exclusive report, *Energy Panic — The Next Profit Bonanza*. In it, I name seven stocks that run the gamut of conventional and leading-edge energy, along with three funds for broad diversification.

Together, I think these picks give you maximum leverage with minimum capital exposure. Here is a sneak preview ...

**Pick #1.** A major oil company, little-known in America, that is a partner in some of the biggest oil discoveries in recent memory.

**Pick #2.** A deepwater driller that is signing big-money, multi-year contracts — with no end in sight to its flood of business.

**Pick #3.** Another deepwater producer that is an industry bargain and offers incredible upside as it takes risks and strikes the jackpot.

**Pick #4.** A company that is riding the rising tide of offshore drilling with a fleet of ships.

**Pick #5.** An unconventional natural gas play that is tapping into a veritable Fort Knox of underground treasure.

**Pick #6.** The can-do land-based explorer that is riding a gusher of profits.

**Pick #7** A company with state-of-the-art, proven technology that can vastly increase the flow of oil from old wells. As the price of crude skyrockets, I think this stock is going to become *very* popular.

**Picks 8, #9 and #10: Three red-hot energy funds.** I think these are THE best of the best in the energy arena. Two funds are commodity funds focused on oil and natural gas. The third is a basket of solar stocks that will shine as alternative energy ramps up.

Of course, market conditions are volatile, and because I want to make sure you get the very best recommendations available, I may substitute some picks when I send you this report.

Are profits guaranteed? Of course not. Stock investments are risky by nature. And as with any investment, you CAN lose money. But, I'm convinced each of these is loaded with value and on the verge of blast-off.

## **The Energy Crisis Is Here. The Energy Panic Is Next.**

Oil prices have soared into the triple-digits ... we could have monster hurricanes looming around the corner ... American consumers are getting squeezed mercilessly at the gas pumps ... and our “good friends” the Saudis can’t help.

My view: Virtually *any* pullback in energy prices is a gift, to be used as a great buying opportunity for my model portfolio of select stocks and funds.

But I don’t want you to go through the next 12 to 18 months alone, as we wait for oil to zigzag its way to \$150 ... \$170 ... \$200 ... perhaps higher. That’s why throughout the next year or so, I’ll send buyers of my special report *at least* three follow-ups.

I don’t want you to jump into these investments ... and then have to sit around guessing about what to do next.

When I think the time is right, I’ll update you on your positions, give you my latest signals, and help keep you on course. I’ll tell you know when to take profits, when to buy more and, in case I’m wrong about some of them, how to cut any losses.

### **Don’t Wait for Crude to Surge Higher ... Get in Before Its Next Move Up!**

My brand new report, *Energy Panic — The Next Profit Bonanza*, is designed to tell you EXACTLY how to play oil’s next major rally.

The price — including at least three follow-ups — is \$195.

Just contact us at **1-800-291-8545** and mention priority code: SMR41102. Or mail the attached order form in the enclosed postage paid return envelope or fax it to 561-625-6685. Also you can order online through our secure website by hoping on the Internet and pointing your browser to: [www.moneyandmarkets.com/smr/41102](http://www.moneyandmarkets.com/smr/41102).

I’ll rush a PDF copy of the report right to your e-mail inbox. And whether you have email or not, I’ll also rush it to you via first class mail.

Don’t wait for the report to get picked up in the financial press.

The forces lined up to push energy prices higher are both powerful and immediate, and I believe an energy panic is inevitable.

Get in early, buy my best picks now, and be among the first to grab your opportunity to reap your rewards.

Yours for trading profits,



Sean Brodrick

**P.S.** Don’t miss the boat: Oil could jump to \$157 or even \$200 a barrel in the next 18 months. Natural gas is set to explode even faster. And the 7 red-hot stocks and 3 sizzling funds I’ll give you in *Energy Panic — The Next Profit Bonanza* could take you along for the thrilling ride to eye-popping profits.

# Special Report Certificate

## *“Energy Panic – The Next Profit Bonanza”*

**YES!** I want to get in on the big money that’s ready to be made on the next major leg of surging energy prices.

I see that the energy crisis is brimming with potential right now ... that any pullback in energy prices is a gift ... and how oil’s performance over the next 12 to 18 months will blow the doors off Wall Street, leaving any remaining oil bears in the dust.

Sign me up to be among the first to get your new report — *“Energy Panic – The Next Profit Bonanza”* that includes at least three follow-up reports with instructions on when to cash out or cut any losses.

**GREAT VALUE: Just \$195:** You’ll rush my copy of *“Energy Panic – The Next Profit Bonanza”* to me via e-mail and first class mail. Plus, you’ll send me at least three follow-ups.

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