SURVIVING THE NEW DEPRESSION

A Synopsis of Martin Weiss' 2009 Book,
The Ultimate Depression Survival Guide.

by

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INTRODUCTION

THE AUTHOR

Martin Weiss, PhD, is President of Weiss Research, Inc., and Editor of the Safe Money Report. He is known for warning investors of the financial crisis of 2008-2009, well ahead of time. His website URL is http://moneyandmarkets.com

THE BOOK

The book that is being here synopsized is The Ultimate Depression Survival Guide, by Martin D. Weiss, Wiley, 2009, ISBN-13: 978-0-470-39377-2.

The book's principal thesis is that we are heading into a second Great Depression, due to a buildup of inexorable financial forces that cannot be denied. The financial crisis of 2007-2008-200? is not just a cause the Depression. It is also a symptom of it. The Depression, itself, is the predictable result of greed in the financial industry, coupled with incompetence and corruption in the government. Although the details of this Second Depression are different, it is following the general path of the Great Depression pretty well. Therefore, lessons learned during the first may be applied to the second.

Dr. Weiss shows us what we need to do, in rearranging our financial houses, to survive this Depression. He next shows us when and how to make some investments of a lifetime during the course of the Depression. But, if one doesn't do the first, one cannot do the second.

It is the purpose of the present writer to describe in a short paper the key results in the book. It is the intent of this writer to share these results with some who can be helped by Dr. Weiss' results. This writer looks at this sharing as a ministry.

HOW WE GOT INTO THIS FINANCIAL CRISIS

HOUSING, MORTGAGES, & DEBT

How the Original Depression Evolved.

This is not a typical Recession. It's been caused by the bursting of a housing bubble, triggering massive mortgage defaults, and resulting in a systemic crisis in the financial system of the U.S. and the world. No one has experience with this sort of thing, according to Weiss.

The Great Depression, which commenced in 1929, took until 1932 to hit rock bottom. And, it took until 1946 to recover. So, depressions are not quick to evolve. After the initial 'crash,' the markets rallied for six months, and everybody on Wall Street thought the crisis was over. During the long slide down, the Federal Government would periodically announce some new initiative to turn things around. The Dow made dramatic rallies of 30 % the first time, 48% the second, and 23% the third.

But, big companies failed, 13 million jobs were lost, unemployment went to 25%, industry cut production in half, home construction plunged by 80%, and 5,000 banks failed.

Meanwhile, prices were falling on homes, automobiles, and almost everything else. So, real wealth was building for those who were able to just protect the money they had. They didn't have to know anything about investing. Just sitting out the slide and building cash opened up wealth-building opportunities as the end of the decline approached. The end came with the inauguration of President Roosevelt and his immediately declared bank holiday.

All depressions have some key elements in common: They are far deeper and longer than recessions. They severely contract the economy over multiple years, create massive unemployment, and deliver devastating financial losses to the majority of the population. So reports Weiss.

Present Risks and Weaknesses.

Here are some of Weiss' interesting numbers about what's going on. 1 out of 10 home mortgages are delinquent or already foreclosed. 4 of 10 owe more on their mortgage than the place is worth. 8 of 10 are scared about what's to come.

On the TV, some of America's largest companies such as Merrill Lynch, General Motors, AIG, Fannie Mae, Citigroup, are bankrupt, bailed out, or sold out. Bubbles are bursting in housing, commercial real estate, stock markets, and commodities. Similar things are happening in the Americas, Europe, and Asia. Even 'safe' economies, like China and Australia, are in trouble, according to Weiss. Meanwhile, in less than a year, the U.S. Government has committed over $8-trillion dollars, which is 16 times the biggest ever federal deficit, trying to fix this crisis.

This is exactly what the Fed was doing in the 1930s, but they didn't understand what the basic problem was, and that was decreasing public confidence. To restore that confidence would take both money and time.

As now, the roots of the Great Depression of the '30s was the boom of the '20s. That's when the Fed supplied cheap money to the banks, and the banks loaned it to speculators, and the speculation created the bubble in the stock market. The economy became like a house of cards, and it didn't matter which card the government propped up or let fall. The longer reality was denied, the worse it got. The sooner it was accepted, the sooner recovery could start, says Weiss. The primary reason for the Depression of the '30s is the same as now. Our society is addicted to debt.

Failed Attempts to End the Present Debt Crisis.

<u>What's Happened Since 2007:</u>

The first warning was in August, 2007. Banks announced high losses in subprime, high-risk mortgages. Credit froze all over the world. The Federal Reserve and European Central Banks intervened, injecting unprecedented amounts of cash into the banks. The credit crunch subsided, only to return in early 2008, this time including a spreading range of those impacted..

The country's largest mortgage insurers accumulated mega-losses from defaulted loans. Municipal governments suffered failure of 1,000 auctions, trying to sell their bonds, causing borrowing costs to multiply for cities. Corporate junk bonds were abandoned, hedge funds got hit, and major financial firms accumulated ever increasing losses. So, again, the Fed intervened, arranging a buy-out of one the largest investment banks, Bear Stearns, and now offering money to any major Wall Street firm that needed the money. Again, the crisis subsided temporarily, according to Weiss.

Then, the day of reckoning for the Fed came in mid-September, 2008. Another Wall Street firm, Lehman Brothers, was falling. It was three times bigger than Bear Sterns. The Fed Chairman and the Secretary of the Treasury worked together that weekend, to figure out what to do. But, something was new, this time. There was a vocal minority in the U.S. objecting to the bailouts. And, they were being heard. So, the Fed listened and let Lehman Brothers go bankrupt.

And, all Hell broke loose.

Bank lending froze up all over the world. Foreign stock markets collapsed. Bonds fell. It looked like the world's financial system was ceasing to function. Now, the U.S. government was looking at a bailout for the entire system. Congress promptly passed and the President signed the Troubled Asset Relief Program (TARP), good for $700-Billion dollars. Additionally, the government nationalized Fannie Mae and Freddie Mac. As of the writing of Weiss' book, the total of all the bailouts stood at $8-Trillion … and counting.

Now, let's look at Weiss' reasons why the government can't fix this:

<u>Reason #1: Debt in the U.S. is Just Too Big.</u>

The grand total of $dollars owed or committed to various debts in the U. S. is $294-Trillion, according to Weiss' numbers. That amounts to 350% of our economy. In 1929 it was only 170% of the economy. Of the $294-Trillion owed by government, companies, and citizens, $182-Trillion is owed by banks. And, they don't have the money. Neither does the government, the companies, nor the citizens. (Remember, TARP is only $700-Billion.) The American personal savings rate is the lowest of any industrialized nation. Companies are also running cashless, on borrowed money. That's why they now go bankrupt so quickly. And, the only place government can get money is from us, the private citizens … in taxes. If they try that, there will be another Revolution (We've already had the Tea Party.) Debt in this country is about to be liquidated the hard way, by bankruptcy. And, that, of course, leaves the investor (including old folks like me) holding the empty bag.

<u>Reason #2: Nobody Can Pay for It.</u>

But, of course, the Federal Government will try, at least for a little while longer. In November, 2008, came the Treasury announcement of borrowing $550-Billion in the 4th Quarter of the year, according to Weiss. That means the government will hog most of the available credit for itself, running up interest rates for everybody else. This will quickly increase mortgages and consumer loans, if they remain available at all.

<u>Reason #3: Public Confidence.</u>

The reason I'm writing this for my friends is that I have absolutely no confidence in our present government to handle this financial crisis. And, according to Weiss, my attitude will spread, … quickly.

So it was in the 1930s. Consumer confidence dropped to the lowest level ever seen. Consumer spending evaporated. What was true then is still true, now. If you don't have any money, you can't spend it. Our government expects the citizenry to spend our way out of the oncoming Depression. And, the Fed is surely happy to set the example on spending more. The only trouble is that their spending gets charged to our tax account. So, we have to spend twice. It just ain't gonna' happen.

What is going to happen, according to Weiss' knowledge of the first Depression, is that as the government encourages the opposite, America is going to borrow less, spend less, and save more. And, investors (like the old retired folks) are going to look for low-risk, low-return investments. Everybody is going to cut back, in every way.

Reason #4: The Downward Cycle - Debt Coupled With Deflation.

Debt, alone, is tolerable, as our last twenty years or so show. And, deflation, alone, is tolerable, as it makes everything more affordable. But, the combination of debt and deflation causes a Depression, what happened in the '30s and is now beginning, again. So says Weiss.

We know what debt is, because we've become so used to it, since perhaps the 1960s. Deflation we haven't seen unless we're over 80 years of age. Deflation is when people lower prices of what they sell, in order to stay in business.

Whether it's in personal home sales or on Wall Street, the same cycle is observed. The cycle that characterizes a Depression is slashing spending, dumping assets (and workers are company assets), losing income, and then slashing spending some more, ad infinitum, or until the bottom is hit. This is a true characterization, whether we're looking at individuals, companies, or municipal governments.

This cycle, once set into motion is difficult, if not impossible, to stop, by anybody. Such cycles just naturally gain momentum. And, the cycle starts with the popping of a speculative bubble. In our present case, the bubble was Residential Real Estate.

The Housing Bubble.

This crisis started with housing. So, Weiss next looks at how housing and its associated debt got us into this mess, in the first place. He looks at the causes that were at work. This is simply to get more of an idea of what has caused our problems, before we go on, looking for some personal solutions. Paraphrasing Lincoln (a lot), "*If we can look at where we are and how we got here, then maybe we can figure out what to do.*"

Cause 1: Housing Debt.

You can't have a speculative bubble without debt. There have been such speculative bubbles before. They include the Dutch Tulip Mania in the early 1600s, and the Stock Bubble in the late 1920s (which caused the Great Depression). But, the one that has triggered our present financial crisis is the U.S. Housing Boom of the 2000s.

In mid-2008, the Federal Reserve reported that there was $14.8-Trillion in U.S. mortgages, outstanding, according to Weiss. That was 40% greater than the entire national debt. And, it was triple what it had been just 12 years earlier. That means that mortgages had been increasing at an average 10% annual rate for the previous 12 years. And, 10% is a pretty good growth rate. So, the mortgage business naturally attracted investors. The problem was that those mortgages were of substandard quality.

In prior speculative bubbles, investors were required to put in at least some of their own money. Not so with mortgages. Home-buyers were allowed to pay interest only, or even less than full interest. Also, home loans were previously held by lenders who could make sure the borrower's finances were sound and payments current. Not so in the 2000s' environment, where the loans were held by institutional and other non-local lenders.

It used to be that home buyers were required to document that they could pay the loans. Proof of income and assets was required. Not only has that recently not been the case, but borrowers have actually been encouraged to lie about income. The mortgage industry even started talking about the nationwide boom in these 'liar loans,' as Weiss described them.

Added to home-buyers' mortgage loan burden, many of them were also carrying large credit card debt burdens. All this debt triggered the problem in housing.

Cause 2: Investor Craziness.

As in previous historical bubbles, a tremendous number of investors, with little market experience, went wild, buying. The same pattern occurred in the 2000s, with home-buying, according to Weiss. But, this time packages of mortgages themselves were turned into highly risky securities.

As the bubble swelled, existing home average prices reached nearly five times the total yearly income of its owners, a historical high. Also, existing homes' annual appreciation went from 3.6% in January 2001 to 16.6% in November 2005. New homes went from 4.8% to 18.1%. Government agencies and private investment banks fueled this bubble, by bundling mortgages into securities that could be traded like stocks or bonds. The total of these bundled mortgage securities went to $4.8-Trillion, which was 60% greater than the Dow Jones Industrial total stocks. This so-called securitization of mortgages drove the bubble … and its bursting.

Cause 3: The Federal Government.

As in historical cases of speculative bubbles, this one was fed by corruption, fraud, and cover-ups in the government. So says Weiss. The Crash of '29 fit this pattern, and the same is true in the present housing-based case.

According to Weiss, the U.S. Government created two monopolies that made previous ones look small by comparison. Their names are Fannie Mae and Freddie Mac. Early on, the government gave monopolistic control over mortgages to these companies, which generated the country's largest debt market. Then it sold the companies to private shareholders. In the 2000s, the government encouraged both companies to compete with private mortgage lenders, whose borrowers were high-risk. These were the so-called subprime loans.

In reporting to their government regulator, the Office of Federal Housing Enterprise, Fannie's and Freddie's capital was consistently overstated and risk understated. The companies' executives swore these things under oath. Their regulators likewise testified in Congress to the companies' solvencies. But, by any reasonable accounting standards, it wasn't so. Fannie and Freddie had been insolvent for quite a while. So, why all this deception? Fees and bonuses for the executives. $90-Million for one, $30.8-Million for another, as Weiss has unearthed these numbers. And, a rapid rise in stock prices for the investors.

In September, 2008, the two largest lenders on earth were finally recognized to be completely bankrupt. The government injected $200-Billion, trying to keep them alive. But, it was not enough to cover their $5.2-Trillion in mortgages, $1.5-Trillion in debts, and $2-Trillion in derivatives (securities). So says Weiss.

Cause 4: Consumer Deceptions.

1. Predatory Lenders were attracted by soaring home equities. They targeted the retired, elderly, and the poor, who needed to get some of the equity out of their

paid-off homes, just to live. Salesmen were trained to steer the vulnerable toward adjustable-rate mortgages with disguised fees and initial 'teaser' interest rates, plus credit and disability insurance. An FBI assistant director described this predatory lending as 'epidemic.'

2. <u>High-Side Appraisals</u> also played a part. In the mid-2000s, appraisers were signing petitions to protest lender pressures to raise appraisals. Some appraisers reported being blacklisted for non-cooperation. Normally, brokers order an honest appraisal. If it doesn't equal or exceed the sales price, the sales contract is re-worked or the deal is called off. But, the normal real estate practice became less likely in the 2000s. What happened was that the appraiser cooperated and got his fee, the broker got a bigger commission, and the buyer got stuck with a bigger mortgage than his place was worth.
3. <u>Asset-Based Loans</u> are those made solely on the equity in the home, rather than on the borrower's ability to pay. Some lenders made loans this way, even giving an unaffordable loan, waiting for the inevitable default, so the property could be seized and resold.
4. <u>Prepayment Penalties</u> characterize loans that are 20% more likely to result in foreclosure, according to Weiss. Some lenders gave a lower interest rate on mortgages for an agreement to pay large penalties for refinancing or paying off the loan before maturity. The lender goal was to lock in the buyer.
5. <u>Balloon Payments</u> after a few years could also get a lower mortgage interest rate from some lenders. The lender goal was that when the large balloon-payment day arrived, the borrower would just sell or refinance the house, thus freeing up the lender's money for another such deal. Weiss reports that such loans were 20% more likely to result in foreclosure than normal real estate loans.

<u>Cause 5: Price Collapse.</u>

The housing bubble isn't yet deflated. How much more can real estate values decline? Weiss says there's no way to know, at this point. But, some lessons may be drawn from previous historical bubble collapses, according to Weiss.

In the Dutch Tulip Mania of the 1600s, investors lost most of their investment if made for cash. They lost more if credit was involved. In the South Sea bubble of the 1700s, investors lost 90%. In the Crash of '29, stockholders lost 89%. In the bursting of the Tech Bubble in 2000-2002, investors lost 78% in companies that survived and 100% in companies that went under. So says Weiss.

Weiss says the home bubble was as bad as his historic examples. The difference is that most people can do without tulips, but can't sleep outside. This collapse may be as bad as previously, in some hard-hit areas of the country, and in some housing categories. But, Weiss doesn't think the average house value will sink as far as previous kinds of price collapses.

Weiss sees three phases to the housing collapse. Phase-1 has already happened, with the bust in subprime mortgages. Phase-2 is a severe U.S. Recession, which is already beginning. Phase-3 will be a Depression and deep deflation, which is still ahead. Of course, Phase-3 will affect far more than just housing prices.

For example, an average $300,000 house has already on fallen by about one-third. According to Weiss, it could fall another third in Phase-2 and yet another third in Phase-3, ending up worth about $90,000. However, remember that would be

$90,000 in a much more valuable currency. If such a home is already paid off, it would not represent such a disaster as if it was fully mortgaged.

Weiss ends this chapter with some 'lessons' to be applied, if you are caught up in this housing crisis. First, don't blame yourself. Second, don't look back (remember Lot's wife). Third, don't count on the government. They reward delinquency and just prolong the crisis with their new programs. Fourth, don't overestimate the depth, speed, and duration of this decline. But, if you need to sell your house, sell now.

The Stock Market Debacle.

<u>The Viewpoint.</u>

The average loss on good stocks in '29 (the ones that survived) was 90%. And, it took 25 years, until 1954, to recoup those market losses. Many never did. Especially the old folks. My oil-driller grandfather was a case in point. Dad says he papered the milk-shed out behind his company house with his life savings in Standard Oil of New Jersey (Rockefeller's company) stock. Only Social Security saved granddad, for which he blessed Roosevelt. But, what about now? A more recent case is Japan, which suffered a stock-market crash in 1990. According to Weiss, its government tried repeatedly to restore its economy and stock market. Now, 18 years later, its market is still down 82%.

Weiss says that staying invested in the stock market during a financial crisis is nuts. The 'buy and hold' philosophy that is still being promoted by stock brokers is dead. It died in 2008. According to Weiss, data shows that it only works in unusually long periods of growth and prosperity. And, that ain't now. Anybody who thinks so is still in denial. And, these brokers are not in conspiracy nor are they intellectually dishonest. They really believe in 'buy and hold' and exercise it with their own money. Unfortunately, their money is just as losable as with us ordinary folks.

<u>Where and When is the Bottom:</u>

The stock market doesn't fall in a straight line. Between '29 and '32, the market had seven major intermediate rallies, before it hit bottom. Temporary rallies are routinely portrayed as the 'end of the decline.' But, they are traps, even though they may last for months. I fell into the first one, back in 2008. Now, we're seeing a second, larger one. But, I'm staying out, this time, due to what I've learned from Weiss. He advises that if the fundamental causes of the crisis have not been resolved, then the reality of the economic decline sinks back in, and the market heads for new lows. I'm tracking these ups and downs, waiting to see when we are nearing not just a bottom, but <u>the</u> bottom.

<u>Getting 401(k)s and IRAs Out of Danger:</u>

First, the good news. When this is all over, it's very possible that the cost of living will be far lower than at the beginning. So, the strategy with investments is to first preserve what money you have, moving stocks into cash if it's not too late. Second, stay liquid, so when the bottom does come you'll be well positioned to get back into the market, or bonds, or whatever looks like the best investment at that time.

Those who are still working need to transform and preserve in liquid form their 401(k)s. Those who are already retired need to transform and preserve in liquid form their IRAs. Here are the steps Weiss recommends:

1. Find out from your 401(k) manager or IRA custodian what investments are permitted in your account.
2. Pick out the 'safest' one.
   First Choice: A money-market fund invested only in short-term Treasury Bills (not longer term Notes or Bonds. They need to be short term to maintain liquidity.
   Second Choice: A government-only money-market fund (longer term Treasuries).
   Third Choice: An every-day money-market fund.
   Fourth Choice: An income or bond fund only in government notes and bonds.
   Fifth Choice: An income or bond fund mostly in government notes and bonds.
3. Shift all money to this safest fund. This is temporary, until the bottom is clear.
4. Continue adding normally to a 401(k), unless short of cash. Try to spend as little as possible from an IRA, as income will be short on the government-only money-market funds, at least in the beginning. Depending on government spending, interest rates may increase as we get on into Phase-3.

Broker Attempts to Keep You in the Market:

Weiss advises that brokers, financial planners, and even government officials may tell you to ignore the declines and keep adding shares to your market portfolio. That conveys an underlying message that stocks are safe. But, most stocks are not safe and never will be, according to Weiss. That's why the market goes up and down as traders see-saw back and forth between their perceptions of safety (risk). Consequently, many brokers have been trained with up to 8 arguments designed to keep an investor in the market. Dr. Weiss tells us what these arguments are, so that we can make up our own minds.

Argument #1: Dollar-Cost Average. Buy more while the price is low.
Argument #2: Buy and Hold. Think long term (even if you're 75?).
Argument #3: Don't sell now. It's just a paper loss right now.
Argument #4: Don't sell now. You can't afford to take the profit (tax-wise).
Argument #5: Don't sell now. You'll be kicking yourself in 3 months.
Argument #6: Don't sell now. You're the only one.
Argument #7: Don't sell now. That's just running scared.
Argument #8: What about your responsibility to the market?

Market Ratings and Insurance.

Weiss gives the documented facts about the Wall Street agencies that rate such Wall Street products as stocks, bonds, and insurance. These include Standard & Poor's, Moody's, A.M. Best, and even Weiss' own Weiss Research. He shows that many of the rating agencies are in bed, financially, with the companies whose stocks they rate. The ratings agencies receive huge fees from the companies they rate. When Weiss' company came out with an adverse rating on a particular insurance company, a bunch of that company's lawyers came to Weiss' company and actually physically threatened his associates. To this day, Weiss states, the other ratings agencies continue to operate in conflict of interest with the companies they rate. So, Wall Street ratings and their supporting research are not necessarily accurate. So says Weiss.

The first domino to fall as a result of this ratings impropriety was the insurance industry in the 1990s, says Weiss. Once the story about ratings went public, a number of major insurance companies failed. And, along with them failed states' insurance guarantee funds. So, some states had to actually take over insurance companies, much like today's federal government takeover of some insurance companies. The same thing is happening again, and for the same reason, according to Weiss. Only this time it is worse, because the failing insurance companies have invested in even worse security products than in the '90s. And, this time the insurance failure is so large as to threaten the stability of the entire world's financial system.

Weiss' bottom line is that you can't trust Wall Street ratings, … of anything.

Bank Safety.

A Systemic 'Meltdown':

Weiss quotes a statement released on October 11th, 2008, by the Managing Director of the International Monetary Fund (IMF), in which he said,

> "*Intensifying solvency concerns about a number of the largest U.S.-based and European financial institutions have pushed the global financial system to the brink of systemic meltdown.*"

What the heck is a systemic meltdown?

Weiss gives the definition as "… *a chain reaction of failures, forcing a temporary global shutdown of virtually every bank, insurance company, brokerage firm, and financial market in the world. Essentially, the entire planet's economy comes to a screeching halt, hopefully for just a short period of time.*" The warning by the IMF Director is not coming from just some academic. That guy ought to know.

The cause is what banks have invested in. As their investments fail, so do the banks. The failure of a significant number of the largest banks may trigger such a systemic meltdown. It is this that the government is feverishly trying to avoid, … with our tax money. So, we are paying for those banks' greed and poor judgment. And, so will our kids and grandkids. Is it any wonder we're now having 'tea parties'?

Bailing Out the Banking System.

The U.S. has already bailed out one of the 'biggies', Citigroup, in November, 2008. And, the same is going on, around the world. But, Weiss gives multiple reasons why the U.S. or anybody else cannot continue to bail out big banks indefinitely.

1. The government is treating the symptoms, not the problem – Risk and bad assets.
2. Many more banks in trouble – 117 on the FDIC's list. Weiss' list has 1,673.
3. The possibility of bank runs – Not just by individuals, but by institutions.
4. Government can't control bank stock value – Almost every failure in 2008.
5. From Recession to Depression – Bank failures before major economic decline.

A Banking Shutdown:

Is a banking shutdown really possible in this day and time? Weiss discloses that it already has, on a statewide scale, in 1991 in Rhode Island and Maryland. Rhode Island's Governor shut down all 45 state-chartered banks and credit unions, sending hundreds of thousands of savers into the streets in protest. A similar thing followed in Maryland. Because of the greatly worse condition of bank investments, now, we may see similar or broader shutdowns, according to Weiss.

What would be the effect on individuals of a shutdown of their bank? What about the FDIC guarantees?

According to Weiss, the FDIC would need time to sort out the mess of a number of bank failures. The more failures, the longer the time to sort it out. So, deposits may remain frozen for some period of time. This writer suffered this very thing in 1958, with the shutdown of a federally insured credit union. It was three years later that our deposits were returned, … without interest. Fortunately, not all our 'eggs' were in one basket.

Worse possibilities are hypothesized by Weiss. One is where the FDIC offers the choice of partial withdrawal, sharing the bank's investment loss, percentagewise. Another is to leave the deposits in the bank at a below-market interest rate. Yet a third is to delay deposit refunds until the dollar is devalued, either through inflation or by other means. None of these choices is acceptable.

WHAT TO DO.

SECURING WHAT YOU HAVE, … AND ADDING TO IT.

Preserving Capital and Liquidity.

<u>Money-Market Funds Based on Short-Term Treasuries:</u>

There are two equally desirable priorities for investments in a situation like the present. These are 1. Security, and 2. Liquidity. At the top of the safety chart, according to Weiss, are Short-Term Treasury Bills, with less than one year maturity. We're not talking about medium-term Treasury Notes (10 years), or long-term Bonds (10-30 year). And, Weiss says it's just as good to own Money-Market Funds, invested exclusively in T-Bills, as it is to own the Bills, themselves. The problem with that, which this writer has already encountered, is that the fund family, owning the T-Bill-only money market fund may decide to combine that fund with another of their money market funds not exclusively in T-Bills, in order to strengthen the latter. Then, you're back in the same fix as originally. Better in my estimation to go straight to T-Bills, rather than funds holding them.

The federal guarantee on T-Bills is the best, most direct, and most reliable, according to Weiss. And, there are no limits on amount. They can be owned in amounts from $1,000, up. In T-Bill-only money-market funds, the quoted yield is after fees and expenses. Nearly all cash assets can be kept in one account. These funds let you write as many checks as wanted, as often as wanted, free.

<u>Treasuries Versus CDs – The Government's Priorities:</u>

Weiss states the Treasury Department's order of guarantee priorities as:

1. Securities issued by the U.S. Treasury Dept., itself.
2. Securities issued by other U.S. Government agencies, such as Ginnie Mae.
3. Securities insured by the FDIC.

What this means is that in the event of a serious financial strain on the U.S. Government, FDIC-guaranteed bank deposits would not be first in line to be paid. And, why should we trust the Fed to honor its guarantee? It's because the U.S. government's borrowing ability to continue borrowing cash on the open market is its most precious asset. It's what keeps the government alive. So, the Treasury will make sure it never defaults on maturing Treasury securities. During the Great Depression, owners of Treasury Bills never lost a penny, according to Weiss.

List of Treasury-Only Money-Market Funds.

Weiss provides the following list of T-Bill-Only Money-Market Funds. Many of these are no longer accepting new investors. And, at least one of those is being reorganized (UTAXX).

American Century Capital Preservation Fund – CPFXX
www.americancentury.com
Cavanal Hill US Treasury Fund – APGXX
www.cavanalhillfunds.com
BB&T US Treasury Money market Fund/Trust Shares – BBUXX
www.bbtfunds.com
Citi US Treasury Reserves – CISXX
www.leggmason.com
Dreyfus 100% US Treasury Money Market Fund – DUSXX
www.dreyfus.com
Evergreen Treasury Money market Fund, Class A – ETAXX
www.evergreeninvestments.com
Fidelity US Treasury Money Market Fund – FDLXX
https://www.fidelity.com
First American US Treasury Money Market Fund – FOEXX
www.firstamericanfunds.com
Gabelli US Treasury Money Market Fund – GABXX
www.gabelli.com
Huntington US Treasury Money market Fund Trust – HITXX
www.huntingtonfunds.com
JPMorgan 100% US Treasury Securities Money Market Fund – HTSXX
www.jpmorganfunds.com
RMK Select Treasury Money Market Fund – FITXX
www.morgankeegan.com
Schwab US Treasury Money Fund – SWUXX
www.schwab.com
T. Rowe Price US Treasury Money Fund – PRTXX
www.troweprice.com
US Treasury Money Fund of America – UTAXX
www.americanfunds.com
US Treasury Securities Cash Fund – USTXX
www.usfunds.com
Vanguard Admiral Treasury Money Market Fund –VUSXX
www.vanguard.com
Vanguard Treasury Money Market Fund – VMPXX
www.vanguard.com
Weiss Treasury Only Money Market Fund – WEOXX
www.tommf.com

Deflation as a Friend.

In a depression, prices fall, resulting in a stronger dollar, at least inside the U.S. Moreover, it is in the Treasury Department's best interests to not deliberately weaken the dollar, such as by inflation or devaluation, in order to keep foreign countries, such as China and Saudi Arabia buying our Treasury Bonds. Therefore, keeping substantial funds in short-term Treasuries is not risky in terms of a falling dollar value, unless inflation gets out of hand (printing too much currency).

Making Money Going Down and Coming Up.

Hedging Against Market and Real Estate Declines.

Weiss comments that by sitting on your cash and doing nothing, you can grow wealth, even with low interest on T-Bills, because of deflation. But, if you want to also make some return during this sitting process, you can hedge. But, he's not suggesting that you use a hedge fund, because some of them are speculator funds, with high risk. Rather, he's talking about using Exchange Traded Funds (ETF). In particular, he's talking about ETFs that are designed for a declining stock market.

Since my present interest is in preserving capital, not getting back into technical trading, I'll put off synopsizing this chapter of Dr. Weiss' book until later.

Inverse Exchange-Traded Funds (ETFs):

To be written, later.

Foreign Currencies & Currency ETFs:

To be written, later.

When to Buy:

Naturally, Dr. Weiss recommends buying back into the market at the 'bottom'. The problem with that is recognizing the bottom. But, he deals with that, next (below). He says that stocks will be cheap because of the deep decline in corporate earnings, and most investors will see that. What they won't see is that because of investor panic, many stock prices will fall far below their true value. So, it's going to be a tremendous opportunity to make buys of a lifetime. And, this opportunity won't be just a one-day event. It may spread over weeks or months. But, the key is recognizing some events that characterize the 'bottom'.

Signs of the Market Bottom.

Debt Liquidation.

Weiss' first sign is a massive liquidation of debt. Unlike the Great Depression, the main debts to watch are the new kinds of vehicles, such as mortgages, mortgage-backed securities, and derivatives such as credit default swaps. Once these are cleaned out, it will be time to look for a coming bottom, says Weiss. If the government attempts to guarantee an unrealistic, no-loss environment for investors, it will only delay the required liquidation of debt. That will mean bankruptcies and truthful accounting for actual losses.

Government Capitulation.

Weiss' second sign is a 'capitulation' by the government. That's when Washington gives up on trying to save the world from financial collapses, the day when they realize they are throwing (our) good money after bad. They will change their policy and get out of the bailout business, maybe retroactively.

Wall Street Capitulation.

Third, says Weiss, there will be a capitulation by Wall Street analysts and bond rating agencies, parallel to the government's capitulation. Because of their own conflicts of self-interest, they may actually overdo it, as they revise their rating scales and models, to downgrade the entire array of companies or investments they cover.

Personal Capitulation and Widespread Pessimism:

Fourth, according to Weiss, will be a capitulative pessimism amongst ordinary folks, concerning the market. It may smack of 'end-of-the-world-itis'. People will wonder if it is the end of civilization, as they have known it (and it may well be, as explored in other synopses in this series). Whatever it is, it will mark a change from what people have gotten used to, before.

<u>A Watershed Event:</u>

Fifth, and finally, Weiss says to be on the lookout for a 'watershed' event. He can't define what it will be, but previously it was Roosevelt's declaration of a national banking holiday. Our event will bring closure to the entire decline. It might be a change in government leadership and a radical shift in monetary policy. Or, perhaps major reforms in foreign currency markets. In an extreme scenario, it might be a temporary shutdown, not only of the banking system, but also of nonessential production, says Weiss.

Whatever the watershed event is, Weiss says that it must make no pretense of rescuing debtors or saving lenders. That would just prolong things, and we'd be back to Step-1.

Interest Rates, Bonds, and Dividends.

<u>The Effects of Interest Rates.</u>

Dr. Weiss learned some things from his father, who got rich in the finance business during the Great Depression. The elder Weiss learned the lessons and passed them on to his son. One of the lessons was about what interest rates do during a depression. These are lessons that are not taught in school.

These lessons may be summarized in just three short statements:

1. When the economy starts sinking, most short-term interest rates initially go down, due to Federal Reserve actions. Then, when deflation sets in, rates sink even further.
2. Yields on low-grade corporate (junk) bonds explode higher. Since these are bonds issued by companies on the verge of default and bankruptcy, they have to pay higher rates to attract investors. Statement 3. also applies, here.
3. Yields on higher-grade corporate bonds rise sharply, due to the crashing of the bond market. Investors have to sell bonds, just to raise cash, thus depressing bond prices and raising yield.

<u>A Buying Opportunity on the Way Down – High-Grade Long-Term Bonds.</u>

According to Weiss, this opportunity could come at a relatively early stage of a Second Depression. In fact, we're starting to see this opportunity at the time of this writing in June, 2009. If the bond prices crash, as have stocks, the yield rises on existing bonds, available in the aftermarket. Adding in the increasing increase in the dollar's value, due to deflation, the effective bond yield rises even further. It takes doing some arithmetic, to determine when to buy.

Massive borrowing by the Treasury to finance the bailouts shall surely drive interest up, raising yield and lowering prices on existing bonds. That and massive selling of existing bonds to raise cash will further depress existing bond prices. So, this will be an opportunity to buy the highest quality corporate bonds and even government guaranteed bonds at bargain basement prices, locking in high yields for the long term.

<u>Dividends, The Second Great Opportunity.</u>

Retired folks like me know that dividend-paying stocks (or mutual funds) are to be greatly sought for income. That's provided they don't suffer price declines. Weiss declares that stocks of high quality companies that pay dividends suffer less during price downturns. He relates that in 2002, a bad year for stocks, non-dividend-paying stocks fell 30%, while dividend-paying only fell 11%. Good dividends are also proof of performance, provided it's not from junk bonds. Of course, dividends can be cut, which has been the recent case in Real Estate Investment Trusts (REITs). But, that's during a drastic downturn, as we are now in. And, we won't be buying until this is pretty well over. But, then, the opportunity will be here.

LOOKING AT THE BOOK IN THE CHRISTIAN CONTEXT

THIS SYNOPSIS AS ONE OF SEVERAL.

This Series of Synopses.

This is one of a series of synopses of recent secular books that presently number four. This did not start to be a series. But, after synopsizing three of these recent books, this writer realized that they all had something in common, when viewed in a Christian context. They all contributed to a model for interpreting what Jesus called "*signs of the times*" [Mat. 16:3]. In the Matthew verses, Jesus was berating the leaders of His traditional 'church', Israel, for not being able to interpret the signs of His (first) coming. Now, at the other end of Christian history, there are signs of the times of His second coming, and it behooves Christians to be able to interpret them.

This writer has presently synopsized this book by Dr. Weiss[1], plus three others by Steyn[2], Huntington[3], and Barna[4]. Dr. Weiss' book contributes a finance/economic/government view of what's currently going on in the U.S. and the world. The contexts of the other three are Steyn – political/economic/government; Huntington – Christian/government; and Barna – Christian/church. Taken all together, the four contribute to an end times interpretational model in the six dimensions of church, government, politics, economy, and finance. In topographic terms, the six axes of this event 'space' are not orthogonal. That is, the events are not independent of each other.

It is now obvious to this writer that yet another short paper is necessary to integrate together the views provided in the four books. That paper shall be forthcoming.

CONNECTING DR. WEISS' BOOK WITH THE BIBLE.

Signs of the times are necessarily in the context of Christianity's very end-times, the time just before Jesus' physical return, called His second coming. Therefore, such signs of the times must be interpreted in light of all the Bible prophecies about the very end-times, also called The Day of the Lord, in the Old Testament.

What Dr. Weiss' book shows in the end-times context is a catastrophic event caused by avarice, greed, corruption, and government malfeasance. These causes are, of course, present in the Bible prophecies about the end-times. What Dr. Weiss' book does is flesh out in voluminous documented detail these causes. His work is, in a sense, a prophecy, itself, since it was presented before the catastrophic event took place. So, as well as being a source of possible help to Christians, his book contributes to the interpretational model for judging where we are in terms of Christ's return. Personally, I think we are into that period just before what Jesus called "*great* *tribulation*" [Mat. 24:21]. The lead-in period Jesus called the "*beginning of sorrows*" [Mat. 24:8].

CONCLUSION

I'm going to conclude this synopsis here, leaving four more of Weiss' chapters undescribed. That's because they deal with precious metals and currency investment, which are not a major focus of mine at this point. Not that I don't own precious metals, because I do. But, my focus now is on safety and liquidity of my retirement monies. The last chapters also deal with future events, and I am focused on right now.

My hope is that this 17-page paper will do some good for those to whom it is made available. There is a lot of us old folks in the same boat, now, and I want to minister to them as well as I can.

May the Lord bless you and keep you
in what it looks like we're about to go through.

John H. Painter
June 1, 2009

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[1] The Ultimate Depression Survival Guide, Martin D. Weiss, Wiley, 2009, ISBN-13:978-0-470-39377-2, hardback, 220 pp.
[2] American Alone, The End of the World as We Know It, Mark Steyn, 2006, Regnery Publ. Inc., ISBN 978-0-89526-078-9, paperback, 224 pp.
[3] Who Are We ?, Samuel P. Huntington, 2004, Simon and Schuster Paperbacks, ISBN 13: 978-0-684-87053-3, 428 pp.
[4] Revolution, George Barna, Tyndale House Publ., 2005, ISBN-13: 978-1-4143-0758-9, hardback, 144 pp.