MARTIN WEISS'
Safe Money REPORT

March 2003 Issue #347

Weiss Early Warning Index:
S&P 500 — 41% Overvalued

S&P: Bearish
Nasdaq: Bearish
Bonds: Bearish

INSIDE...

Uncle Sam Is LYING To You!

If you've lost money investing over the past 36 months, don't blame yourself. It's mostly because you've been *lied* to over and over again by people you trusted.

In 2001, it was the Year of the Earnings Swindles. In 2002, it was the Year of the Brokerage Swindles.

Now, in 2003, it is the Year of the *Government* Swindles. More so than ever before, government officials are lying about the economy … the deficit … the true state of unemployment … the looming Social Security and Medicare crisis … the real cost of war with Iraq … the true danger of the pension fund disaster … and more.

As these new lies are revealed, what will be their impact on Wall Street? How can you protect yourself and your family from the financial fallout? Isn't there *anyone* you can trust?

Last night, I sat up late seeking to find the best way to phrase the answers. Had it been just a few years ago, I would have talked to my father, Irving, to report the facts, listen to his feedback, and seek his wisdom.

I know what he'd say. He'd talk about everything he saw, heard, and felt as a stock broker and analyst in 1929 and the 1930s. He'd recount, with perfect recall, stories that would keep me glued to his every word ...

The Pain of Shame

Although the dialog below is imagined, most of Dad's statements are taken from my notes and recollection of actual conversations we had in the years before he died.

Irving: You think all these deceptions are unique? They're not. After the great bear market of 1929-32, it took at least a generation to recover from —

Martin: The losses?

Irving: No. The pain — the sense of shame and helplessness that comes from being swindled. It took years to get over the sight of the president of the New York Stock Exchange being hauled off in handcuffs. It took decades to overcome the belief that the stock market was a cesspool of con.

Government Lie #1: The So-Called "Recovery"

Martin: But it's not just the CEOs and brokers any more. For months now, the government's spin on the economy has revolved around the so-called "recovery." But nearly all the hard data shows nothing of the kind!

Fed Chairman Greenspan calls it "a soft spot." But it's really *quicksand*, and we're sinking fast.

Irving: How do you know?

Martin: Because of the *massive destruction of wealth taking place right before our eyes.* In the US, the destruction of wealth adds up to $10.5 trillion from peak to trough — $4.5 trillion on the NYSE, and $6 trillion on the Nasdaq. In Asia, figure $2.2 trillion. In Europe — $2.1 trillion.

I know because consumer confidence is crumbling. Usually, the Conference Board's consumer confidence index fluctuates by just a couple of points. Now it's plunged by nearly *fifteen full points!* Even the Conference Board economist admits it's "a gloomy picture" ... with "no apparent rebound on the short-term horizon."

Irving: What do they say is causing this?

Martin: Wall Street and government economists are trying to blame it all on war fears. But that's just more spin. They know darn well the *real* reason confidence is plunging is the crumbling job market.

We have a 40% surge in the jobless rate to its recent high of 6% ... over 2 million jobs lost since March 2001 ... the worst hiring environment in 20 years.

Government Lie #2: The Unemployment Rate

The government counts people as "unemployed" only so long as they're continuing to collect unemployment benefits. Once their benefits run out, they're off the radar screen.

Irving: So, how does this impact the unemployment rate?

Martin: In January, the government claimed it was at 5.7%. That's 5.7% of the nation's estimated 137 million labor force — 8.3 million people out of work.

What they're not telling you is that there are another 4.6 million people who are in the "discouraged" categories. Add them in and it comes to 12.9 million unemployed or a *true* unemployment rate of something like *9.4%!*

Government Lie #3: The Real Cost of The Iraq War

Another lie: First they said the war was going to be only $20 billion or $30 billion. Then the director of the Office of Management and Budget said $50 billion. Now the President is asking Congress for $95 billion.

I just got a report from the American Academy of Arts and Sciences. You want to hear what they say? They say the conflict itself will cost up to $140 billion. Occupation and peacekeeping will be anywhere from $75 billion to $500 billion. Reconstruction — another $105 billion.

And here's the real shocker — the economic costs. Higher energy costs. The hit to corporate earnings. The decline in tax revenues. The disruption of world trade and travel. Could be as much as $1.2 trillion.

Government Lie #4: The Federal Deficit

Irving: I can just imagine what that is going to do to the deficit!

Martin: It's going to blow it out of the water! In February, the President submitted his budget for 2004 (including provisions for 2003) with a $304 billion projected deficit. Add the $95 billion he has requested for the war, and you're up to $400 billion right off the bat. Plus, none of this includes the "off-budget" deficits, which alone add another $600 billion or so, according to the Federal Reserve's own figures. How much does all that add up to so far?

Irving: $1 trillion?

Martin: Right. On top of that, figure another $500 billion over the next 10 years for the President's tax cuts ... at least $400 billion for prescription drug coverage ... and God knows how much to cover sinking pension funds.

Irving: And if the economy sags?

Martin: It already *is* sagging. In

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his budget, the President assumes 3.8% growth in the US economy. But the actual growth is running at an annual rate of 2.4%. That difference alone could add tens of billions to the deficit.

Irving: I mean, what if we see an actual recession or depression?

Martin: Then, all bets are off! The budget deficit will overwhelm the economy.

Government Lies #5, 6, and 7: Pensions, Social Security, And Medicare

Irving: In the Depression, we didn't have all the safety nets you have today. So, my family and all my friends' families relied on their own resources — savings, relatives, or just plain street-smarts. We struggled, but it was a struggle that brought us together and fostered loyalty. Now, you have private pensions, Social Security, Medicare ...

Martin: That implies another series of lies — namely that these so-called safety nets are actually "safe." They're not.

Start with private pensions. They're underfunded by $300 billion, according to the Director of the Pension Benefit Guaranty Corporation. Now, to add insult to injury, the PBGC is dead broke, down to its largest-ever deficit in its history. That puts 32,000 pension funds and 44 million workers potentially at risk.

Social security is in equally bad shape because —

Irving: I remember when FDR started Social Security in 1935. There were over 40 workers contributing to the fund for every person taking money out. How many are there today?

Martin: Only about three. And in a few years, it will be down to two. Last year, the Social Security fund actually had a surplus of $160.3 billion. But the Treasury doesn't keep that money in reserve for the future — *it spends every dime*. Yet, they absolutely *need* those reserves because of a demographic tidal wave that's about to hit America: The baby boom generation — 69 million — will soon start collecting. Meanwhile, the baby *bust* generation — a far smaller group — will simply not be able to contribute enough.

But if you think Social Security is in bad shape, wait till you see what's happened to Medicare! The Office of Management and Budget — the OMB — estimates that *the long-term unfunded liabilities for Medicare now stand at $13.3 trillion*. And that doesn't even begin to include any extra costs for prescription drugs.

The Most Dangerous Lie of All

Irving: Aren't you forgetting something?

Martin: What's that?

Irving: The most dangerous lie of all — the notion that the Federal government has "the power." That it can stop deflation, end the bankruptcy crisis, save the stock market. In reality, the Fed never had that power, and never will.

Martin: But what is your response to the arguments made by most historians? They say that back in the 1930s, the Federal Reserve *did* have the power to prevent the Depression, but failed to use it. They say that all the Fed had to do was to pump in more money. Instead, the Fed stupidly did exactly the opposite, or so goes the theory.

(continued on page 7)

Martin Weiss' Hotline

Thank you *immensely* for your enthusiastic support for my just-launched book, *Crash Profits: Make Money When Stocks Sink AND Soar.*

Thank you for helping to make it number one on Amazon, and for perking up interest in the book at Fox News, CNBC, CNN, CBS Market Watch, plus 29 major TV and radio news shows around the country, where I appeared this week.

The book is 349-pages — the equivalent of three and a half years — 43 issues — of *Safe Money*.

Bob Prechter, author of *Conquer the Crash*, calls *Crash Profits* a "gripping financial story." The publisher of a major national consumer publication says "the chapters are like potato chips — when you read the first one, you absolutely cannot stop yourself from reading them all!"

Naturally, I'm delighted with the response. But what will delight me most of all is to help you to be better prepared for the tough times ahead with my book.

The book has just been launched. So if you get it now, you will be among the first in the country to benefit from the advice it contains. You can get it at Barnes & Noble and bookstores everywhere. You can also get it on line at www.amazon.com/CrashProfits.

The publisher's price is only $24.95, and Amazon's discount price is even less at $17.47, ready to ship within 24 hours.

Mr. CONSERVATIVE
A Portfolio For The More Conservative Investor

Build Your Wealth With Safety

The government lies are the last straw. So if you've been on the fence so far, wondering when and how to get out of the stock market, this is your final call to action. Follow these steps immediately:

Step #1. Sell, **sell, SELL!** That includes stocks, low-grade corporate bonds, investment real estate, and any other asset that's vulnerable to serious declines. (For step-by-step instructions on exactly how to sell, see my just-released book, *Crash Profits.)*

Step #2. Move most of your cash to the highest quality, most liquid investments in the world today — short-term US Treasury securities. (See below).

Step #3. Allocate your cash as recommended in the portfolio update, also below.

Step #4. If you have vulnerable assets that you cannot sell, at least protect yourself against any losses with hedges. To hedge against a decline in the stock market and the economy, you can use the LEAPS put options or Rydex Ursa fund (See Mr. Speculator). Or, you can participate in a trading program that gives you an opportunity to profit from a stock market decline.

Step 5. If you have risk capital, consider these same instruments as speculative plays.

Above all, keep most of your money safe and liquid.

Portfolio Update

Hold 55% of your conservative portfolio in short-term US Treasury bills. One of the most convenient ways to buy them is through money market funds specialized in Treasuries, such as:

The American Century Capital Preservation Fund (800-345-2021), Dreyfus 100% US Treasury Fund (800-645-6561), Fidelity Spartan US Treasury Fund (800-544-8888), and USGI US Treasury Securities Cash Fund (800-873-8637). (Also consider our own Treasury-Only Money Market Fund, 800-814-3045.)

With short-term interest rates so low, the yield is miserable. But it's a small price to pay for safety and immediate access.

Hold 20% of your conservative portfolio in 3-5 year Treasury notes.

Hold 5% in the Prudent Safe Harbor Fund (**PSAFX**, $2,000 minimum.) This fund, which covers international bonds and gold shares, is trading close to where I first recommended it. Hold on, as I expect the dollar to weaken further. Call 1-800-711-1848 or see www.prudentbear.com .

Hold 5% in the American Century International Bond Fund (**BEGBX**, $2,500 minimum). Call 1-800-345-2021 or visit www.americancentury.com. Go to "Fund List," scroll down to "Income," and click "international bond."

Hold 5% in Enerplus Resources Fund (ERF).

New recommendation: Allocate another 5% to Provident Energy Trust (AMEX-PVX). This is a similar style of asset to Enerplus. As a royalty trust, the company extracts oil and gas and receives agreed royalties.

The fund is not risk free — you can lose money. But it has been very stable and is appropriate for a conservative portfolio, provided you do not exceed the recommended 5% allocation. The dividend yield is currently a very respectable 20.5% and the fund pays out monthly.

Finally, reduce your allocation to gold shares from 10% of your portfolio to approximately 5%. (See page 6 for details.) Use the proceeds to purchase my new Provident Energy recommendation above.

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Protection

Our Crash Protection Strategy com
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Larry Edelson's

mr. speculator

Time To Take Some Handsome Profits On Our Earlier LEAPS Recommendations

I hope you've been following all our recommendations to buy LEAPS put options on the Dow and the S&P — long-term options designed to profit from the market's decline.

If so, you should have at least one — and possibly two — bundles of options we've recommended since October 2001:

Bundle of LEAPS #1.

Recommended In Safe Money between October 2001 and April 2002

This bundle of LEAPs includes:

■ 2 Dow LEAPS puts, with a strike price of 80, maturing December 2003, symbol DJX XB (Note: The 80 strike price corresponds to 8000 on the Dow Industrials)

■ 2 S&P LEAPS puts, with a strike of price of 90, maturing December 2003, symbol LSX XS (Note: The 90 strike price corresponds to 900 on the S&P 500 Index.)

Both the Dow and the S&P LEAPS are now in the money. Depending on precisely when you bought them, we figure your paper profits on the DOW LEAPS puts could range anywhere from 23% to 200%; while your paper profits on the S&P LEAPS puts should be between 85% and 264%. Even if your profits are in the lower end of this range, we feel they are ripe fruit that are just too hard to resist. Moreover, it's only prudent to take some gains off the table. So sell these now, as follows:

■ Sell the 2 Dow LEAPS puts (DJX XB) for $9 or better.

■ Sell the 2 S&P LEAPS puts (LSX XS) for $12 or better.

Bundle of LEAPS #2.

Recommended In Safe Money between August 2002 and February 2003

This bundle of LEAPS includes ...

■ 2 Dow LEAPS puts, with a strike price of 76, maturing December 2003, symbol DJX XX.

■ 2 S&P LEAPS puts, with a strike price of 80, maturing December 2003, symbol LSX XY.

If you are holding these, stick with them. As soon as the market takes the big dump we are expecting, we will give you the signal to sell.

Important: If you are playing the LEAPS puts, we certainly don't want you to let the next big move in the market go by without a nice solid remaining position. Therefore, we do want you to have this second set of LEAPS puts in your portfolio, ready to profit from the move.

You ask: "What if I don't currently hold this second set of LEAPS puts?"

Then buy them now. Tell your broker to ...

■ Buy 2 Dow LEAPS puts, symbol DJX XX for $8 each or less, and

■ Buy 2 S&P LEAPS puts, symbol LSX XY for $7 or less.

If you own these and you want to be a bit more aggressive, you can increase your holdings in this set by 50%. (If you currently hold two of each, add one. If you currently hold four of each, add two, etc.)

Portfolio Update

Rydex Ursa (RYURX) This reverse index fund moves up in value as the S&P 500 declines. If you own it, hold. If not, buy at the market. You can open an account directly with Rydex by calling 800-820-0888, or you can buy Rydex funds through Fidelity Investment (800-343-3548), T. Rowe Price (800-638-5660), or one of the other brokers listed on the Rydex website.

(continued on page 8)

ss Crash Strategy

mbines a balance of LEAPS puts (see detailed in December issue and at on board with this strategy, stick with all allocations. The zeroes have appreciated rge as the market falls. If you're a new rchase of LEAPS at this time.

Larry Edelson

Gold Shares Temporarily Vulnerable In Wake Of Dow Plunge. Here's What To Do Now ...

Last month, I warned you that gold would pull back to major support at the $346 level. Sure enough, it dropped to $341 (a little lower than I expected) and then zoomed higher again, gaining as much as $15 in a few days. As we go to press, it's trading in the $350s.

In this tense, pre-war environment, riddled with on-again- off-again terror warnings, the roller coaster ride for gold is natural. But don't let the gyrations bother you. The big picture remains solid: Gold is in a long-term, fundamentally driven bull market ... and headed much higher.

Gold shares, however, may be vulnerable to an additional setback. They've recently been underperforming the price of gold bullion. Plus, with the Dow set to plunge through its October low soon, we must accept the possibility that panicky investors could sell indiscriminately, throwing out the baby with the bath water, including some of their gold shares.

So what should you do? If you've been with us since we first recommended each of the gold mining companies, you should have truly handsome profits — such as 80% in Newmont, 125% in Agnico Eagle, and a whopping 630% in Glamis Gold. Even Royal Gold, which has suffered a setback this month, is still giving us an outstanding paper profit of 292% at current levels.

If you joined us a bit later in the move, your gains are naturally smaller, depending on the price you paid. And if you just bought very recently, you could even be in the red — just slightly with most of my favorite gold shares, more so with Royal Gold.

In my many years in the market, however, I have found that the best investment decisions are based on the current risks and rewards in the market itself — not on the profit or loss in your personal portfolio. With that in mind, I suggest that:

1. You exit approximately half of your portfolio now. I will show you how in a moment.

2. You hold on to the balance of your positions, aiming for even better gains.

3. If we get a setback in gold shares ... or if I feel that the danger of a setback is behind us, I will give you the green light to restore your full position in gold shares.

Anglogold (AU) slipped in February, mostly on labor unrest in South Africa. Sell half at $32.09 or better, and hold the balance.

Durban Roodepoort Deep (DROOY). Sell half at $3.25 or better. Hold the balance.

Royal Gold (RGLD). Royal Gold took a hit earlier this month when a *Barron's* article questioned its valuation. But as it turns out, the trader supplying the information for the article is heavily short the stock.

Regardless, I am long-term bullish on the stock. It will benefit directly from the next rise in bullion. It has a solid balance sheet and growing revenues and earnings. Hold your entire position.

Agnico Eagle (AEM). Sell half at $13.25 or better and hold the balance. Agnico is one of the very best junior gold shares. The company has a no-hedging policy, and with its proven gold reserves climbing 23% in 2002 to 4 million ounces and expected to grow even more in the years ahead, this company's share price is headed much higher long term.

Newmont Mining (NEM). Sell half at $26.90 or better and hold the balance. Newmont recently released great fourth-quarter numbers, with gold sales up a healthy 57% versus the same period in 2001, and at a cash cost of $189 per ounce. As one of the premier mining companies, I believe Newmont is headed much higher long term.

Glamis Gold (GLG). Sell half at $10.69 or better and hold the balance. Gold production was about 10% last year at a cheap total cash cost of $160 per ounce — 7% less than 2001. Cash flow from operations virtually doubled to $33.8 million.

These are all great mining companies headed much higher long term. But as I noted, it's time to take some profits off the table, while reducing your exposure temporarily to a possible sell-off.

P.S. Continue to steer clear of silver and silver stocks. As I've warned, they are both underperforming gold bullion and gold shares, with no end in sight to their relative weakness.

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

Irving: Baloney! Those historians weren't there; but I was. I was in touch with Bernard Baruch, who advised the President. I was watching the numbers released by the Fed every single week. I know what *really* happened.

Martin: What really happened?

Irving: The government feared a massive attack on the dollar. Money was leaving the country by the boatload. In fact, I heard even gold bullion was being shipped to Europe. Then, right in the midst of the deflation, we had a sudden inflation spurt. Consumer prices were still weak, but prices on key commodities surged.

The Fed had no choice. *It absolutely had to let interest rates go back up, despite the worst bear market in US history.* The 3-month T-bill rate surged from under a half a percent to over 2 percent. Low-grade corporate bond yields nearly *doubled.*

Next time, the authorities will face the same dilemma and will ultimately have to make the same choice. They'll have to let short-term interest rates go up to ward off a dollar collapse. They'll have to jack up long-term rates to raise the money they need to finance the deficit.

Martin: Dad, these are very troubling times. We have the war anxieties. Plus, the decline in trust. Please share your insights.

Irving: I remember the First World War. I was just seven at the time, and like all my friends, I was caught up in the war euphoria. One day, I painted some graffiti on the wall of our tenement in Harlem. The landlord, who couldn't read English, came around and asked me sternly. "Who did that?" I proudly admitted doing it, and I read it to him: "MY COUNTRY NOW AND FOREVER." He smiled, patted me on the shoulder, and walked away.

It just goes to show how strong the patriotic sentiment was in those days. That's the kind of sentiment it takes to overcome the people's natural fear of war. If you have war fears today, it's because you don't have the kind of fervent patriotism we had during the two world wars.

Martin: What's your advice for subscribers?

Irving: Let me tell you what I did in 1929-32.

First, I got my friends and family out of the stock market and into cash.

Second, in early 1930, I borrowed $500 from my mother and started selling short every vulnerable company I could find.

Martin: And that's how you made $100,000 by the time the market hit rock bottom?

Irving: Yes. But it wasn't easy. I lost a lot when the market rallied against me. Today, you don't have to go through what I went through. You can buy investments that give you similar leverage without debt, that let you sleep nights. Just be careful not to *over*invest.

Martin: And your third step?

Irving: To wait for the bottom and buy with both hands.

Martin: Everyone wants to know where and when the bottom will be.

Irving: There's no magic number on the Dow and no fixed date on the calendar. Instead, you have to watch the conditions on the ground.

Martin: Key foreign markets are down an average of 66% from their peak. If the Dow falls by a similar amount, it will be around 4300. The Dow's historical average P/E is about 15. To get back down to that level, the Dow would also have to be around 4300.

Irving: Makes sense. But I'd tell subscribers not to get caught up in a single number. Stay flexible.

Then muster your courage to sell off most of the assets that are vulnerable to a major decline. Not just stocks — but also investment real estate, business assets, collectibles.

Muster your courage to stand proudly, on your own. Don't count on the government for your retirement or health care. Build your own, self-directed retirement fund, your own health savings account.

Also, muster your courage to stick to your guns. Your family or friends may try to poke holes in your decisions. They'll chide you for selling. They'll throw stones at any strategy that seeks to profit from the decline. Stand firm.

You must also be patient. The time to buy is coming. But if you buy prematurely, your hard work and effort to date will be for naught.

Most important: Do not let fear be your master. No matter how bad things may look, there are ample sources of hope: You, for example. If you and thousands of other investors keep your money safe — or better, if you can grow your money in bad times — you will be among the vanguard of investors that the country leads to a real recovery.

Stay safe and be healthy.

Mr. Speculator

(continued from p. 5)

Rydex Arktos (RYAIX). For each 10% decline in the tech-heavy Nasdaq 100, this fund is designed to rise by 10%. If you own it, hold. If not, buy at the market.

Rydex Juno (RYJUX). I recommended buying this fund last month at around $7.17 per unit to take advantage of rising long-bond prices I expect this year. On February 7, Rydex announced a 3-for-1 reverse share split. So, if you bought when I recommended it, your adjusted price is roughly $21.51 per unit. Since then, the fund has declined a bit, but my advice is unchanged: If not on board, buy this fund to profit from higher interest rates.

Overall, however, focus primarily on the LEAPS puts and/or the Rydex Ursa fund. Then for a smaller portion of your speculative funds, also consider the Arktos and Juno funds. Use these vehicles to hedge against any vulnerable assets you may still be holding or to aim for speculative profits.

Citibank (C) short. You should be short at $37.60, and with Citigroup trading at about $33.50, you have a nice paper profit. Move your protective stop down to $35.10, canceling the previous stop at $39.50. Take your profits if Citibank falls to $31 or lower.

Target (TGT) short. Stay short, with a protective buy stop at $30.50. Things are getting worse for this retailing giant. The company recently announced it wrote off 7.3% of its own Target brand credit card receivables. Take profits on your short at $25 or lower.

PROFESSOR INVESTOR

Special Questions From Our Readers

Q: I bought a Rydex fund (RYAIX) through my online account. I was given the choice to either reinvest the dividends and capital gains or receive them in cash. Which do you recommend?

A: Reinvest. Ditto for all the other funds recommended in *Safe Money*. The only exception: If you are using them for income for regular expenses. However, the Rydex Ursa, Arktos, and Juno funds are not income oriented. They're designed primarily for hedging or for speculative profits in down markets.

Q. Are you a perma-bear?

A: No. One of the primary goals of *Safe Money* is to get you back into the market at the right time. But please be patient.

Q: How much risk is associated with the Prudent Safe Harbor Fund and the American Century International Bond Fund versus staying in T-bills?

A: In Treasury bills, the principal risk is zero; in these funds it's not. In 2003, for example, if you were unfortunate enough to have bought and sold them at the worst possible time, you would have lost 4.5% with the former and 3.3% with the latter. But that's a modest risk for funds that yielded total returns of 29.4% and 23.5% for the year.

Q: Larry, I hear the European Central Bank is determined to keep the price of gold down. Your comment?

A: This central bank manipulation story is one that has been played over and over again by analysts everywhere. I don't think it's true. Even if it is, it has obviously failed miserably, as gold has skyrocketed from the $255 level to as high as $390 over the past two years.

Q: What should I look for in variable annuities?

A: No or low surrender charges. No front end load. A minimum of seven mutual funds to choose from, including a minimum of at least one safe, money market or fixed income fund. The ability to switch between funds easily. A Weiss Safety Rating of B+ or better for the insurer. Examples: USAA Variable Annuity (Weiss Safety Rating, A-) and Ameritas No-Load Variable Annuity (also A-).

Q: TIPS, inflation-protected Treasuries, are yielding 2.5% PLUS inflation. Why don't you recommend them?

A: Because I expect deflation. Consider this example: You and I each buy Treasuries on the same date with the same maturity. But yours is a TIPS with a 3% coupon rate and mine is a straight Treasury with a 4 3/8% coupon. Right off the bat, I'm earning more. If inflation increases, you may catch up with me. But if there is deflation, the price of the TIPS will decline, driving the yield to the equivalent of 1.8%.

Q: I can't see Greenspan risk higher rates. What am I missing?

A: The Fed can manipulate short-term rates, but has far less influence over long-term rates.These could be pressured higher by the ballooning deficit.