MARTIN D. WEISS

NEW YORK TIMES BESTSELLING AUTHOR

THE ULTIMATE MONEY GUIDE FOR BUBBLES, BUSTS, RECESSION, AND DEPRESSION

CONTENTS

THE ULTIMATE MONEY GUIDE FOR BUBBLES, BUSTS, RECESSION, AND DEPRESSION

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For my wife and son, Elisabeth and Anthony

INTRODUCTION

Never before in your lifetime has your money, your home, your retirement, and your entire financial future seen greater turmoil!

You've already witnessed the worst real estate disaster, the largest bank failures, and the biggest losses of wealth since the Great Depression.

You've seen America's most powerful corporate executives forecasting disaster, confessing they're going bankrupt, and begging Congress for massive bailouts.

You've seen our government take gigantic, radical steps to end the crisis and bring about a recovery, only to create new bubbles and risk larger busts.

You've seen the U.S. Federal Reserve do something it had never done before—print massive amounts of paper money to try to pump up the economy.

You must recognize it's high time to *do something* to protect yourself.

In this book, you will learn how. I give you step-by-step instructions to avoid the dangers, get your money to safety, and secure your family's financial well-being. I explain what's likely to happen next, how far real estate and stocks could fall, how long the crisis can last, how much government rescues can or cannot actually achieve, and how to know when a true recovery is about to begin.

Best of all, I show you how to separate the weak from the strong with our Weiss ratings, the only ratings that cover all U.S. financial sectors with no conflicts of interest.

And as a special extra, I show how to turn this massive crisis into an equally massive opportunity. While most people cringe in fear of real estate declines, you can turn them into unprecedented bargains. While most investors run away from stock market crashes, you can transform them into profit opportunities. Instead of the confusion and paralysis that overcomes most Americans, you will have clarity of vision and a solid plan of action. Instead of losing a lot of money, you can grow your wealth significantly.

Surviving—and thriving—during this crisis is not rocket science. You don't have to forecast the future. You don't even need investing experience.

The simple secret is to throw out your prejudices, start with a clean slate, and then follow common sense. Right now, that means taking a cold, hard look at the events around you and recognizing that the value of your home, your 401(k), and even some of your supposedly safe investments *can* continue to run into trouble. You have the power to stop the bloodletting; there's no law, rule, or ethic that requires you to sit there quietly or accept financial punishment passively. You have easy ways to get your money to safety without delay and without remorse. Plus, you have every right to *use* the crisis to grow your wealth—not only for your family, children, and grandchildren—but also to do your part for the future of the U.S. economy.

Our Weiss ratings identified the vulnerable companies most likely to fail—and most likely to thrive. Plus, I warned about this very crisis in my 2003 book, *Crash Profits,* and I have continued to do so in my *Money and Markets* e-letter ever since. I have nagged, cajoled, and shouted this message from the rooftops. But it has given me no pleasure to see my warnings come true. I have dreaded the bubbles and busts as often as I have predicted them. I prayed they would not come to pass. But now that they're here, I have a new prayer:

> That you are, or soon will be, out of danger and ready for the worst.
>
> That the worst will strike swiftly and *end* swiftly.

> That, when we hit bottom, no matter how ugly the future may appear, you, we, and many others will have the fortitude to reinvest, help get our country back on its feet, and move on to better times.

Just promise me one thing: No matter how dark a tunnel may seem, never forget it is *not the end of the world.* Our country has been through worse before, and we survived. We will survive today’s tough times too.

But you cannot stand idly by. At this landmark turning point in our history, the choices you make today could determine your fate—and the destiny of everyone that depends on you—for decades to come. Your decisions now could make the difference between a lifetime of struggle and a successful career; becoming a ward of the state or retiring comfortably; risking poverty-stricken illness or enjoying wealth and health.

Whatever your choices may be, *do not procrastinate.* And whenever you take action, don’t do so in haste. Your response to the current crisis—or any new crisis that may ensue—should be both prompt and planned, both bold and prudent.

This book is your action plan.

In Chapters 1 and 2, I show you why tough times are likely to continue, and I walk you through your first and most urgent priority—to reduce debt and build the biggest pile of *cash* possible.

A major continuing source of financial difficulties is Wall Street deceptions, cover-ups, and lies. So before you make one more decision about your investments or your financial future, you must be aware of this hidden danger, the subject of Chapter 3.

Next, in Chapters 4 through 10, I guide you through the many land mines still threatening the average investor—in the housing market, common stocks, banks, and insurance companies—while guiding you to safe alternatives.

Chapter 11 is dedicated to *protection.* You may have real estate you cannot sell or a pension fund beyond your control. You may have bonds that have no market or a business that continues to provide income. All could be assets that you must keep, and yet, at the same time, all are assets that could be vulnerable to losses in any future decline. In this chapter, I give you a practical solution to help untie this knotty dilemma.

Chapter 12 guides you to a major profit opportunity with a plan to make money directly from a market decline; and Chapter 13 shows you how to *continue* making money even with the worst disasters.

But your largest payoff of all will come when the price of many assets hits rock bottom and it's time to buy the bargains of the century. Recognizing that bottom when it comes can open up the opportunity to greatly boost your income, buy some of the best assets in the world for a pittance, and stake out a high ground for yourself, your children, and generations to come. In Chapters 14 through 17, I show you when and how.

Just remember that none of this is predetermined. At times, the tsunami of crisis may seem unstoppable. But ultimately, when the causes of the crisis have finally been largely removed, it will finally open up a window for you, me, and our leaders to choose our own destiny. Chapters 18 and 19 represent my best effort to define what I think our worst and best choices will be.

Last, as a true, enduring recovery gets under way, it will be time to expand your horizons and look for new opportunities to grow wealth. When you read this book, it may still be too soon to buy many of the best investments. But it won't be too soon to cast a glance into the future and see how some of the world's largest fortunes are likely to be made, the subject of Chapter 20.

If you have read my 2009 book, you will see that this book thoroughly updates every chapter and adds several new ones—on the Federal Reserve, on insurance, and on other key topics. So much has changed in just one year. Yet, the broad trends and conclusions have not.

In this volatile new world, the key to your success will be to stay up to date with change. And with so much changing so quickly, I have decided to give you a free service to alert you by e-mail to any upgrades or downgrades in our ratings of *your* company. To sign up, go to www.weisswatchdog.com.

Plus, we promise to keep you up to date daily by our e-letter. At critical turning points, especially in the real estate market or the stock market, these alerts could make the difference between missing an important danger or opportunity . . . and taking appropriate action at the right time.

For your free sign-up, visit www.moneyandmarkets.com/alert. Or send your name and e-mail address directly to me at Martin@weissinc.com. If you do not have e-mail, and would like to receive one of the free reports mentioned in this book, call 800-814-3029. Or mail your request to Martin D. Weiss, c/o Ultimate Money Guide, 15430 Endeavour Drive, Jupiter, FL 33478.

Good luck and God bless!

Martin D. Weiss

Palm Beach Gardens

November 9, 2010

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CHAPTER 1

WHY THE TOUGH TIMES ARE JUST BEGINNING!

Despite the greatest government rescue operations of all time, America continues to suffer through the toughest of times.

The place is every home, business, and community. The time is now.

And the pattern is now clear: First a great speculative bubble . . . then a great bust . . . followed by massive government stimulus, bailouts, and money printing . . . and then . . . still another, even greater bubble and bust.

When all is said and done, some people make fortunes. But millions of average hard-working people lose their jobs, get evicted from their homes, sink deeper into debt, and even risk abject poverty.

Wall Street and Washington talk about recovery. But for nearly everyone on Main Street, the bubble-and-bust cycle is a roller coaster that begins to feel more like an on-again-off-again *depression* with each passing day.

No one under the age of 80 has ever had personal experience with a similar episode.

Nor have I. I was born in 1946, just as we were leaving the final vestiges of America's Great Depression behind. I've studied that historic period with books, charts, and numbers, but that's not the same thing. I spent years in Japan before and after their 20-year depression, but that, too, was different.

What truly brings me close to a visceral understanding of bubbles, busts, recessions, and depressions is the half century I shared with my father, J. Irving Weiss, one of the few economists who not only advised investors during the Great Depression, but actually predicted it.

Dad was so proud of that unusual feat that he began telling me stories about it when I was five years old. Vicariously, I lived through the bubble of the Roaring Twenties, the Crash of 1929, the massive bank failures of the 1930s, and the multiple great recessions that ensued. Through Dad's teachings, I felt as though I was there with him when investors lost fortunes, when we hit rock bottom in 1933, when the economy rallied, fell again, and then finally enjoyed a true recovery; when old fortunes were lost and new ones were made.

Dad was not only a loving father, but also my mentor, partner, and best friend. I wish he could be here today to write to you directly and help you get through these tough times personally. But as soon as I was old enough, I helped him write his investment books; and in 1971, soon after I founded my own investment research and ratings company, he helped me write mine. Although he's gone, I can feel his vibrant energy and calming spirit beside me; and in almost every chapter of this book, I will let him speak to you posthumously.[1]

Think of this book as co-authored by the two of us. He will tell you about his experiences and analysis during the 1930s; I will tell you what it means for the crises of today—*and what you can do about it*—based on our objective research and ratings. A lot has changed since then. What hasn't changed is our passionate desire to help you through it.

Dad first went to Wall Street in 1924 to learn everything he could about money. Five years later, when the Great Crash struck, he did not own any stocks. His parents were recent immigrants from Eastern Europe with barely enough to keep food on the table. He had to save everything he earned, bring it home, and give it to his mother. He knew how real estate had collapsed in Florida, and he saw how America's farms were in disarray. He didn't want to gamble his hard-earned savings on another bubble.

The bubble turned to bust when the stock market crashed in 1929. But soon after the crash, the market rallied for almost six months, and nearly everyone on Wall Street was sure the crisis was over. Dad was sure it had barely begun. He persuaded his clients and friends to sell everything, get the heck out of the market, and pile up as much cash as they could. He was so convinced the market would fall again that he even borrowed $500 from his mother to sell short—to profit from the market's decline.

Just as he feared, the Crash of 1929 was just the beginning—the opening act of the greatest decline in modern history. From its peak, the Dow Jones Industrials Average fell 89 percent. Compared to the Dow's peak in 2007, that would be tantamount to a plunge of more than 12,600 points—to a low of approximately 1,500. Dad explains it this way:

> In the 1930s, at each step down the slippery slope of the market's decline, Washington would periodically announce some new initiative to turn things around. President Hoover would give a new pep talk promising "prosperity around the corner." And often, the Dow staged dramatic rallies—up 30 percent on the first round, 48 percent on the second, 23 percent on the third, and more. Each time, I sought to use the rallies as selling opportunities. I persuaded more of my clients to get rid of their stocks and pile up cash. I even told them to take their money out of shaky banks.
>
> On the surface, it might have appeared that just sitting out the crisis got you nowhere. Actually, though, it was a great strategy for building wealth. Prices were falling—on

> homes, on automobiles, on almost everything. So the more prices fell, the more your money was worth. Just by saving money, stashing the cash, keeping your job, and going about your daily life, you were building wealth. You didn't have to know about investing. All you needed to figure out was how to protect yourself from the bad times. Then, when we hit rock bottom—that was the time to start buying real estate, stocks, or bonds.
>
> You could also profit immensely from the decline itself, with short selling. That's how my friend Bernard Baruch built a great fortune, and how I did, too. But even if you never sold one share of stock short, just sitting out the crash and building cash opened up great wealth-building opportunities as we approached the end of the decline.
>
> That end came with two events: The inauguration of our new president, Franklin D. Roosevelt, and the national banking holiday he declared on his third day in office. But after three years of panics and crashes, most people greeted those events with dread. They thought it would be the beginning of another, even steeper slide. Some people even said it was the final chapter of capitalism itself. As it turned out, that was precisely the right time to pick up some of the greatest bargains of the century and make a lot of money.

Helping people make money was Dad's profession, but his passion in life went far beyond money; he was a man of deep empathy and feeling for his fellow man. When others suffered, he suffered alongside them. He gave them jobs, bought them meals, and offered an abundance of free advice.

Most of all, he did not want to see the United States go through another depression ever again. His vision for accomplishing that goal, however, was very different from that of most economists in the post-Depression era. Whether Republican or Democrat, their strategy was to yank the economy out of nearly every slump and slumber, forever seeking to keep the economy growing, always bailing out major institutions that failed. His philosophy was nonpartisan—he believed excesses in either direction hurt both the rich and the poor. What we needed instead, was *moderation* in *both* directions. “The only way to avoid the pain of a great bust,” he wrote, “is to refrain from the excesses of a great boom.”

Now, in the twenty-first century, it’s clear that you face similar dangers and have similar opportunities. Despite the many historic differences between then and now, the 1930s and the 2010s have some key elements in common: A severe contraction in the economy over multiple years, creating massive unemployment, delivering devastating financial losses to large segments of the population, creating giant federal deficits, and prompting governments to take extraordinary measures.

Plus, we also have modern, contemporary episodes to help us better understand these tough times, which I discuss in a moment.

Always remember, however, that economic declines never were—and never will be—one-way streets. Even the worst crisis is interrupted by intermediate rallies and recoveries, sometimes weak, sometimes stronger.

These recoveries, however, can be highly misleading. They are driven mostly by unprecedented government intervention. At first blush, they *appear* to end the crisis. But in reality, they can actually make it worse by creating massive federal deficits. They rarely create prosperity for the majority of the population.

A Permanent Recession?

Imagine a world in which the economy never really emerges from recession. Imagine a time and place in which economists talk first of a double-dip recession; then about a triple-dip recession; and ultimately admit the dire reality of a long, protracted depression. Imagine chronically high unemployment, overwhelming government indebtedness, shrinking population, deepening poverty—even spreading homelessness among college graduates. Think about a 20-year period in which stock investors continually lose fortunes and retirees get nearly zero income on their savings, with no end in sight.

A future scenario? No! It's a very accurate description of Japan's on-again-off-again depression from 1990 through 2010. I worked as a financial analyst in a major Osaka-Tokyo firm before that period. And I periodically visit my son, Anthony, who lives in Japan today. So I have witnessed the before-and-after of Japan's depression firsthand.

There are important cultural differences between the United States and Japan. But there is one overarching similarity: massive, persistent government attempts to boost the economy, which ultimately failed.[2]

Back in the 1980s, Japan was on its way to becoming the world's number one economy—not necessarily in terms of GDP, but in many other key aspects: It led the world in technology. Its multinational companies and financial institutions were the largest in the world. Its trade surpluses and cash savings exceeded those of any other nation on the planet. But by 2010, Japan had fallen to number three in GDP, surpassed by China and slipping on nearly every front in which it was leading before—technology, trade, and cash.

In normal times, more than 99 percent of college graduates were employed during the critical April hiring season. If significantly more than 1 percent failed to get work, it was considered shocking. Reason: Unlike their counterparts in the United States, once they missed that window, most became unemployable. Companies viewed them as rejects, failures. In the next hiring season, it would be extremely difficult for them to get another interview. But by 2010, approximately 20 percent of recent college graduates were failing to get a job. Many wound up at their parents' home to spend their days playing video games, or worse, on the streets. In the Japanese context, that was *20* times more shocking than anything ever seen in prior generations.

When my wife and I lived in Japan in the early 1980s, homelessness was virtually nonexistent. By 2010, although still small compared to homelessness in the United States and parts of Europe, you could see shanties along Tokyo's river banks, people living under bridges, and the jobless college grads loitering around major train stations.

The crime rate in 2010, also still low by U.S. standards, was dramatically higher than it was years ago. Prostitution among middle-class teens, unheard of before, was a real problem. Teenage suicide soared. Health care, once among the best in the world, deteriorated. Not convinced? Then consider the hard facts:

- *The twenty-year depression.* From 1990 through 2010, Japan's economy has been in a semipermanent catatonic state—wavering from subpar growth to mild recession. An old friend, a former director of a major Japanese economic research institute, called it "the 20-year recession that never really ended and the 20-year recovery that never really began—in other words, a depression."
- *Banking dinosaurs.* Every major bank that collapsed in those two decades was patched up with megamergers and government aid. In 1999, for example, we saw the massive three-way marriage of the Industrial Bank of Japan, Dai-Ichi Kangyo, and Fuji Banks—all weak institutions loaded with toxic assets. Both previously and subsequently, there were many more bailouts. All failed to revive Japan's banking sector.

- *Twenty-year bear market!* Near the end of 1989, Japan's benchmark Nikkei 225 Index reached an all-time peak of 38,957. But then it promptly crashed by 47 percent in less than nine months. And after 20 years, it still had not recovered those losses. To the contrary, at its lows in 2009, the Nikkei was down to 7,021, a loss of 82 percent from its all-time high. And even after a global stock market recovery that began in March of that year, the Nikkei was still down 76 percent from its highs! Were there intermediate rallies? Of course! After its first bust in late 1989, the Japanese stock market enjoyed *five* major rallies. Each one raised investor hopes for an end to the 20-year bear market, and each one gave way to the dire economic realities, ushering in a new plunge to new all-time lows, plus big *additional* losses for investors.

Where did Japan go wrong? Its chronic malaise was not rooted in its culture or its people. It was primarily caused by misguided government policy driven by political pressure to achieve the impossible.

Japan was the first major industrial nation to drop interest rates to practically zero and keep them there almost indefinitely. Japan was the first to bail out so many large banks so consistently. And Japan was also the leader of fiscal stimulus: Just in its first depression decade, Tokyo launched a stimulus package of 10.7 trillion yen in August 1992, another for 13.2 trillion in April 1993, 6.2 trillion in September 1993, 15.3 trillion in February 1994, 14.2 trillion in September 1995, 16.7 trillion in April 1998, 23.9 trillion in November 1998, and 18 trillion in November 1999. In its second depression decade, it launched many more. Yet after each government-engineered recovery, the economy fell back into recession; and after each government-inspired stock market rally, the Nikkei plunged again, falling to still *lower* lows.

Bottom line: Despite all the banking bailouts, stimulus programs, money printing, and zero interest rates—policies that economists lump under "Keynesian pump-priming"—all the emperor's horses and all the emperor's men could not put the Japanese miracle back together again. The Japanese economy still suffered two lost decades of deflation, lackluster growth, and declining stock prices. Corporate earnings still fell. Consumers were still pinched. Japan's status as a world economic power continued to decline. Investors lost fortunes and then lost still more fortunes—again and again.

The *Wall Street Journal* explained it this way:

> Keynesian "pump-priming" in a recession has often been tried, and as an economic stimulus, it is overrated. The money that the government spends has to come from somewhere, which means from the private economy in higher taxes or borrowing. The public works are usually less productive than the foregone private investment.[3]

Ironically, in the 1990s, the U.S. Treasury Secretary and Fed Chairman periodically flew to Tokyo to lecture the Japanese about the futility and danger of their policies. Yet in the late 2000s, their successors vigorously pursued virtually the same policies: They sought to keep dying companies alive. They wanted to outlaw the business cycle. They chased an elusive dream of creating eternal prosperity and an unending bull market.

Obviously, this didn't work in Japan. It could not work in the United States, either. In the real world, companies are born and companies must die. The economy expands and it must also contract. Investors buy and they must also sell. No government, no matter how powerful, can change this reality. No government can stop the march of time, fool Mother Nature, or repeal the law of gravity. Most people in Japan now saw this clearly. They knew how much they had been lied to—repeatedly, for 20 long years. That helps explain why, by year's end 2010, Japan had been through five prime ministers in four years and was going on a sixth. That's also why voters had permanently kicked the ruling party out of office for the first time in modern history.[4]

A growing minority of Americans also began to see the light: Despite the trillions in bailouts and money printing, despite a constant barrage of happy talk from Washington, and even after a series of rallies on Wall Street, the average American knew that the U.S. economy was not passing even the most basic smell test. Even after two years of recovery, the United States was still suffering from the biggest home foreclosure crisis in history, the most people ever on food stamps, and the worst overall poverty rate in half a century. The entire concept of middle class was being challenged. The entire future of the nation was widely questioned.

Like in Japan, this would also have dramatic political consequences. Nearly anyone in office—whether Democratic or Republican—was vulnerable to severe attacks. A kind of third party was emerging. The entire premise of monetary and fiscal policy—including the powers of Federal Reserve itself—was in great flux.

But not all is lost. As I explain later, there is still hope—for the United States, and even for Japan. But looking at the immediate future, all this raises very serious and urgent questions:

Was the United States truly following a path similar to Japan's? If so, how much longer could its on-again-off-again recession last? How much further might home prices fall? What about the stock market? Would the U.S. government continue to let the federal deficit balloon out of control? Or would it change course and shift from stimulus to austerity? If so, would the Federal Reserve print even more money wantonly to offset the shock. Overall, would the United States replicate the experience of Japan's two lost decades?

Or would it experience a crisis more akin to its Great Depression of the 1930s?

You could count on your fingers the number of serious analysts who believed the latter scenario was even a remote possibility. And yet, stranger things had already happened, including the largest bank and insurance company collapses of all time. Before he passed away, Dad wrote:

> Some people of my generation have fond memories of the family togetherness and shared sacrifices of America's Great Depression, and I do, too. But I also cannot forget the numbers I studied or the suffering they implied. In just three short years between the peak of the stock market boom in 1929 and the bottom in 1932, it felt like the entire world was falling apart. The financial bubble burst. Big companies failed. America lost 13 million jobs. Unemployment surged to 25 percent. American industry cut its production nearly in half. Home construction plunged by more than four-fifths. Deflation—falling prices—drove the value of almost every asset into the gutter. Over 5,000 banks failed and ultimately disappeared.
>
> Most Americans—especially the youngsters who manage billions of dollars on Wall Street—have no concept of the power and speed of a great stock market crash. They've never lived through one. So it's hard for them to visualize it. In 1929, people were jumping out of windows, and once-wealthy people were selling apples on street corners. The shock waves reached into almost every office and every home in the country and in the world. Next time, especially if Washington tries too hard to stop the crisis, it could ultimately be just as bad, or even worse.

I agree. Yes, the government is acting more aggressively this time to prevent the worst-case scenario, but is that truly good or bad? Yes, we have a more modern market system, but we also have new, unprecedented risks and weaknesses that were small or nonexistent in the 1930s.

Unprecedented Risks and Weaknesses

If you're still skeptical about the severity of the most recent crisis, you don't have to believe former Fed chairman Alan Greenspan who, in testimony before Congress, said it was the worst in 100 years.

You need not recall the unforgettable image of former Treasury secretary Henry Paulson literally dropping to his knees before Speaker of the House Nancy Pelosi, begging for the billions he said were needed to prevent "a total Wall Street meltdown."[5]

Nor must you heed the testimony of the president's National Commission on Fiscal Responsibility and Reform, urging drastic and immediate action to reduce the nation's trillion-dollar deficits.

All you have to do is get up from your chair, open the door, and take a walk outside.

Nearly everything you see and hear will clue you in to the true plight of our times—1 out of 7 home owners delinquent or foreclosed on their mortgage; 4 out of 10 owing more than the value of their home; nearly 5 out of 10 among the millions of unemployed, out of work for more than six months; 7 out of 10 Americans fearful of the future, and rightfully so.

Or you could just look at the value of middle-class homes, the largest asset of most Americans—properties bought for $450,000 now selling for $150,000; neighborhoods once the pride of their cities, now virtual ghost towns.

Even as they tried to justify their past actions, our leaders themselves inadvertently sound the alarm. If they had not acted swiftly to rescue the global markets, they claim, the entire system would have collapsed. Thus, to avert what they feared would be the ultimate disaster, the governments of the richest countries embarked on the most expensive financial rescues of all time.

The government bailed out bankrupt banks, broken brokerage firms, insolvent insurers, ailing auto manufacturers and any company they deemed essential to the economy. They pumped money into mortgage markets, consumer credit markets, and even stock markets. They prodded lenders to lend, consumers to consume, investors to invest. And they justified all of these extreme measures as their only hope to prevent "the end of the civilization as we know it."

I am not nearly as pessimistic, and, as I explain later, I see silver linings in this crisis that most others seem to be missing. But for the purpose of this chapter, suffice it to say that the urgent measures that leaders have sought so strenuously to justify now beg equally urgent questions that I challenge them to answer: "What happens when a similar or worse crisis returns? Will you have the political will and the financial resources to save the day again?"

They have done everything in their power to prevent another great depression. But have they truly addressed the cause of the crisis? Or are they merely creating another bubble? Here's Dad's answer to a similar question I asked him before he passed away:

> In the 1930s, I was tracking the facts and the numbers as they were being released—to figure out what might happen next. I was an analyst, and that was my job. So I remember them well.
>
> Years later, economists like Milton Friedman and my young friend Alan Greenspan looked back at those days