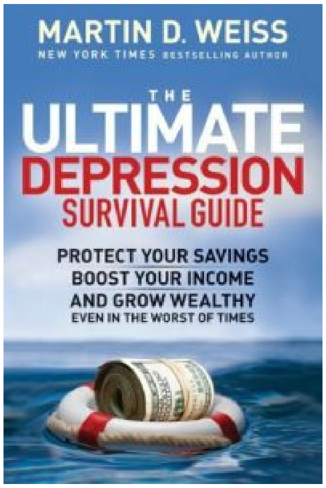

Book The Ultimate Depression Survival Guide

Protect Your Savings, Boost Your Income and Grow Wealthy Even in the Worst of Times

Martin D. Weiss
Wiley, 2009
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Recommendation

In this savings and investment "survival guide," financial publisher Martin D. Weiss proclaims that the world is entering another depression. According to the U.S. Government Accountability Office, his investment advisory and rating firm outperforms all other companies at "forecasting future financial trouble." Indeed, for two decades, Weiss has accurately predicted "nearly every large financial failure in the United States," including the latest financial collapse. When it comes to doom-and-gloom financial prognostications, Weiss has excellent bloodlines. His father, J. Irving Weiss, was one of the few economists who predicted the Great Depression at the time. So what does this modern-day Cassandra have to tell us? Weiss claims that as wretched as things are now economically, they will get much worse in the years to come. However, in addition to dismal tidings, he offers numerous specific, well-informed recommendations on how to protect – and even increase – your assets during the "Second Great Depression of modern times." *BooksInShort* suggests that if you want to study fiscal advice that covers the spectrum from pessimism to optimism, this book expertly handles the pessimistic end.

Take-Aways

- The world is going to have another Great Depression.
- This is due to the housing and mortgage implosions, as well as the debt crisis.
- Numerous telltale signs forecast the coming depression, including millions of homes in foreclosure, the bankruptcies of giant corporations and high unemployment.
- Government policies to bail out companies and industries with borrowed money will not reverse the downward trend.
- Since huge debt is a major cause of the coming depression, piling on more governmental debt, as is now taking place, will only make things worse.
- Most people will lose all their wealth because of the coming depression. However, with the proper financial strategy, you can hold onto your money.
- Reduce your debt. Pay back the debts with the highest interest rates first.
- Explore a variety of available investment options, from Exchange Traded Funds to gold.
- Wait until the economy hits rock bottom, then seek bargains and invest aggressively.
- Remember, your most important financial goals are "savings and capital preservation."

Summary

The "Second Great Depression"

Many people didn't think it could happen again, but another Great Depression is just around the corner. Its causes include a disastrous housing collapse, a meltdown in home mortgages and history's most significant global debt crisis. Note that the word "depression," not "recession," applies to what is coming and, indeed, what is partially here already: a major economic contraction that will last many years, create huge unemployment and wipe out most individuals' wealth.

> "Never before in your lifetime has your money, your home, your retirement and your entire financial future been in greater danger!"

Some disturbing signs portend dark days ahead. One of every ten U.S. home mortgage holders is delinquent or in foreclosure, and 40% have less equity in their homes than the debt remaining on their mortgages (that is, their value is "upside-down"). Famous U.S. companies are "bankrupt, bailed out or bought out." In response, the government is assuming massive, crushing debt in an attempt to rescue entire industry sectors.

> "The only way to avoid the pain of a great bust is to refrain from the excesses of a great boom." [– J. Irving Weiss]

America is not the only country throwing huge amounts of money at troubled companies to keep them afloat. Is this a sensible policy? No. In fact, it is doomed to fail. Quick recovery is impossible. Too much public debt exists and no will exists to pay higher taxes to cover massive new borrowing. Meanwhile, consumer confidence has "plunged to the lowest level in recorded history," coupling the staggering debt with deflation – "falling prices and income." This dangerous debt-plus-deflation formula is the perfect recipe for depression. Everything is in a vicious, downward spiral. That is precisely the way things worked in the 1930s and it is the way things will work out today.

You Can Stay Afloat

Many people will not be able to ride out the economic storm. As in the Great Depression, they will lose most of their wealth. However, that does not have to happen to you. If you follow these proven tips on handling your finances, you will not only keep your head above water during the Second Great Depression, you'll flourish financially in the difficult years ahead:

- **Knock down your debt** – Organize your credit card bills according to interest rates, highest to lowest. Pay off all your debts as quickly as possible, focusing on retiring the highest-interest card debts first. If you must, borrow from friends and family to do so. Tear up your credit cards. Don't replace them. Pure debit cards are okay. Pay off your other loans and get ahead on your mortgage. Save your cash. You'll need it.
- **Protect your earnings** – If the company where you work is solid, become its most valuable employee. If it is not, find something else quickly. A home business may be a viable option.
- **Savings** – Prices fall during a depression, so your cash will go much further. Hold as much cash as you can. Set a realistic savings goal and stick to it. Stash your savings monthly before you buy anything. You can find great cash deals in the financial markets.
- **How safe is your money in a bank?** – If you live in the U.S., never place more than the $250,000 guaranteed by the Federal Deposit Insurance Corporation (FDIC) in any one bank. If thousands of banks begin to fail, the FDIC may not be able to compensate all account holders on a timely basis. Instead of a bank, put your money in short-term U.S. Treasury securities. You can arrange a personal checking account against this kind of fund investment. American Century's Capital Preservation Fund is a good buy. Put most of your cash funds in the securities account. If you maintain a bank account at a strong institution, keep minimal funds there. With a set-up like this – based on having less cash on hand to spend – keeping a major credit card makes sense. Use it for most purchases and pay the full balance monthly with a check from your Treasury account.
- **Sell the home?** – When real estate prices are dropping, selling your home may be your best choice. It will be worth less later on than it is now. Find an agent with strong sales in the current down market. Set your price at least 10% lower than comparable homes to move it quickly. Don't refuse any bids out of hand. You can always negotiate for more.
- **Keep the home?** – If you want to stay in your home, work with the county property appraiser to reduce your taxes. Check on cheaper homeowner's insurance and refinancing to lower costs. U.S. residents who can't meet their home payments should contact the Federal Housing Administration, which has new programs for distressed homeowners.
- **Other real estate** – If you don't live in it, get rid of it.
- **Protect your 401(k)** – In the U.S., adjust your 401(k) to fit new investment realities. This means selling "stocks and stock mutual funds," as well as long-term bonds. Corporate or municipal bonds can quickly lose value. Avoid them in bad times, but buy them when a recovery is underway (only if they offer strong price discounts, high quality and high yield). Your new investment options, with the best ones first, are: Treasury-only money market funds (if you can include them in your 401(k)); government-only money market funds; standard money-market funds; government bond or income funds; and government bond or income funds with some minimal inclusion of corporate bonds.
- **What about insurance?** – Only buy it if you really need it. If so, go with term insurance from a solid company. Cash value policies are never smart investments.
- **How credible are Wall Street ratings for securities?** – Not good at all, due to "payola, conflicts of interest and bias." Pay no attention to them.
- **Hedge your financial bets (in moderation) with an exchange-traded fund (ETF)** – If you know what to do, you can make big money during a depression. ETFs enable you to "spread your risk" by buying a "broad portfolio of investments." Typical ETFs, which do not include loads or special fees, tie performance to the Dow Jones average or to specialized stock market sectors (for example, energy or financials). Some ETFs offer "double and even triple leverage," so a 10% increase for a particular index may mean a 20% to 30% gain for the ETF. Such investments offer maximum flexibility.
- **Your inverse ETF strategy** – An "inverse ETF" has the potential to make a huge profit when the market tumbles. Some inverse ETFs let you make money when real estate prices drop according to an accepted scale, such as the Dow Jones U.S. Real Estate Index. Only risk funds you can afford to lose. Use a reverse bull market investment plan: Purchase inverse ETFs when stock prices increase; sell them only "after major stock market declines." Strategically, "wait for good news to help drive prices up, then buy the inverse ETFs in anticipation of another decline." Things are upside-down during a depression. Thus, evaluating stock prices vis-à-vis book value or earnings, which many companies will not have during a depression, is not a good measure.
- **Score big with currencies** – The stock market may be down and out, but you still can make profits in currency speculation. Once only the domain of the super rich or the cleverest investors, currency investments are now available to everyone. Such speculation rests on comparisons of how other currencies perform against the dollar, including the "euro, British pound, Swiss franc, Japanese yen, Canadian dollar and Australian dollar." "There's always a bull market in currencies" because, usually, at least one currency is moving up. Since currencies involve "long-term, sweeping trends," like economic growth, this is often easy to track. When things are depressed globally or "commodity or consumer prices" are tumbling, the dollar will almost always be stronger than other currencies. To profit, "invest in instruments...tied to the U.S. Dollar Index." Some good currency ETFs are available through Rydex Funds and PowerShares. With deflation, which is a virtual certainty during a depression, bet your money "on a rising dollar." Conversely, when inflation rules, bet "on a falling dollar."
- **It's super bargain time** – During the Great Depression, many investors built large, enduring fortunes by scooping up terrific bargains in stocks, other securities,

real estate and so on. You can do the same during the Second Great Depression. The trick is knowing when things have truly hit rock bottom, then aggressively purchasing the best deals available. (There will be thousands of them.) You will profit when stocks rebound and again when earnings recommence. What are the broad signs that prices have fallen as low as they can? Debt liquidation is one, so watch "mortgages, mortgage-backed securities and...credit default swaps." A bottom will occur once these are rehabilitated. Another sign to watch for is the U.S. government's retreat from "the bailout business." If Wall Street analysts start to claim that stocks are worthless, it may be time to buy. (They may be trying to drive prices down to get better deals for themselves.) Similarly, it may be a good time to buy when the average person fears that things will never improve. With investments, never trust the wisdom of crowds. "Watershed events," such as a "radical shift in monetary policy," also may indicate that things have bottomed out. When you do move, target topnotch blue chips first, but "set reasonable risk limits, such as 10% or 20% of your investment." One real estate note: You can already find unbelievable bargains, including beachfront homes in "southeast Brazil [and] northeast Australia."

- **Bonds** – Interest rates represent the "price of money." For years, the U.S. Federal Reserve has reduced interest rates, recently to almost zero. The price of money, as set by the Fed, is artificially low. Sooner or later, it will have to go back up. When it does, you can secure some "of the best yields of your lifetime." So, when interest rates rise, buy long-term bonds of the highest quality. Lock in extremely high yields for 20 or 30 years. The U.S. Treasury will need to issue more bonds to cover its mammoth debt. As the number of bonds increase, their prices will decrease, "driving up their yield." Follow this strategy: Start by buying short-term Treasury securities. As interest rates go up and conditions bottom out, switch to "Treasuries at higher and higher yields." Move a substantial portion of your wealth to long-term Treasury bonds with "high, guaranteed yields." Switch a smaller part of your funds to high-grade corporate bonds. Trust only independent rating agencies for guidance.
- **Dividends** – When prices of stock are at rock bottom, you will get superb bargains. Buy "conservative companies at deep-discount prices, with solid dividends and good growth potential." To pick stocks with good dividends look for the "S&P 'Dividend Aristocrats' and Mergent's 'Dividend Achievers'." Pay attention to "capital gain potential." Do not focus only on a stock's yield. Sometimes, high yields are a warning that the company is weak with a dismal future.
- **Gold** – If inflation occurs, buy gold, but never let it represent the major part of your portfolio. Always keep your gold ownership at "less than 5% of your liquid assets." Buy in two stages: "before a prolonged period of deflation" and "after a prolonged period of deflation." In deflationary times, such as during a depression, gold is not a good investment. One good way to buy gold is through a gold ETF, such as the Standard & Poor's Depositary Receipt Gold trust. If you buy actual gold, go for "ingots and bars." Buy only gold that is "four nines fine" (99.99% pure). Reliable vendors include "Johnson Matthey, Engelhard, Credit Suisse and Pamp." Silver is also an option.

Building Your Fortune During Troubled Times

Follow five golden rules to increase your wealth during the economic storm:

1. **"Keep your priorities straight"** – Your primary goal now is "savings and capital preservation." Then, set your sights on growth and, later, on speculative profits.
2. **"Controlling risk is just as important as maximizing gains"** – If you face potential big investment losses, use stop-loss orders. Diversify; focus on U.S. Treasury bonds.
3. **"If you speculate, use only money you can afford to lose"** – Always protect your "keep-safe" money.
4. **"Keep your emotions in check"** – Invest with a business-like approach. Record all investment costs, "including broker commissions and fees." Re-evaluate your finances monthly (particularly during a depression). Adjust your strategy if need be.
5. **"Reduce your commission costs to the bone"** – Particularly for active traders, brokers' fees can eat up your profits.

About the Author

Martin D. Weiss, Ph.D., is the founder and CEO of a financial services and investment publishing firm. Fluent in nine languages, Weiss chairs the nonprofit Sound Dollar Committee, an organization his father originally created to help balance the U.S. budget.