SPECIAL REPORT

DISASTER AROUND THE CORNER

NOVEMBER 6, 2005

INSIDE THIS ISSUE:

The following Special Report should be read carefully. It represents a version of the same report that will soon be sent out to **over 100,000 investors across America** as a part of a large newsletter service that has asked me to provide content for its readers. But you are getting it ahead of everyone else and I suggest you spend some time considering the implications.

Most investors want to hear positive things about the markets, perhaps because they realize that their 401(k)s and pension plans are there, like it or not. And the reality is that Wall Street and the Fed will not alert the American public to the problems in the economy. After all, it was Greenspan that created the Internet bubble. And a mere mention of irrational exuberance in the late 1990's was no excuse for doing nothing about it as he chose.

Readers of this newsletter have seen many times that the information and analysis of Wall Street and the Fed is always going to be more optimistic than the real picture, even when times are terrible. It is the mission of Wall Street to generate business. Meanwhile it is the job of the Fed to safeguard the economy during turbulent periods. And when the Fed has reached its limitations, they act as the "cheerleader in denial" for the team that is getting clobbered, refusing to admit a problem. In contrast, **it is the mission of service to expose these lies and uncover the reality of the economy and market.**

Ever since Alan Greenspan was appointed the Chairman of the Federal Reserve on Aug. 11, 1987:

* Consumer Credit Outstanding has grown from $672.2 B to $2,147.4 B (a 219% jump)

* Household Credit Market Debt Outstanding has grown $2,711.54 B to $10,764.54 B (a 297% jump)

* Domestic Nonfinancial Business Debt shot from $1,974.1 B to $5,269.4 B (a 168% jump)

* The ISDA reports that international interest rate and currency derivatives outstanding shot from $865 B in 1987 to $201.413 trillion in 2005.

* The trade deficit has gone from -150.7 trillion to -756.8 trillion

* The total of foreign-owned U.S. assets has shot from $1.7 trillion to $11.5 trillion.

But this is only a tiny sample of the changes that have transformed our nation into a very vulnerable economy going forward. The following report briefly discusses some of the broad problems in America and suggests that **we are in for a major economic crisis.** And any major event, such as a terrorist attack, could trigger a much needed market correction, sending the Dow, Nasdaq, and S&P 500 tumbling to record lows.

2000-2001: THE BEAR PERIOD BEGINS

We've all seen the results of the Internet bubble, which began its long and painful deflation in the spring of 2000. But there's another market disaster ahead and this time it might destroy all of the markets, sending them to new lows. At the very best of situations, the average annual returns will be very low for several years. **Please read on, as this may be the most important investment article you will ever see. And it could provide you with a very profitable future.** First, I want to briefly take you through the series of events since the Internet bubble and explain to you where we are today and what to expect in the future of the markets.

When the Internet Bubble burst in the spring of 2000, investors were still unaware of the disasters ahead. Wall Street refused to tell us the truth. At that time, the NASDAQ slowly deflated from its high of 5000 eventually down to a low of about 1200 over the next two years. And unfortunately, many investors rode the market down, not knowing what to do, waiting and hoping for a rebound. And I was there, right in the middle of it all as a successful asset manager in Wall Street's best trading firm. The whole situation disgusted me to the point that ultimately caused me to leave the industry.

It was only when many stocks were at multiyear lows did Wall Street start issuing sell signals, but by then it was too late and many of the former darlings of Wall Street became penny stocks. Do you remember JDSU, NT, SUNW, RMBS, RHAT, BRCD, INFO, CIEN, NXLK? The list goes on as you may recall. But it wasn't all bad in 2000, as the Dow and S&P 500 continued to do well.

But soon, the controversial presidential elections of 2000 caused these markets to drift downward and most people felt they would recover once a clear winner was named. However, the markets continued their weakness in 2001, and when 9-11 occurred, all the markets crashed. Despite a reasonable rebound a few weeks later, the economic data continued to get worse. Then came an avalanche of corporate accounting scandals—Enron, WorldCom, Tyco, Halliburton, America Online, and a host of Internet and telecommunications companies once esteemed by research reports from Wall Street's top analysts. By this time, investors finally had it, and the markets plunged to new lows. All of these events caused the Fed to issue a series of rate cuts that brought short-term rates down to 40-year lows. And soon, long-term rates followed and were too at multi-decade lows.

After the new market lows in late 2003, the economy appeared to show signs of improvement, with strong consumer spending and GDP in 2004. Low mortgage rates have been fueling a real estate boom that has been enhanced by loose restrictions on credit. Meanwhile, home equity loans continue to be as much in vogue as the iPod. Throughout this time, **the Fed has applauded the economic "recovery," as if they were blind to what was really going on.**

All throughout the post-bubble period, consumers have been fueling the economy by increasing their debt—using their credit cards and houses as ATMs. And this dangerous behavior still continues today.........

Read on to find out the disaster that's just waiting to be triggered.........

FICTION: THE ECONOMY IS IMPROVING

The fact is that **consumer spending has occurred on borrowed money from home equity loans and record levels of consumer debt.** It hasn't been job creation or wage growth that has fueled the modest attempts at recovery, as the Fed would have you believe. As a matter of fact, the outsourcing labor market trend is devastating American workers.

In 2005 alone, Freddie Mac has estimated that Americans will turn $204 billion of inflated real estate into cash by taking out additional home equity loans. Meanwhile, corporate earnings have not been good overall, and corporate spending has been frozen for nearly five years now. Yet, on many occasions, Wall Street has praised earnings and has used this information to spread the propaganda of a strong economic recovery. **But the fact is that analysts have been on the conservative end of earnings estimates as a way to boost the perception of good performance.**

Meanwhile, most companies have been hoarding cash, resisting the temptation to invest in new projects. Remember in the spring of 2005 when earnings were "great"? Why didn't the market go back up? The fact is that corporations have been focusing on cost-cutting and that has been the main force that has improved the bottom line. Yet, Wall Street and Greenspan would have you think otherwise.

Record consumer bankruptcies continued to rise and peaked in the summer of 2004. As well, record foreclosures have continued and have helped to fuel the real estate bubble. And while these levels have tapered off, they are still extremely high and not far off from the peak.

In fact, with record energy prices expected to get even higher, interest rates climbing due to the Fed's wasted efforts to push inflation down, we are on the edge once again and I expect things to get worse over the next few years. Yet Wall Street and the Fed continue to deny any problems. Once again, Wall Street and the Fed are lying to the American public but I am here to tell you the truth.

With the household savings rate at an all-time low of 0%, consumer debt at an all-time high, record Federal and trade deficits, a prolonged military conflict in Iraq, a weak dollar, record energy prices, a real estate bubble ready to burst, increasing inflation, a state and corporate pensions under funded, social security a mess, and a healthcare crisis that keeps getting worse, how can anyone claim our economy is even getting better?

FACT: WALL STREET IS ON THEIR SIDE, NOT YOURS

Ladies and gentlemen, unfortunately, the bad times are not over. As a matter of fact, I believe they are going to get much worse. **But don't expect Wall Street or the Fed to alert you until it is too late, because they have their own hidden agendas.** Quite simply, the task of Wall Street is to generate business. And during my experience working for Wall Street's best firms, **I have found the vast majority of analysts to be not only useless, but dangerous.** They do not understand asset and risk management and they do not consider technical analysis, market psychology and economics. They are simply salesmen in disguise who generate trading and investment ideas for the brokers to pass onto their clients. And Wall Street economists are usually **Not much better. Rather than providing accurate and meaningful forecasts, they look at daily numbers and try to squeeze out as much optimism as they can. And by the way these clients often include mutual fund companies and other multibillion dollar investment firms, such as pension funds.** And while the SEC now has laws that forbid analysts from trying to generate investment banking business, you can bet it's still going on. The problem with Wall Street research is that it takes huge sums of money to run an investment research department. And in order to justify the costs, firms use most of their analysts to cover the large companies that tend to have a lot more investment banking business to divvy up.

FACT: WALL STREET IS ON THEIR SIDE, NOT YOURS

That's why analysts are always changing their minds. Think about it. **Why does Wall Street preach "long-term investing" as an excuse for poor performance of its recommendations, yet they lower a rating for a stock? What does it matter that a company missed earnings if the investors are expected to be "long-term" holders of the stock?** Answer: they want your business for the long-term, but they also want to cover their mistakes and inadequacies when they are wrong, which is very often. Likewise, what good are analyst ratings if most stocks are "buy" or "hold" even in a bear market? **When was the last time an analyst helped you "buy low" and "sell high"?** Most likely, analysts have caused you to do the opposite. Have you ever seen an analyst come out and say, "my industry is expected to perform poorly over the current and future expected economic conditions"? Of course not. That would be bad business for the firm. Likewise, have you ever heard a Wall Street firm state the obvious: airline, transportation, automotive, and publishing industries are simply bad investments due to their business structure. Of course not. Once again that would be bad business and would surely dismiss them from getting those bond underwritings.

When was the last time an analyst helped you "buy low" and "sell high"?

FACT: MOST WALL STREET BROKERS ARE NOT WILLING OR ABLE TO HELP YOU

The handful of truly talented brokers are becoming rarer each day due to the emphasis by the management to sale managed money, which is not much better than mutual funds. Therefore, the newer brokers are not only unskilled and inexperienced in asset management, but they are not even permitted to trade or manage assets. All they are doing is placing their clients with some money manager that is never seen or heard from.

Similar to mutual funds, money managers must remain at least 90% invested at all times by law. Therefore, they have no means to avoid large corrections in the market. There is a good reason why almost all money managers and mutual funds cannot match the returns of the indices. They do not know what's going on and they really don't care that much. After all, it's not their money and they get paid regardless how they do. All they are is marketing machines that the public with the perception that they understand the investment process. All they really understand is dollar-cost averaging, but so does a sixth grader.

And the small number of brokers who are skilled enough to know what is going on are often restricted from making recommendations that are inconsistent with the analysts of their firm. And when they do decide to recommend a stock that one of their analysts has a hold or sell or does not even cover, they face the risk of getting sued if the stock falls and the firm may not support them.

So unless you have about $20,000,000 of investable assets, you won't be able to get a broker knowledgeable enough to help you navigate this market. And if you think its bad for Wall Street brokers, you can imagine how bad it is for the discount brokers.

Does Wall Street REALLY know what's going on? If they do why do they keep changing their minds each day? Why haven't they alerted you to the problems in the economy?

THE FED: A TEAM PLAYER FOR WALL STREET

And when it comes to the Fed Chairman, his loyalty lies with the U.S. government, which means his goal is to help the economy remain strong. And when the economy is weak, he will downplay the problems in order to preserve the economic engine—consumer confidence and spending. You see, **because consumer spending makes up over 70% of all economic activity in the U.S., it is important for consumers to remain confident in the economy and to continue to spend.**

That is precisely why the Fed cut short-term rates to almost nothing and allowed the consumer finance industry to ease credit restrictions for home equity loans and mortgages. Greenspan realized that consumers wouldn't have the cash to keep the economy afloat unless he let them borrow it for close to nothing. **What has essentially occurred is that consumers have been fueling the small gains in the economic recovery with borrowed money.** And now that interest rates will soon reach the historic mean of around 5%, (in order to combat the inflation caused by high energy prices) the real estate bubble is ready to burst. And when that happens it is going to devastate the markets.

When interest rates are low, property values increase because the total price required for a residence declines due to lower financing costs. In contrast, when rates head north, property values decline since the total financing cost is higher. This wouldn't be much of an issue if people were buying homes for residential use, but estimates are that **over 25% of all home purchases in 2004 were by investors.** Normally, real estate is a great hedge against inflation, but not when real estate has been purchased at inflated prices. **We clearly have a major problem at hand.**

FACT: AMERICA'S RETIREMENT MONEY IS AT STAKE

Unfortunately, there is more to this saga. As a result of the economic disasters of the past few years, most Americans over 50 do not imagine ever retiring due to the poor performance of the stock market. It has been estimated that **over 50% of Fortune 1000 companies' pension funds are under funded** (defined as pension assets below 80% of that required to provide full benefits). **What that means is that there is not enough income to payout benefits to retirees.**

The PBGC is a government agency responsible for insuring the pension assets of over 44 million Americans. But the PBGC has been in deficit for over three years now and currently has a shortfall of over $50 billion. Of the participants of the PBGC, it has been estimated that **over $450 billion in pension assets are unavailable to retirees and the PBGC is not able to pay these claims.** This problem is most obvious in corporate America as we have seen with GM, Delphi, Lucent, the steel and the airlines industries. As one example of the problem, it has been estimated for each automobile made, GM is already in the hole by $1600 to $2200 even before the auto leaves the plant due to pension expenses.

By law, when pension plans remain under funded for a certain period, companies are required to use their earnings to fill the gap. Think about what that is going to do to corporate earnings. But state and municipal pensions have also been affected. Every major city and state has a deficit and this has resulted in cutting education expenses and other important programs, thereby weakening the education and future competitiveness of America further.

What are the main culprits of the under funded pensions? The first problem is the weakness of the stock market. Because most pension assets are invested in the stock market, a weak market will cause assets to decline. But a bigger problem is the healthcare crisis in America. Rising healthcare costs due mainly to the lack of controls of prescription drugs has caused most employers to gradually shift more of the out-or-pocket expenses to employees.

FACT: AMERICA'S RETIREMENT MONEY IS AT STAKE

As well, most companies do not fund healthcare benefits in a separate trust, but draw upon cash flows as needed. Finally, the problem that cannot be corrected is the increase in the number of retirees versus the number of current workers that contribute assets to the plan. It's simple math and it is disaster that is going to get much worse as baby boomers hit retirement age starting in 2008.

Imagine what would happen if retirement benefits that were taken as guaranteed were to be cut or eliminated? This is a very real scenario and has already happened with many companies. And the ability of the PBGC to salvage the remaining pensions appears to be doubtful since it is near bankruptcy itself. Right now Congress is battling with this crisis and trying to figure a way out. Most likely, major concessions will need to be made and either the retirees or the current employees will suffer one way or another. Regardless, you can bet that it is going to hurt the consumer's buying power. And we all know what happens when the consumer is weak—the markets do poorly.

Meanwhile, we all know the desperate shape Social Security is in. Plan benefits are about enough to pay for utilities and food and the buying power for social security recipients has dwindled over the years due to its inability to keep up with inflation. And finally, there are the 401-type retiree plans, which represent a major problem for the markets. Because these individuals are able to receive a lump sum distribution by age 59 1/2, they may in fact do this if they need money. However, at the very least, over the next several years, retirees will most likely pull the maximum amount from their plans on an annual basis, causing an exodus from the stock market.

Many "Baby Boomers" won't be able to count on the retirement assets and this is going to destroy consumer spending

THE HEALTHCARE CRISIS IS AN IMMINENT THREAT TO THE ECONOMY

With a pension problem that seems to be getting worse, the clear answer is a healthcare system that needs drastic restructuring now. Estimates are that over 15% of all Americans have no health insurance and in Texas that number is near 25%. If you slip and break a leg and have no healthcare insurance, the bill could run as high as $20,000. Over the past several years, it has been estimated that up to 50% of all Americans declaring bankruptcy stated medical bills as their main reason. And now that personal bankruptcy laws have been changed, people will no longer be able to get a bail out after a medical disaster. And don't expect the uninsured numbers to get any better, now that employers are cutting benefits, outsourcing, and hiring more Americans based on a contractor or part-time employee situation.

However, don't expect a solution to the healthcare crisis anytime soon. Just last year, President Bush gave big pharma the green light to continue to charge any price they wanted for prescription drugs when he allocated some $250 billion for Medicaid drug subsidies. What he is basically saying is this: charge what you want and ill tax everyone to cover a portion of the costs. Meanwhile, Americans pay higher prices for prescription drugs made by U.S. companies than any other country. And the reason is due to the control of both democrats and republicans by big pharma. The reality is that the healthcare system in America is poor relative to other developed nations. And although America spends more money by far than any other nation, their healthcare system is ranked 20th in the world according to the World Health Organization.

FACT: THE GOOD OLE DAYS ARE GONE

Forget the average annual returns of 15% to 20% in the markets. The 1990s are in the past and the devastation in the markets since 2000 is just a small part of the future. Our standard of living is gradually declining and middle class America is gradually disappearing. Many of the basic necessities are now draining our pockets. Who ever thought they would have a total monthly energy bill that was almost as much as their monthly mortgage payment? How can you maintain a healthy economy when you are paying $300-$400 for gasoline and $400 for electric each month? Get used to it because energy prices are going to remain high for several years.

Meanwhile, more jobs are continuing to be exported overseas, as outsourcing to foreign nations remains at an all-time high and is expected to get worse. And the average American worker does not have the educational skills to transition into lucrative careers to replace their lost jobs, which are now overseas. But even wage growth of college graduates has been in decline for several years.

The long-term answer is to fix the educational system and enforce trade compliance in Asia. The short-term solution is to eliminate tax incentives for companies who have operations overseas. But even fixing this problem would require a lot of effort and time and will not prevent the economy from unraveling.

During economic expansions, international outsourcing is good for the American consumer because it provides less expensive goods. But outsourcing is bad during severe economic contractions because consumers need jobs more than they need inexpensive products. The only beneficiaries of the current outsourcing trend are U.S. corporations.

WARNING: TIME TO WAKE UP

So how does this all relate to the stock and bond markets? And how can you profit from knowing and accepting these realities? First of all, investors need to realize that **we are in a post-bubble correction period. Historically, such periods have lasted from 12 to 15 years and market returns have averaged 1-3% annually** (unadjusted for inflation). And while there will be good performance years for the market, there will be equally bad or perhaps much worse years.

Many investors are still clinging onto the darlings of Wall Street from the 1990s—Cisco, Microsoft, the other tech stocks. And if you fall into this category you really need to wake up. First of all, large caps have not performed well and will continue to perform poorly in general. This is especially true for the tech stocks.

Yet throughout this bear market period, there will continue to be many bull markets in select sectors if one is alert. First we saw a bull market in gold beginning in early 2002, but Wall Street only preached the larger cap gold companies that did barely moved...you know, the ones that provide them with banking business. And unless you understand how the mining industry works, you would have missed the great returns with the small caps.

Next the REIT bull market began in 2002; then a bull market in materials. These bull markets were economy driven and made sense if one knew how to interpret the economic cycle. Now we have a bull market in energy. And all throughout this time, technology has been asleep. Going forward, you can expect several other bull markets in sectors that Wall Street will not tell you about.

If you are still waiting for the NASDAQ to cross 5000 again, it's going to be at least another 10 years. And forget index funds, unless you want to settle for 1-3% annual returns. There will be short-term bull markets in certain technology sectors, such as has occurred recently with semiconductors and healthcare. But once again, unless you understand the dynamics of these industries as they relate to the economy, you will get burned.

Over the next several years, investors have to be not only great stock pickers, but also great market and economic forecasters in order to avoid the brutal market swings that will occur in bear markets.

THE NEXT "GREAT DEPRESSION"?

I'm not here to create fiction novels. That's not my purpose and I don't have the writing skills. What I am here to do is to warn you about what could be the second greatest economic crisis in American history. I know this all may sound ludicrous to you all but consider my track record thus far. And if you do not believe I know what is going on in the economy and markets, you have not been reading this newsletter over the past year.

I'll cut to the chase. Quite frankly, America is setting itself up for a major economic disaster, unlike anything seen since the Great Depression. I have no idea when it will happen but my guess is that it will occur sometime over the next 6 to 12 years. And it might be triggered by a major terrorist attack or some other devastating event.

Major crises are often triggered by unrelated events, which serve to make people more cautious about the realities that have already built up. We experienced this during the Great Depression and we certainly saw this after 9-11. Remember? The real market lows were not reached until two years after 9-11, once the public realized our economy was in trouble. But it was 9-11 that really triggered the wake up call that the economy was in bad shape.

Do you recall the special report I issued back in on November 24, 2004? In that piece I warned that the market had not yet factored in the realities of the economy. And I wasn't talking about the short-term health of the economy but the major long-term economic effects I have briefly mentioned in this report. Of course at that time, I predicted no bull market until at least 2006. But I changed my view shortly thereafter and have been insisting since then that we will remain in a bearish market until at least 2012.

Meanwhile, the fact is that it is still quite possible that the Dow could plunge to 5500 to 6500 before it is all over. Sound ridiculous I know. But if you examine the technical analysis of the Dow since 1900, consider the issues I have mentioned, this is a very real possibility.

Once again, this is no joke. And if you have any confidence in my abilities to forecast the economy and market, you should take this very seriously. I cannot tell you whether the market will continue to trade sideways for the next 8-10 years or whether we will experience several crashes sending the Dow to devastating levels. But what I can tell you with complete certainty is that we will remain in a bear period for the next several years. And the economy will continue to get worse. Perhaps not on a short-term basis, but on a long-term basis, and that is really what is important. It's a trend, not a short-term event. Trends are difficult to change, as is human behavior.

So if you want to listen to Wall Street be my guest, but we all know their track record. However, if you want to make money and learn to think for yourself, join me because there will continue to be several great stocks even when the market declines.

In closing, the next time you hear that the economy is doing fine, remember the troubles America faces over the next several years and think about what these problems are going to do to the strongest force in the economy—the consumer. And in my opinion, these difficulties have not yet been reflected in the market, as the next page illustrates.

At the best of scenarios, the markets will sputter along over the next several years. In the worst of situations, the markets will spiral downward, reaching new lows. But again, there will be stocks that continue to soar while the market declines.

Always remember:

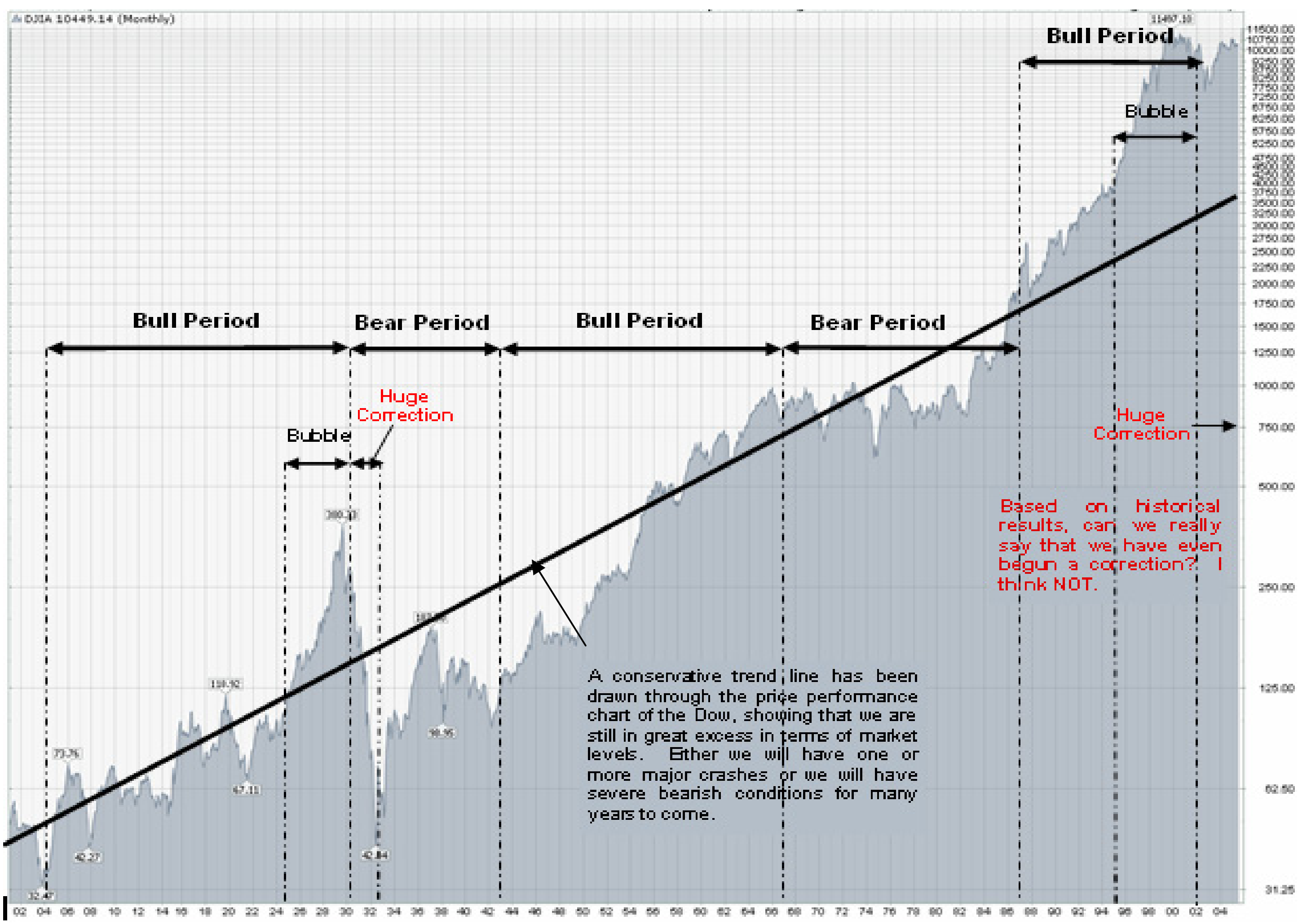
You cannot have a bull market when the Dollar is weak, when oil is high, or during war or war-like conditions. We have all three and they wont be changing anytime soon.

HISTORICAL BULL MARKETS, BUBBLES, AND CORRECTIONS

As you can see, I have listed the major bull and bear market periods since 1900. Note that although there have been several bull and bear markets, I have condensed them into periods for illustrative purposes. I have also shown the 2 largest bubbles of the market. The bubble period is the rapid acceleration of the bull market and occurs during its final stages. The point I want to make is that all bull markets are followed by corrections, which are characteristic of bear markets.

However, corrections can either be one or more large market crashes or a long period of sideways market movement (i.e. typical bear markets). Typically, bubbles are followed by some combination of crashes and a variable period of sideways trading. This would depend upon the severity of the crash.

Based upon my analysis, (which includes not only technical aspects of market behavioral dynamics, but also economic data) there is no doubt that the market will remain in a bearish period for the next several years. In addition and of more note, **I do not feel that we have experienced the kind of post-bubble crash that typically occurs.** In general, the longer we can hold off a crash, the lower such a crash (if it occurs) will recede. Time is the best weapon for preventing a disastrous crash. However, **it would not be surprising to see the Dow go to the 5500-6000 level if a crash were to occur within the next 3-5 years.** If a crash does not occur with this time frame, we will most likely have escaped the post-bubble correction. However, there will continue to be tremendous volatility which could result in many smaller crashes. Note that the Dow was about 2500 during 1991. Fifteen years later, and 400% returns...does that seem reasonable to you?



WHAT TO DO ABOUT IT ALL?

Well, we certainly cannot lie down and wait for a possible disaster because we could miss great opportunities in the market. As I have said, such a disaster may not occur for a number of years. After all, during the 1990s, there were many respected individuals who predicted the crash of the raging bull. However, most of them made such predictions several years before it actually occurred and therefore missed all the gains.

Recall that the Dow was below 4000 in 1994, and individuals who remained out of the market due to fears of a crash missed tremendous gains.

Therefore, the first thing you need to do is to remain cautious, despite any "great news" from Wall Street or other masters of propaganda. As well, you need to remain pessimistic when the market rallies. Finally, you need to keep a large cash position at all times, until certainty of a rally occurs.

But of course, the most important thing you need to do is follow me and dismiss all opinions of Wall Street. If you are alert to the possibilities I have mentioned, you will be amongst the first to spot them and can react in a timely fashion.

Regardless of any crash or bear market, there have been and will continue to be small bull markets in certain sectors. However, they are usually extremely difficult to spot early on. And the last thing you want to do is jump aboard a bull market in the late stages because what always follows is a bear market.

Throughout 2005, I have been beating the ground with contradictions of Wall Street and the Fed. I ask you...who has been consistently right, me or Wall Street? Me or the Fed?

If you think Wall Street is going to guide you through this mess, don't hold you're breath. They're going to drag investors all the way down to the bottom just like they did after the Internet bubble burst.

Major Problems America Faces

Record Federal Deficit
Record Trade Deficit
Record Foreign Dependence on Debt
Weak Dollar
Record Bankruptcies
Record Foreclosures
Healthcare Crisis
Pension Crisis
Social Security Crisis
Record Consumer Debt
No More Bankruptcy Bailouts
Continued High Energy Prices
Global Oil Shortage
Global Tensions
Iraq Post-War Period

After My November 2005 Warning...

I had been writing my newsletter service for over two years. And the piece you just read wasn't my typical newsletter because I specifically made a point to avoid doing write-ups on individual stocks and other material. It was released as a Special Report (or bonus piece) between monthly newsletter releases. This newsletter was restricted to former clients and some institutions. I continued warning my readers of the financial apocalypse for a couple of months thereafter. But I soon released I needed to focus on writing a book to warn the public what I knew was coming. So I halted the newsletter to begin this enormous project.

After nearly two years of painstaking work around the clock, I wrote what could be the most comprehensive report ever written on America's challenges, showing that it would be impossible for America to escape a long period of depression.

The book, released in late 2006 was titled

America's Financial Apocalypse

How to Profit from the next Great Depression

Forget the others. This is THE BOOK that predicted EVERYTHING and will continue to serve as a crystal ball for many years to come. No book comes remotely close to the comprehensiveness, depth and accuracy of this book. That is a fact.

The problem was that the conclusions were so devastating that I was black-balled by the media. No one could refute my arguments because they were too well researched. If the media had let me speak, it's likely that you wouldn't have lost all that you did. Those who read it have done very well.

Note that the book was not written as a marketing tool, like the others. I was not marketing my firm and trying to get you to buy gold from me. I don't deal with investments. I get paid by the best to be right. And right I have been for a long time.

Shortly after writing "America's Financial Apocalypse," in March of 2007 I released a book focused on the real estate collapse titled Cashing in on the Real Estate Bubble.

The following excerpts are from the real estate portion of these books. There is much more investment-related material that was spot on. If you had only read these books you would have scored big or at least avoided huge losses.

MAKE SURE TO READ TO THE END AND YOU WILL SEE I ADVICED READERS TO SHORT THE MORTGAGE, BANKING and HOMEBUILDER STOCKS. You will NEVER EVER see ANYONE write this in a book because shorting is usually a very short-term strategy. That's how confident I was these guys were headed to the single digits and in some cases down to 0.

Excerpts from the real estate chapter in America's Financial Apocalypse (2006)

"At least 30 percent of the $11 trillion residential mortgage debt market will correct downward leading to record foreclosures, which will affect the MBS and ABS markets. If this correction has not ended by 2011, the housing share of consumer expenditures will decline gradually as the boomers reach retirement."

"Under normal conditions, anywhere from *25 to 30 percent of the U.S. economy is directly affected by the housing sector*. However, due to exaggerated asset prices from the housing bubble, this share is significantly higher.....***housing prices have up to two times the effect on consumer spending as they do on declines in stock prices***. Consequently, if housing prices decline by 25 percent, the economic impact will be as if the stock market declined by 50 percent."

"At its bottom, I would estimate a 30 to 35 percent correction for the average home. And in "hot spots" such as Las Vegas, selected areas of Northern and Southern California and Florida, home prices could plummet by 55 to 60 percent from peak values."

The "Poor Effect"

"Considerable research has shown that Americans view their homes as a significant portion of their future wealth. Therefore, when home prices increase rapidly, they save less. Instead, they consume excessively because they feel richer than before. A similar situation occurs during bullish stock markets. But can not the opposite be true as well?"

"Across the nation, even if we assume a very conservative 20 percent correction, there would still be several major regions that would experience declines of 35 to 40 percent. Declines of this magnitude would wipe out the wealth effect, as many watch their home equity evaporate into thin air. This will not only halt consumer spending, but it will also force millions of foreclosures across America, causing housing inventories to rise, which could cause a further collapse in home prices. The aftermath of record foreclosures will send shockwaves to the stock and bond markets."

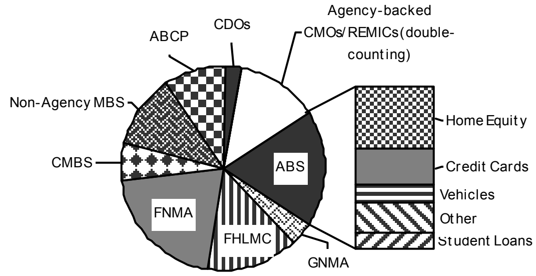
pp. 217-222 –Warning of a collapse of the banks, Fannie, Freddie and the entire financial system

"The MBS and ABS markets have exploded over the past two decades and now are considered amongst the biggest investment markets worldwide. Most consumers aren't aware of them since these securities aren't publicly traded like the stock and bond markets. Rather, ABS and MBS are typically bought by pensions, insurance funds, mutual funds, and other large institutions. But since the primary companies involved in securitization of ABS and MBS are publicly traded, (Freddie Mac, Fannie Mae, and Ginnie Mae for MBS; Sallie Mae, Citigroup, Chase, and Bank of America for ABS and some MBS) a significant portion of mortgage and consumer debt is indirectly linked to the stock and bond markets."

"Figure 10-21 illustrates the size of the ABS and MBS markets relative to the overall publicly traded bond markets. As you can see, the $10 trillion MBS market alone (Agency MBS and Agency debt, private MBS, and ABCP) is larger than the corporate and U.S. government bond markets individually, and nearly as large as both of these markets combined. When you add the $1.9 trillion ABS market to the MBS market, the entire $12 trillion ($14 trillion 2006 data) collateralized market is larger than the U.S. government and corporate bond markets combined. In comparison, as of June 30th, 2006, the estimated value of the collateralized securities markets stood at over $14 trillion while the total value of the U.S. stock market stood at around $13 trillion. Thus, the collateralized securities market (primarily made of mortgage debt) is the biggest investment market in the world."

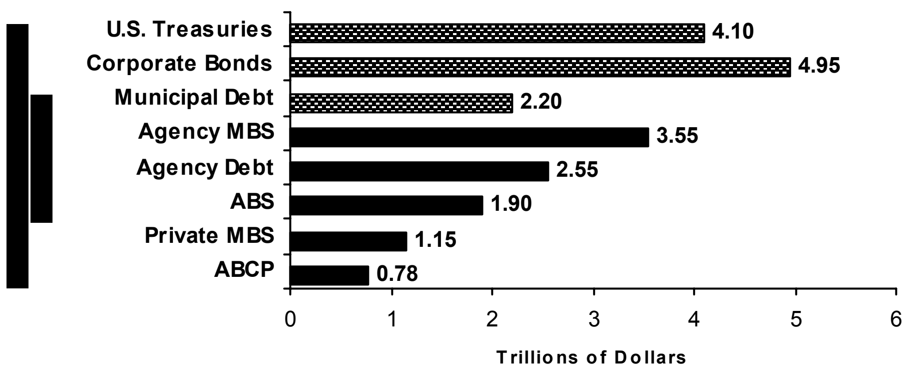
"Combined with the fragility of the economy, it should be easy to appreciate the enormous credit risk the collateralized markets have generated. Depending on how, when and to what extent the real estate and credit bubbles correct, large aftershocks could ripple throughout America's financial system, triggering a massive stock and bond market sell-off, as well as huge problems for Fannie, Freddie, and all other banks involved with ABS and MBS.

Figure 10-20. Breakdown of Debt Type in the Collateralized Markets by Asset Class



Imagine for a moment how the stock and bond markets would react to a large number of bond defaults by corporations. Now think about how vulnerable the MBS and ABS markets are, given the potential effects of the real estate and credit bubbles. Remember, *it's very easy to walk away from a mortgage with no real consequences.* Thus, it should be clear that America could face a devastating financial crisis from a misstep in the MBS market alone.

Figure 10-21. U.S. Capital Debt Markets (selected components as of September 30, 2005)



Risks of Collateralized Securities

"The great thing about securitization is that it creates liquidity and makes credit widely available to consumers and businesses at competitive rates, all of which helps drive the economy. While securitization is often an invaluable resource for generating abundant credit for economic expansions, it can also lead to busts if a sufficient number of consumers default on payments.

Noteworthy of mention are some of the shortfalls of the securitization process. For instance, securitization doesn't eliminate the risk of collateralized loans and assumes their liquidity and marketability will remain in tact. As well, there's an enormous amount of guesswork that goes into structuring the risk of these loans. In short, GSEs and other financial institutions have to estimate how much revenue they can expect at any given time, how much of that money they'll need to back their bonds safely, and how much cash will remain as a profit—a lot of uncertainties."

"Even the riskiest of these loans can be manipulated into AAA-rated debt and sold to pensions and other large funds because the same standards that apply to corporate debt are not applied to collateralized debt products. In addition, these ratings do not account for whether investors will receive a return on principal. And since companies that securitize these loans are not regulated like banks, they don't have a capital requirement that would ensure adequate reserves to fund payments to investors."

"Ever since the birth of the collateralized securities market three decades ago, we have yet to see a blowup. However, that scenario may not be so far off, as credit risk continues to increase. Consequently, recent concerns emphasizing the vulnerability of this huge market might be the major reason for the new bankruptcy law passed in October 2005. The bankruptcy law provides some security to the ABS markets since it's now more difficult to walk away from consumer debt. However, it's still relatively easy to walk away from a mortgage. Therefore, the vast majority of this market remains very vulnerable."

Government-Sponsored Enterprises

"GSEs are corporations that were created by Congress to increase Americans' access to mortgage loans. There are three GSEs and several related agencies: the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Bank (FHLB) system."

"As far as the real estate and mortgage industries are concerned, the primary function of GSEs is to sustain a liquid mortgage market. As we have seen, the primary mortgage market is created by banks and other lenders providing financing for mortgages. But without a place to go, these creditors would soon run out of funds to loan customers. So in order to keep mortgage cash flows robust, Fannie Mae, Freddie Mac, and Ginnie Mae buy these origination loans, providing banks with cash to approve more loans. From these agencies, loans are packaged into a variety of securities, which are typically purchased by pension funds, mutual funds and banks. Thus, *the secondary mortgage market (the GSEs) generates money for lenders (the primary mortgage market) to continue supplying mortgages to consumers."*

"The original intended purpose of the GSEs was to focus on affordable housing for the private sector. Yet, dozens of studies have shown that Freddie and Fannie have not been dedicating their resources towards this mission, but have been supplying funds to the overall market. Therefore, *the GSEs have been a significant stimulus for the rapid growth of sub-prime loan market that has contributed to the enormous risks we see within the real estate bubble."*

Why GSEs are Dangerous

"As confirmed by the Office of Federal Housing Enterprise Oversight (OFHEO), an arm of the government that regulates Fannie Mae and Freddie Mac,

> *'The housing market contributed significantly to the Nation's economic recovery. Falling mortgage rates stimulated housing starts and sales, and many refinancing borrowers took out loans that were larger than those they paid off, providing additional funds for consumption expenditures.'*

"Because Fannie and Freddie lack sufficient government oversight, they haven't maintained adequate capital reserves needed to safeguard the security of payments to investors. And due to exemption from the SEC Act of 1933, they aren't required to reveal their financial position. In fact, *they're the only publicly traded companies in the Fortune 500 exempt from routine SEC disclosures required for adequate transparency and investor accountability."*

"Exemption from the Act of 1933 also releases the GSEs from adherence to rules governing tender offers and public reporting of insider stock transactions. Finally, they're not required to register their debt offerings with the SEC, which diminishes transparency further. As a result, the GSEs are exposing themselves to excessive risk. Oddly enough, while Washington subsidizes Fannie Mae and Freddie Mac each year by over $10.6 billion (2002), they don't require complete disclosure or insist on standard capital requirements."

"Fannie and Freddie hold between 20 to 50 percent of the capital required by bank regulators for depository institutions holding mortgages. As of 2003, the GSEs had $1.6 trillion in combined assets, $1.4 trillion in retained mortgages in their portfolios, $1.5 trillion in outstanding debt, and $1.5 trillion in derivatives. In addition, outstanding MBS generated by the GSEs but held by third parties totaled $1.7 trillion."

"What would happen if one or more GSE got into financial trouble? Not only would investors get crushed, but taxpayers would have to bail them out since the GSEs are backed by the government. Everyone would feel the effects. With close to $2 trillion in debt between Freddie Mac and Fannie Mae alone, as well as several trillion held by commercial banks, *failure of just one GSE or related entity could create a huge disaster that would easily eclipse the Savings & Loan Crisis of the late 1980s."*

"Furthermore, the GSEs have created very risky derivatives exposures for themselves and many financial institutions. As these debt instruments evolve into different products, less transparency and more uncertainty is created. Fannie Mae has taken about half of its MBS and pooled them into another security called a Real Estate Mortgage Investment Conduit (REMIC), otherwise known as a restructured MBS or Collateralized Mortgage Obligation (CMO). These mortgage derivatives are complex and considered very speculative."

"I want you to stop and think for a minute about all of the fraudulent practices that have occurred within the housing industry, from known problems of poor workmanship and cheap materials by some builders, to inflated appraisals performed to generate ease of lending and to support cash-out deals. *From inflated appraisals alone, 10 to 15 percent of MBS securities or up to $1.5 trillion have been overvalued by conservative estimates.* Combine that with the lack of transparency, questionable risk exposure and fraudulent practices by executives at Fannie and Freddie, and you have a disaster ready to strike."

"Now combine that with over 10 million Americans holding interest-only and ARM mortgages, throw in a million or two job losses due to say the failure of Delta, Ford, General Motors, or some other large vulnerable company, and you could end up with a blowup in the MBS market. This scenario would devastate the stock, bond and real estate markets. Most likely, there would also be an even bigger mess in the swaps and derivatives markets. In conclusion, the collateralized securities market is a very tall and fragile house of cards poised to collapse, and all it might take is one card to be dislodged. A breakdown in just one of the GSEs is very possible and could result in a financial collapse of far greater magnitude and scope than Enron, triggering massive losses."

Excerpts from "Cashing in on the Real Estate Bubble" (2006)

Page 70

"Most likely, over the next several years, the housing correction will generate over 15 million foreclosures (and pre-foreclosures). The consequences of this rebalancing act will wipe out the wealth effect, as trillions of dollars in home equity evaporate into thin air. This will halt consumer spending, which could lead to a further collapse in home prices."

Page 77

"......all of which could result in over 15 million foreclosures over the next decade."

Page 81

"According to the Federal Reserve Board, American home owners extracted $600 billion in equity from their homes in 2004 and spent half of this money on goods and services. *This $300 billion accounted for 40 percent of the GDP growth in 2004. In other words, almost half of the GDP growth for that year was directly due to real estate-related credit spending."*

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"Housing prices are absolutely critical to the success of companies such as Lowe's, Home Depot, and Sears. As well, most banks are closely tied to the health of the housing market because one way or another you can bet they have exposure to the MBS market. Many of the larger financial institutions have a much greater risk exposure with real estate derivative products. Overall, the biggest threat of this bubble may be the broad-reaching impact of a blow-up in the MBS market that would send shockwaves throughout the capital markets."

"Based on today's grossly overvalued housing prices, a 35 percent correction on average seems very likely. And in some areas, a 50 to 60 percent correction is possible. However, don't expect a sudden collapse. Most likely, it will take several years for the real estate washout to be completed. We can only hope that the MBS market doesn't experience its first blow up since inception, but don't bet on it."

Page 106-107 - When to Buy

"Trying to determine when the bottom hits for this bubble will be extremely difficult. And many will buy after the first or second wave of price declines, only to be stuck with houses that experience further declines. But there are some rules of thumb that may help you decide when to buy. First, only consider buying when the median home price is at or below the price prior to the beginning of the bubble (1995-1996), adjusted for 3 percent annualized appreciation. Recall that housing prices typically appreciate along with inflation under non-bubble conditions."

Adjusting the real estate price for inflation since 1995 would give you a price of 1999 or 2000 median home price. So subtract this price from the current median home price and calculate the percentage increase that has occurred. This percent will be used to discount the current home price. For instance, if the 2000 median home price was 190,000 and the current median home price is 222,000, that would represent an increase of about 16 percent ($220,000 - $190,000 = $30,000; $30,000/$190,000 = 15.5%)."

Chapter 12 - Shorting the Mortgage Stocks

In Chapter 12 from "Cashing in on the Real Estate Bubble," I demonstrate the main way to "cash in" from real estate – by shorting the mortgage, bank, and homebuilder stocks. I have never seen any book recommend readers to consider shorting any stocks because shorting strategies are usually short-term. And by the time the book is read, the stock is likely to have risen much higher. Why did try to guide people to short these stocks then? Because that's how sure I was they were headed to 0 or very close.

"There are a few mortgage-related companies that you should watch for a breakdown in price (which would be one indicator of a potential price collapse). First, the sub-prime lenders like Novastar Financial (NFI), Accredited Home Lenders (LEND), and Fremont General Corp. (FMT). As mentioned, those companies that do most of their business in the sub-prime markets should experience problems first. At a later time, and depending upon how these companies handle their exposure, Fannie Mae (FNM) and Freddie Mac (FRE) could get hit bad."

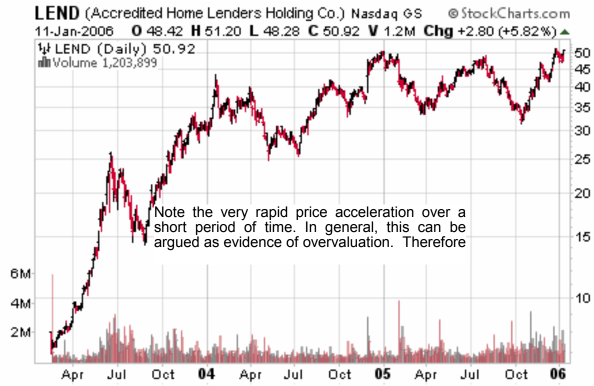
It's uncertain how much exposure to the sub-prime markets Countrywide Financial (CFC) has, but my guess is that it has a fairly large amount. The real question that's impossible to answer is how much and how well have these loans been protected through the use of other financial products.

Understand that as the riskiest loans default, credit risk will increase in the MBS market. This will not only cause a tightening of criteria for new loans, (and therefore hit the housing market), but it will also cause existing conventional mortgages to be seen as higher risk.

If in fact a severe collapse in the sub-prime market occurs, we will most likely see a huge MBS junk bond market over a period of time. And that would spell big trouble for the stock market. However, the Fed does have ability to lighten sudden blows by increasing the money supply (lowering interest rates). But this would most likely only provide a temporary "Band-Aid" remedy to the stock and bond markets."

In this chart, both the support and resistance lines have been drawn to illustrate the downward trend. Note that this is often thought of as a bullish sign. However, given the risk to the sub-primes, I would focus on the downward trend. Notice the symmetrical pattern of strong sell offs followed by gradual price rebounds or retracements. However, also note that these rebounds do not regain price levels prior to the previous sell offs, indicating a longer-term downward trend.

Update: bankrupt; investors who shorted gained 100%

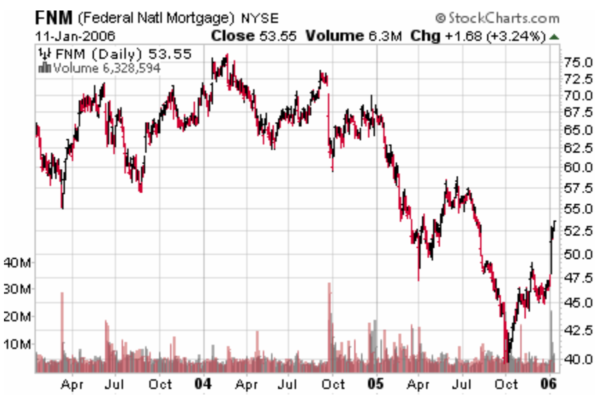


This chart does not display a reliable support trend line pattern due to the lack of intersecting points through the resistance trend line. Therefore, what may seem to represent an upward long-term price trend has not been confirmed by the chart. Accordingly, it would be fairly easy for the stock to fall to low levels.

Update: bankrupt; investors who shorted gained 100%

While this price chart shows a more reliable support trend line, keep in mind that this stock surged from very low prices in 2003. This is the case with the other two sub-prime mortgage stocks, and therefore should be viewed as a very cautious sign given the risk in the economy and the vulnerability of these very risky mortgages.

Update: bankrupt; investors who shorted gained 100%



I have drawn both the support and resistance trend lines for Fannie Mae. As you can see, it has a very strong downward trend with a cyclical pattern of large sell-offs followed by retracements that fail to regain price levels previous to the sell-offs. Note that when you have identified cyclical patterns such as what we see in this price chart, it can represent nice intermediate-term trading opportunities. A safe way to trade this would be to buy call options after a sell off.

Update: investors who shorted gained up to 95%

This chart is scary because it does not show any reliable long-term support trend lines. Thus, the downside is very uncertain. Similar to Fannie Mae, one might chose to take advantage of the enormous price volatility for short-term trades.

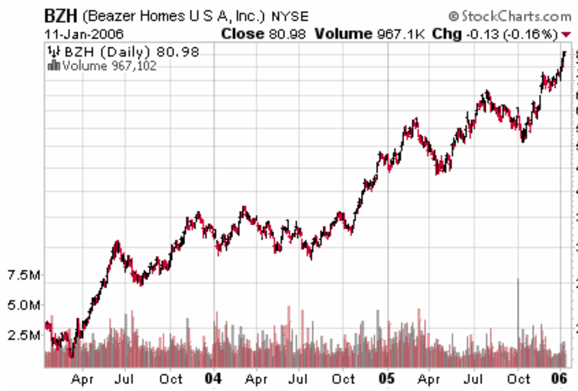
Update: investors who shorted gained up to 95%

Shorting the Homebuilders

"Ever since the Internet bubble deflation began, the homebuilder stocks have enjoyed an amazing run-up in price due to record low interest rates combined with low standards for obtaining mortgages. As the housing bubble deflates, you should expect the homebuilder stocks to get crushed. You should follow the price charts and update the support trend lines as needed, waiting for a breakdown in prices.

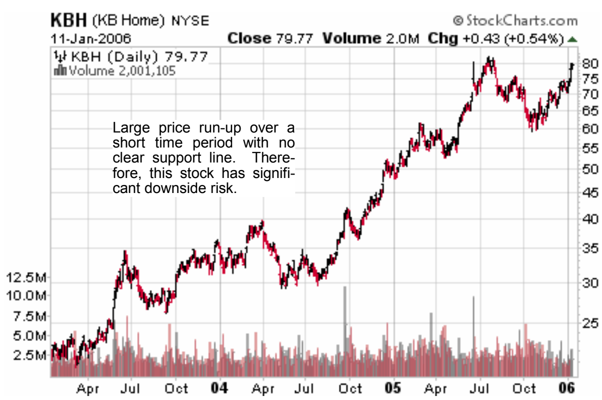
Toll Bros. has a nice support line showing a rather strong upward trend. But often, stocks that are the strongest provide the best returns for short strategies once the risk has been exposed. After all, there is more downside potential in a rising stock. It is critical to wait for a very clear indicator of a trend reversal here.

Update: investors who shorted gained up to 57%



I actually had to draw 2 support lines for BZH, due to the enormous runup this stock has had over the past 14 months. Once again, note the cyclical patterns of sell-offs and rebounds. In this case, the rebounds are stronger, accounting for the strong upward trend.

Update: investors who shorted gained up to 93%



For KBH, I was not even able to draw a reasonable second support line. As such, the downside here is much more fragile.

Once again, I would not go long in this stock or any of the others. The time to go long for the homebuilders was in the 2001-2004 period. There is simply way too much risk now.

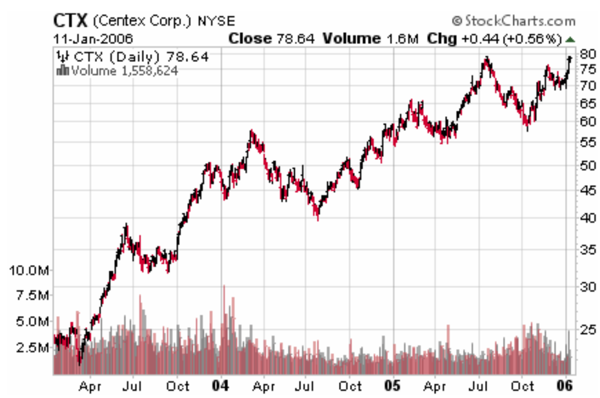
When the real estate market corrects, you do not want to be holding these stocks because you might be wait-

Update: investors who shorted gained up to 84%

While the support line appears to look quite strong for both LEN and CTX, I simply do not like it. The lack of cyclical price patterns is troubling in my opinion. However, the fact is that the stock is experiencing a strong upward trend, similar to all of the homebuilder stocks.

Therefore, you should wait for triggering events such as some adverse data that might lead to a breakdown in the price.

Update: investors who shorted gained up to 84%



Update: investors who shorted gained up to 85%

Investors who shorted the others in the group (mentioned in the book including Countrywide Financial (CFC), Citigroup, Washington Mutual, Bank of America, JP Morgan and other banks mention in both books could have made up to 90%

In the book, I also discuss the banks. I thought they would get hit bad, but not so bad. And I did recommend readers consider shorting them for shorter-term strategies. Little did I know at the time I wrote the book that the banks would be just as good to short long-term as the mortgage stocks. By Late 2007, I knew this and stated it in my online updates.

This is just from the material on the real estate bubble. I also made many forecasts for gold, oil, and hundreds of other predictions. I even predicted the correction in the commodities bubble. The fact is that the original 2006 version of "America's Financial Apocalypse" has and will continue to serve as a crystal ball for many years to come.

SO now, ask yourself who the REAL EXPERT IS? You will NEVER find real experts who will steer you in the right direction on TV. I will guarantee you that. At best, you might get some guys who have been preaching doom for 20 years, and that won't help you because they will always preaching doom because that is THEIR SALES PITCH. Understand that these perpetual doomers have NO CREDIBILITY because as we all know, it eventually rains in the desert. You should know who they are.

WARNING: These books are guaranteed to raise your investment and business intelligence upon reading