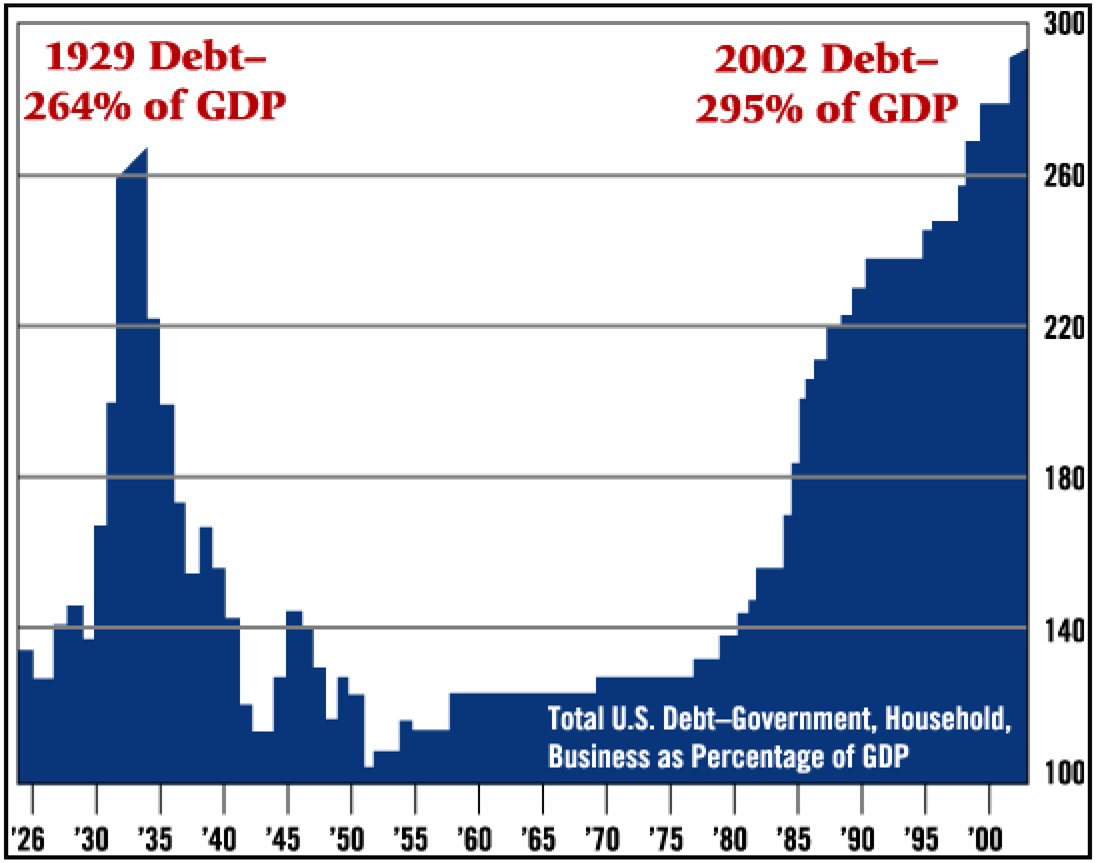
The Other Twin Towers

The Shocking Case for Another Depression



Americans are in debt for $31 trillion -- three times

what we produce in a year. The last time our debts were so totally out of control was the 1930s. In 1980 -- just 23 years ago -- we owed only $4 trillion.

This is just one indicator out of many that point to a coming depression.

But my readers are doing just fine -- up 18.95% in the 12 months just ended, a period when the Dow was down 21%.

Get the Big Trend Right
...and most of your little investment decisions will take care of themselves.

Dear Investor:

You could have done very well over the last 30 years with just a handful of investment decisions. In 1970, a long-term investor should have bought gold, silver and oil. (Gold went from $35 to over $800.) In 1980, you should have sold your gold and oil, and bought Japanese stocks. (The Nikkei Dow went from 6,849 in 1980 to over 39,000 in 1989.)

Then, in 1989, you should have switched out of Japanese stocks into America's S&P 500 or, better yet, into the Nasdaq. Japan crashed while the S&P went from around 350 to 1,527. Then you should have sold your American stocks in early 2000 and put the proceeds...into what? That's what this Special Report is all about.At historical milestones like these, the rules of the investment game completely change. 'Tis a shame, but the vast majority of investors continue to play by the old rules and either lose money or miss out on the glorious profits the Next Big Thing brings about.

As you can see from the graphic at the beginning of this Special Report, we're at another one of those major turning points. Read carefully what we have to say -- we've assembled a lot of evidence.Here at *Strategic Investment,* our analysis starts with identifying the big trend. Then we pick our specific investments. And we're pretty good at it, if I say so myself. What's more, we begged readers to bail out of U.S. stocks in 1999 and 2000. We've stayed bearish ever since as the major averages went down one, two, then three years in a row.

We've made money for our readers these last three years while most people were losing it.Some people will tell you it's all 20/20 hindsight. In 1999, who knew the market was going to crash? In 1973, who knew gold was worth way more than $35? In 1989, who knew Japan would go into the tank?

We did. In fact, in 1989 I was so bearish on Japan that a fellow editor at a conference handed me a book with a fake cover titled "How I Called the Bubble in Japan." Little did he know how right that was. But our back issues prove it too.What's more, I can tell you with almost 100% certainty the key to successful investing: The bursting of a bubble leads to a permanent change in the leadership -- in the dominant asset class. By "permanent" I mean a change that lasts for one or two decades or more.

U.S. stocks aren't going to go back to "normal" -- not for a long, long time. If you continue to chase the table scraps of the '90s boom, you are making the mistake of a lifetime.

In this Special Report, my colleagues and I are going to tell you what the new leadership is -- the great bull markets for the next five years, and maybe the next 10 or 20 years. We give specific ways to play these powerful bulls. Our picks have already made substantial profits.

We can do the same for you. Read this report, then join us every month for an adventure in making money.

Sincerely,

Bill Bonner
President, Agora Financial Publishing

Dear Concerned Investor:

Remember how you felt the day the World Trade Center came down?

Remember the sick feeling in the pit of your stomach...the grief...the rage...the fear of where they would strike next?

Well, there's another set of twin towers -- you can see them for yourself in the chart above. And this time, you're in the towers.

Think of how you'll feel if you lose your job. Maybe even your house.

Think of how you'll feel if your stocks go down another 70%. What life will be like if your bank says you can't access your accounts -- you'll have to wait until the government sorts everything out and decides how much you get.

Thousands of banks closed during the Great Depression. On a smaller scale it even happened in the early 1990s.

There's a lot of yada-yada these days about a double-dip recession, a possible depression, or even a powerful recovery with a 40% jump in stocks. Who needs another opinion? I don't. I prefer facts.

So let's look at the facts. The chart shows every penny Americans owe.

It's expressed as a percentage of Gross Domestic Product (GDP) -- the total of everything we produce in a year. At the end of 2002, we owed $31 trillion -- that's "T" as in "Trillion" --which is about three times our GDP of $10.5 trillion.

The only time things were this bad was during the Great Depression of the 1930s.

What's your share of the debt? About $110,000.

How about a family of four's share? About $440,000.

Of course, those are the averages. Maybe you're rich and it doesn't sound like a lot. But half the families in America make less than $42,000 a year, so trust me, $440,000 is a lot. You may be in great shape yourself...for now...but your stocks, your home value, and your source of income are not secure if the nation goes bust.

From the chart you can see that for the whole period from 1940 to 1980 things were under control, more or less. Not any more. We're piling it on, and the only time it's happened before was the Great Depression.

As you can see, the debt has been going practically straight up since 1980.

If you just project the trend, the debt will go to $40 trillion or even $50 trillion really fast. In reality, that's not going to happen. It can't. We will go broke before it does. We won't even be able to pay the interest, much less the principal, and nobody will lend to us anymore.

Look at the chart and study the first tower, the one from the Depression.

The debt came down, and pretty darn fast. It didn't get paid; it got written off. The lenders lost nearly all that money. Bank accounts got wiped out, stocks went nearly to zero, real estate values plunged.

I have a lot of evidence that the economy is going to implode, and in a moment I'm going to show you more of it. But first, I'd like to give you a bit of good news:

Readers Who Follow My Advice Have Been Doing Just Fine

My name is Daniel Denning, and I'm editor in chief of ***Strategic Investment,*** a monthly newsletter that's been around since 1984. We've also added a free weekly e-mail to keep you up to date.

> ***"I don't believe I have ever read as succinct and exacting a discussion on the interrelationships of violence, governments, politics and democracy... a superlative in clear thinking..."***
>
> **-- J. Ruban (Subscriber)**

In the last year, I'm up 18.95% on closed positions. I'm talking about the last 12 months as I write this -- which could be a few weeks back by the time you receive this. What's more, my open positions as this goes to press are up nicely. My record is all there in black and white in the pages of ***Strategic Investment.*** You can find the recommendations in the newsletter every month.

You could have made a gain of nearly 19% while every major American stock market average took a nose dive. Most investors were getting killed. But not the people who listened to me. Our profits included...

- **Franco-Nevada +75.00%**
- **AngloGold +45.63%**
- **Dow Diamonds put options +76.92%**
- **Capital One Financial (short) +46.00%**

- **Oxford Health Plans +39.97%**

Did I have some losers? Sure. But the average gain on 15 closed positions was 18.95%.

And what about 2001? I had 10 winners out of 12 recommendations. My average gain was 9.2% including dividends. My two losing positions each fell less than 1%.

My 2001 gain of 9.2% stacks up against a Dow loss of 7.1%, an S&P 500 loss of 13%, and a Nasdaq disaster of minus 21%.

Our Secret of Successful Investing

Our secret is really no secret at all, yet most investors manage to miss it. We step back from the distracting noise of daily events and look at the long-term big picture. It's a heck of a lot easier to make money if you are riding a powerful 10-year or 20-year trend.

Look at bonds. They've been in a bull market for more than 20 years! All you had to do was buy a 30-year Treasury bond in 1980 and sit on it. You would have made more money than buy-and-hold investors in U.S. stocks. (By the way, the bull market in bonds is probably over. More on this later.)

In 1989, ***Strategic Investment*** warned over and over again that Japanese stocks were overvalued. At their peak they were selling for more than 300 times earnings. We begged people to join us in making money off this sure thing, and we showed readers a very easy way to do it with put options. (Puts were pretty strange to most investors in those days.)

People who listened to us reaped profits of 300% plus when the Nikkei tumbled.

In 1999, we showed readers the same forces were at work in the American stock market. In other words, it was another bubble. That's why ***Strategic Investment*** readers made good money in 2001 and 2002 while most investors, like Herbert Hoover in 1931, thought prosperity was just around the corner.

What's great is that bubbles are so darn obvious. I know it sounds easy to say, but it's true, and we have a proven track record of identifying them.

Some of our ***Strategic Investment*** editors can tell you all about 1970 when the price of gold was fixed at $35. They were there. They saw that paper currencies were way overvalued in terms of gold. And they rode the trend for 10 years, all the way up to a gold price in excess of $800!

We Predict the Worst Is Yet to Come

As I write this, the Dow is off more than 29% from the all-time high it hit over three years ago. The number one question on every investor's mind is whether we've seen the bottom and recovery is on the way, or whether we're going to see the second dip in a double-dip recession.

They're asking the wrong question.

The right question is whether there has been a fundamental change in the long-term trend. The right question is whether this is an average bear market or a historical turning point.

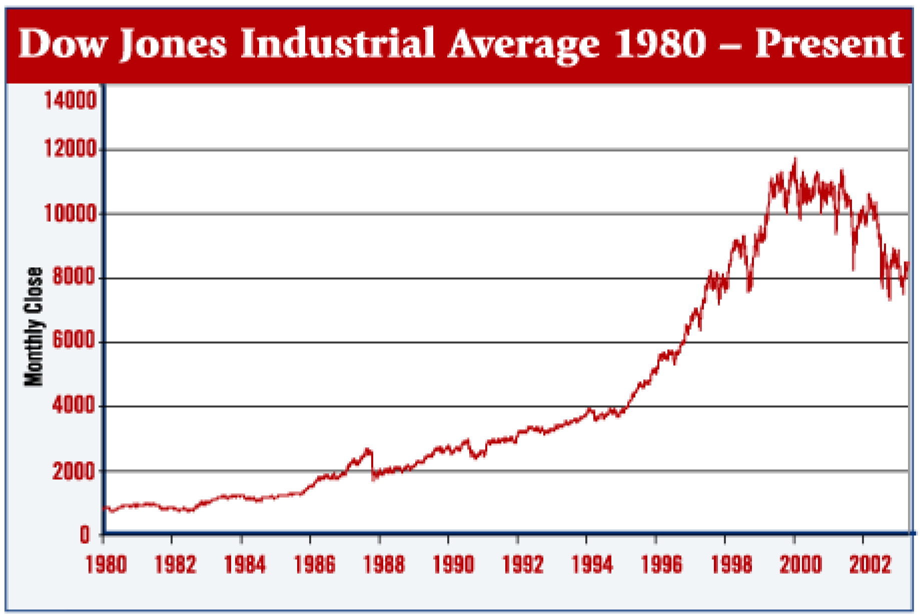
We say it's a major turning point. If we are right, most American stocks will fare poorly for a long time to come. That is true even if there is a rally right now that takes us almost back to the highs. In fact, we expect big rallies. We'll even play some of them. But they don't change our basic stance one bit.

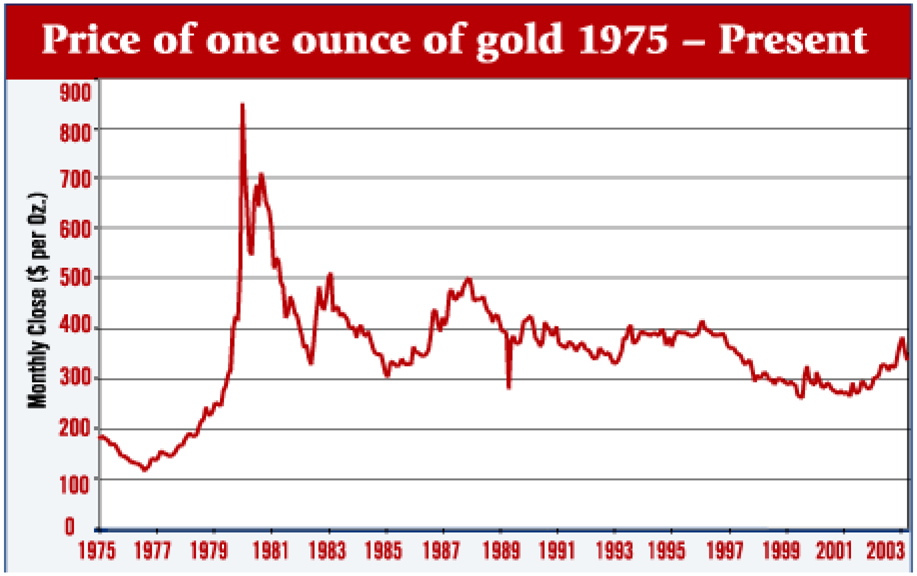
More important: If we're right, your livelihood and everything you own is at risk. Even your personal safety -- and that of your loved ones -- is at risk since a major economic catastrophe may result in civil disorders (more on this in a moment).

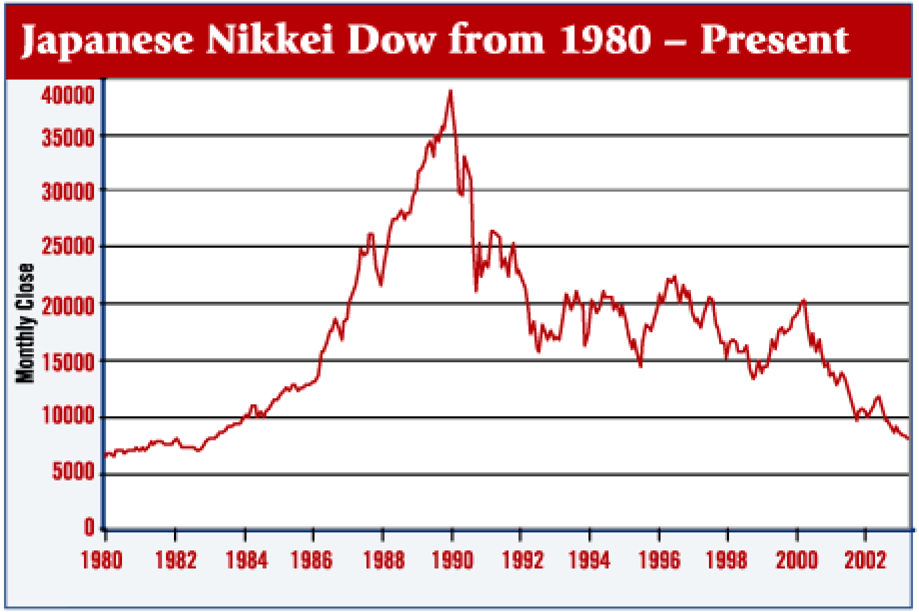
How Can We Say This?

We can say the bottom will be so incredibly low because the highs were so incredibly high. You see, we study the past, and we've observed an empirical fact. The losses that follow the bubble almost exactly match the gains made during the boom. Economics isn't an exact science, but this comes close to being a law. The higher the markets go, the lower they fall.

Look at these three charts of the most famous bubbles of the last 30 years.







At the peak of each of these bubbles the curve gets so steep it's almost straight up. People who project the curve into the future make some pretty funny predictions. Remember James K. Glassman and his book Dow 36,000? Remember when folks said the emperor's palace in Tokyo was worth more than the whole state of California?

When the crash comes, the market gives up almost all its gains. You can see it for yourself just by eyeing the three graphs. In U.S. stocks that process is still ongoing, and we haven't seen the bottom yet.

Even worse (if that's possible) is that the decline lasts for decades. Gold and Japanese stocks have never recovered to their old highs. Would you care to make a forecast for the Dow? Here, let me help...

How Low Can the Dow Go?

The average bear market in the last century has given back over five years of gains from its highest point. If the present bear market is an average bear market, the S&P 500 will decline to around its 1995 level -- about 450. That would translate into 4,000 on the Dow Jones Industrial Average.

> ***"Strategic and The Daily Reckoning have one of the most robust B.S. detection meters out there. I thank them for bringing some of these points to my attention..."***
>
> **-- *Philip Zaroo* (Subscriber)**

That would be an additional 50% drop from its level as I write this.

Now, I don't go overboard with technical analysis, as this sort of thing is called. If investing was as easy as just applying mechanical rules like this, we could all hang out at the beach while our computers made us rich.

Still, at ***Strategic Investment*** we've followed the forecasts of practically every technical analyst for decades. We find them useful when combined with the value and fundamental approaches. The best technical analysts enjoy awesome winning streaks.

Right now, technical analysis gives us a prediction of 450 on the S&P 500 and 4,000 on the Dow if this is an average bear market. But...

You'll Wish It Was an Average Bear Market

The problem is this is not shaping up as an "average bear market," but as something far more serious. First off, the 1982 - 2000 bull market wasn't an average bull market but the longest bull market in U.S. history.

Second, its incredible rise was driven by a colossal debt expansion. The debt-to-GDP ratio is far larger than ever before in the history of the United States. (See the chart at the beginning of this report.) Worse yet, we get less and less bang for all those borrowed bucks. During the 1990s boom, each 4.8 dollars of debt bought us only one dollar of increase in GDP.

What's more, the boom-time stock valuations were far higher than ever before. At its peak, the Nasdaq sold for 180 times its earnings. People were paying in advance for 180 years of earnings! Even though stock prices have come way down, P/Es have remained stubbornly high because earnings have fallen right along with prices.

So what can we expect?

Following the 1929 peak, the market gave back 15.5 years of previous gains. The brief 1970 bear market gave back seven years of previous gains, and the severe 1973 - 74 bear market gave back eight years. If you look at the charts for Japanese stocks and gold, you can see similar "retracements," as technicians like to call them.

At ***Strategic Investment,*** we believe the current situation is closer to that of 1929 than to the average post-WWII bear market. But let's be as optimistic as we can. You should expect the S&P to give back a minimum of the average bear market -- that is, a decline to the 1995 level around 450.

But it is far more likely to surrender previous gains going back to around 1990 (13 years), which would take the index down to 300. The corresponding level for the Dow Jones Industrial Average would be around 2,500!

Don't keel over. In a moment I'm going to tell you about the Next Big Thing -- the powerful bull markets of the next 10 years. Invest in these markets and you can multiply your money by a factor of five or 10.

But if you're going to profit, you have to move your assets (or what's left of them) out of the way of the Tower of Debt that's coming down. A 2,500 Dow is not engraved in stone, but it is the kind of decline you should expect. This bear market is not likely to be just an average bear market. Let's just look at the kind of excess we've come to take for granted...

Passed Out in the Gutter, the Morning After the Big Binge

Look again at the Tower of Debt. Clearly, there's no precedent for these debt levels except the Great Depression. Nothing else even comes close.

In the 1950s, mortgage debt was only 15% of the value of our homes. We owned the other 85%. Now mortgage debt is 57% of the value.

Mortgage debt grew 60% faster in 2002 than in 2001. Refinancings last year were a hundred times their 1990 levels.

Mortgage loan delinquencies are up 79% from four years ago. Defaults on FHA loans, mainly to low income buyers, are at an all-time high. And remember, unemployment hasn't even reached recession levels yet. What will loan defaults be like when it does?

It gets worse. Four out of 10 of us own our homes free and clear, so all the debt is carried by the other six guys. Their average mortgage is 80% of their home's value. A mere 20% drop in housing prices wipes them out.

Personal bankruptcy filings have been growing at double digits. They currently hover around 1.5 million per year. Credit card charge-offs of bad loans are at an all-time high.

Credit rating outfits like Moody's are breaking all records when it comes to downgrading the debt of American companies.

Total debt has surged 52% in the last five years. As I write, the most recent figures show it's growing at 7.7% per year. These growth rates will put total debt at $41 trillion in four years, compared to $31 trillion now. In 1980 the debt was only $4 trillion.

A lot of people will dismiss all these worries. Doom-and-gloomers have been haranguing us about debt for a long time, and we're still here, right? The world hasn't ended.

The answer to that is this: A lot of people predicted in the spring of 2000 that the stock market would continue to rise, based on the fact that it had been going up for 18 years in a row. No problem! Just take the trend and extend it into the future. All you need is a graph and a pencil.

Look at the debt chart and ask yourself if you really believe it's going to continue to go straight up. The truth is obvious, don't you think? This is not a routine bear market. This is a change in the Big Trend.

Get in on the Ground Floor of the Next Boom (Or, Why Confusion Is a Good Thing)

Most people miss the Big Trends when they offer the highest profits with the lowest risk. That is, when they are being born. By the time the Big Trend is obvious to everyone, it is usually in the last stages of euphoria.

> ***"Thanks for the finest observations I have seen from any analyst or commentator. I wish all Americans could read and comprehend what you have said. Thanks too for understanding that history does repeat. We have followed, and are following the Trail of the Roman Empire -- but can we last 400 years as they did?"***
>
> ***-- Robert W. Williams, Brig Gen. US Army*** **(Subscriber)**

Here at ***Strategic Investment,*** we are authorities on all the Big Trends of the last 30 years. We've made money off of them. In each case, what we've seen is that investors were extremely slow to recognize the Next Big Thing. They were extremely slow to understand that the rules of the game had changed.

The greater the mania is in one sector, the more likely it is there are neglected asset classes elsewhere that offer huge upside potential. This is one of the cardinal rules of investing. But it's a rule most investors don't follow. They are fixated on the past, even several years after the previous bubble hits its high and heads down.

They try to figure out when a popped bubble is going to come roaring back (in reality the bear market is going to last for decades). And at the same time they are confused and uncertain about the Next Big Thing.

As far as I'm concerned, the period when investors are confused is when the opportunities are most appealing. That's when the new Big Trend is being born.

Let me repeat that. The opportunity is greatest for huge capital gains when the new Big Trend is not clear in the minds of most investors. I say "in the minds of most investors" because in the real world the Big Trends are plenty obvious. The investing public just doesn't see them.

1982 is a good example. Investors had lost money in just about everything for the previous 15 years. They'd suffered runaway inflation, tanking stocks and rising interest rates. Stocks were no higher than they had been in 1964. The bubbles of the 1970s -- gold and oil -- had popped and were in decline.

Investors had lost a ton of money. Nobody knew what to do. It was in this environment of great uncertainty and fear that history's greatest bull market in stocks and bonds got under way. The S&P 500 soared 66% during the first year. Within five years, the S&P 500 tripled!

Even after those gains, people refused to believe the new Big Trend was real. They were looking for gold and oil to make a comeback! The longer the previous trend has been in place, the more time it takes most investors to see there's been a change.

At these historic turning points, the minds of most investors are paralyzed.

Look around you. What do you see? Paralysis, and lots of it. To us here at ***Strategic Investment,*** that means a chance to make big money.

Here's how ...

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