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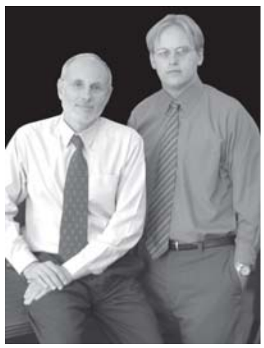
INSIDE...



Martin Weiss and Mike Larson

U.S. economy mired in muck! Key foreign markets booming!

Never before in our lifetimes have we seen such a deep schism between the winners and losers in the global economy …

Here at home, the U.S. economy is mired in debt, plunging consumer confidence, plus the worst combination of inflation and recession since the Civil War.

Our GDP grew an anemic 0.9% in the first quarter. Corporate America is shedding jobs, driving unemployment claims to the highest level in four years.

Banks are tightening lending standards.

Home prices are falling at the fastest rates on record, while the surging cost of virtually everything else — gas, food, airline tickets, utility bills and more — is swallowing up $117 billion of economic stimulus checks.

And everywhere, the debts are coming due — massive debts accumulated over decades that cannot be refinanced, often cannot be paid and, ultimately, cannot even be papered over by the Fed or Congress.

Abroad, however, the story is vastly different. Our colleagues Larry Edelson and Tony Sagami, frequently on the ground in Asia, see no end to the booming growth in China and neighboring nations. Sean Brodrick, reporting from Mexico and Canada, tells us how even the most productive producers simply cannot keep up with surging demand for key commodities. And Rudy Martin, our Latin America specialist, sees the most dramatic boom of all in Brazil, fast becoming the world's leader in alternate energy.

This dichotomy — between domestic weakness and booms in key foreign economies — is so sharp, it permeates virtually all market sectors in this country: Banking, housing and others largely dependent on the U.S. economy are mostly sinking; energy, steel and others tied to overseas growth are mostly rising.

On the losing side …

■ The **KBW Bank Index (BKX)**, a key benchmark index for the financial sector, has shed 15.9% year-to-date — on top of last year's 24.6% drubbing.

■ The **PHLX Housing Sector Index (HGX)** is down more than 9% — on the heels of a disastrous 38.9% plunge in 2007.

■ And the **AMEX Airline Index (XAL)** has crashed — plunging 46% so far this year to an all-time low.

But on the winning side …

■ The **Energy Select Sector SPDR Fund (XLE)**, an ETF that tracks the major oil and gas producers and servicing companies, has already added 9.3% this year, on top of a 36.9% gain last year, thanks to nonstop growth in overseas demand.

■ The **S&P 500 Steel Index** has jumped 22.8% this year plus 19.2% last year, also thanks to massive demand from overseas.

■ Even the **Dow Jones Transportation Index (TRAN)** has fared well, thanks to strong performance from the railroad sub-sector.

This is precisely what we've been telling you about in *Safe Money Report* since 2005. We have been singing the praises of the energy and materials sectors. We have been panning the home builders, banks and brokers. And we have continually called your attention to the divide between the great dangers here and the equally great opportunities abroad.

Just this past February, we gave you a sector-by-sector, investment-by-investment review of how we felt it would all play out in 2008. Here's a mid-year follow-up …

Retail: "Trading Down" Comes Into Fashion

American consumers are under assault from all sides:

■ **Gasoline prices are surging.** The national average of regular unleaded is now pennies away from $4 per gallon, up 23% from a year ago … and headed for $6 just to catch up with surging crude oil. Natural gas, diesel and heating oil are up even more sharply.

■ **Home values are falling —** down a record-smashing 14.4% year-over-year in March, with 19 of 20 metropolitan markets falling. The worst: Las Vegas, down 25.9%; Miami, down 24.6%; Phoenix, down 23%. With these declines alone, millions more are trapped upside-down … owing more than their homes are worth … unable to sell them … blocked from any new home equity loans or lines of credit … forced to scrap spending plans.

■ **The job market is weakening fast.** The U.S. economy has now shed jobs for four months in a row — 76,000 in January, 83,000 in February, 81,000 in March, and 20,000 in April. That's the longest losing streak since 2003.

So it should come as no surprise that **Retail HOLDRs Trust (RTH)**, the primary ETF tracking the retail sector, has failed to rally with the rest of the market, just as we warned.

Within the sector, however, we've seen a telltale split in performance: Shares in retailers that sell higher-end, discretionary merchandise have gotten hit — **Nordstrom (JWN)** is off 3% on the year, while **Saks (SKS)** is down a whopping 34%.

But shares in companies that cater to lower-end and "trade down" consumers are faring far better — **Costco Wholesale (COST)** is up 2% on the year and **Wal-Mart Stores (WMT)** is up 21%.

Our view: The prognosis for this stuck-in-the-mud sector isn't good. If gas prices continue to rise, nearly *all* retailers are likely to be hit hard, even those in the low-end side.

Many observers had high hopes for the government's stimulus checks. But it's little more than a temporary shot in the arm and may already be petering out. Most households have gotten their money, and the remaining checks stop coming in mid-July.

Your action: We gave you a list of stocks, funds and ETFs exposed to the retail sector in our February issue. If you haven't sold them yet, do so now. Exposed to this sector in

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your business? Then hedge with an inverse ETF like the **UltraShort Consumer Services ProShares (SCC)**. If you aren't exposed to this risk, then buy only the inverse ETFs already recommended in "Mr. Speculator" (page 5).

Split Decision on Transports

In February, we wrote that the transportation sector would get whacked by the weakening economy and rising energy costs. Result so far: We were half wrong and half right.

We were wrong about the railroads, such as **Burlington Northern Santa Fe (BNI)** and **Union Pacific (UNP)**, which have done remarkably well. Reason: The falling dollar is boosting demand for exports of key commodities like grains and coal, which are largely transported by rail.

We were right about the airlines, however. The industry has just had its worst week since right after the 9/11 attacks. This year alone, it could suffer a whopping $7.2 billion operating loss. And airline stocks are getting crushed. **AMR Corporation (AMR)**, parent of American Airlines, is down 48% year-to-date. **JetBlue Airways (JBLU)** is off 32%. **UAL Corp. (UAL)**, the owner of United Airlines, is down a whopping 76%. Virtually every major airline is either being forced to seek out a merger partner or being driven to the brink of bankruptcy.

Meanwhile, companies like **United Parcel Service (UPS)** and **FedEx (FDX)** have been treading water. UPS said the U.S. economy is experiencing a "dramatic" slowdown, forcing it to cut its full-year earnings target. FedEx has cut its earnings forecast twice so far this year.

Our view: Unchanged. The Dow Jones Transport Index, heavily weighted with railroads, may hold up for a while longer. But nearly all non-railroad transport companies are going to get whacked.

Your action: If you own them, sell the airlines even though they're down … and sell the railroads even though they're up.

Home Builders Sinking Even Deeper. More Bankruptcies Looming.

Wall Street pundits have been falling all over each other in their rush to call a "bottom" in the housing market and in building stocks. We told you they were wrong the last several times they said the same thing (most notably in late 2006 and early 2007). And now we say they're wrong again.

Reason: You cannot deny the enormity and weight of the worsening fundamentals …

⇨ **WCI Communities (WCI)**, a condo and single-family home builder that's especially active in Florida, is losing money hand over fist. Standard & Poor's, worried about the firm's liquidity, just downgraded its corporate credit rating to CC.

⇨ **Centex (CTX)**, the fourth-largest U.S. home builder, is also on the ropes, with its shares trading near a 52-week low. It lost a whopping $910.5 million, or $7.36 a share, in the most recent quarter.

⇨ **Home Depot (HD)** and **Lowe's (LOW)** are hitting the skids again — Home Depot's same store sales have fallen by 6%-plus, while Lowe's has reported an 18% year-over-year drop in first-quarter profits.

Your action: Stay the heck away from these dogs. At some point, bottom fishing among the survivors may make sense. But we're not there yet.

Banks and Brokers: "Brother, can you spare a dime?"

If you think political fundraising is out of control this election year, you should see how desperately financial companies are scrambling to shore up *their* capital:

■ **Sovereign Bancorp (SOV)** just raised $1.9 billion through the sale of stock and debt.

■ **National City (NCC)** raised $7 billion by selling common and preferred shares.

■ **UBS (UBS)** is raising $15.5 billion by selling rights to its purchase shares.

■ **American International Group (AIG)** topped them all, raising a whopping $20 billion via various stock and debt offerings.

The problems: They're being forced to offer exorbitant yields to attract investors. They're selling shares at sharp discounts to current values. They're dramatically increasing their share counts.

Result: Shareholders are severely diluted. The companies' cost of capital is through the roof. Future profitability is in jeopardy. And short of a miracle recovery, all this new capital still won't be enough.

Our view: Every new capital raise seems to be accompanied by a solemn pledge that "this one is the last," only to be followed by another dilutive deal a few months later. That's because both the companies and the analysts who follow them continue to underestimate the depth and breadth of the housing bust and

(continued on page 4)

Mr. CONSERVATIVE

A Portfolio For The More Conservative Investor

Surge in grocery prices boosting profits of food producers …

While surging grocery prices are a burden for the budgets of many Americans, they're a boon to the P&L of major U.S. food and beverage producers.

You already own **Coca-Cola (KO)**, the beverage firm. Now, we feel the time is right to buy food producer **General Mills (GIS)**.

General Mills makes everything from Cheerios and Wheaties to Progresso soups and Betty Crocker cake mixes. And while soaring food prices have driven up costs, the company is successfully boosting prices.

For evidence, look no further than the company's third quarter net income. It surged 61% to $430.1 million on a 12% rise in sales, with per-share profits soaring to 87 cents — 8 cents above the average analyst forecast.

General Mills is a consistent cash generator. It isn't overburdened with debt. It pays a consistent, healthy dividend — currently 40 cents per share, for an indicated yield of about 2.5% at recent prices. And now, GIS shares just broke above key technical resistance in the $61 area, signaling that a fresh leg up is underway. Assuming an overall portfolio of approximately $100,000, **buy 50 shares of GIS at the market.**

Portfolio Update

Shares Lehman 1-3 Year Treasury Bond Fund (SHY): You should have just sold your shares, per the instructions in our last issue, for an estimated gain of 7.9%, including dividend disbursements. If you didn't sell last month, do so now at the market.

Kinder Morgan Energy Partners LP (KMP): You should have had no trouble adding a half position (25 units) in this pipeline partnership. Good. We think it's well-positioned to profit from rising energy prices and strong demand for transportation and storage services. Plus, it's throwing off handsome dividends — 96 cents per unit in the most recent quarter, good for a dividend yield of almost 6.2% at recent prices. Hold. Or if you're not yet on board, buy 25 shares at the market.

CurrencyShares Japanese Yen Trust (FXY): The yen has mostly been moving sideways and this currency ETF is essentially unchanged. Hold. Or if you don't own it, buy 50 shares at the market.

Prudent Global Income Fund (PSAFX): Although flat since late February, we expect a new upsurge. Don't own it? Then add 200 shares at the market.

Progress Energy (PGN): The company is asking state regulators in Florida for significant utility rate hikes to offset higher coal and oil costs. Progress Energy continues to pay out 61.5 cents per quarter, per share, in dividends as well. Hold. Or buy 50 shares at the market if you don't own any yet.

Coca-Cola (KO): The world's biggest maker of soft drinks just reaffirmed its profit outlook for the second quarter and full year. Hold. Or purchase 25 shares at the market if you're not on board.

credit crunch — how it's feeding on itself and how it's dragging down the U.S. economy.

Your action: If you hold stocks like **UBS**, **AIG** and **Washington Mutual (WM)**, sell and don't look back. You can also hedge with an ETF like the **UltraShort Financials ProShares (SKF)** if you're loaded down with financial exposure.

In contrast, we remain bullish on a handful of financial companies with a big stake in China, India and Brazil. Lending growth in those markets is strong. Credit quality is much better. And you don't see the major institutions there panhandling for more capital.

On page 5 of this issue, you'll find the whole scoop on a financial firm in China that we think is a good buy.

Energy and Resources: Still Red-Hot!

We've been advocates of the resources sector since 2001, and you should have profited handsomely from our recommendations.

More recently, in anticipation of a correction, we've been recommending you take some nice profits, while maintaining a solid core position.

Mr. Speculator

Two Megatrends: Interest Rates Rising! Chinese Stocks Perking Up!

Last month, we pulled no punches in warning you that bond prices were going to sink and interest rates were going to surge. So it should have come as no surprise when you saw the bond market crack wide open in late May, driving long-term Treasury yields to 4.75%, the highest level since October. Next expect 5% very quickly and 5.5% before year-end. The main reasons:

- **The Federal Reserve has slashed short-term rates to the bone in an effort to save the financial system.** But in the process, it has unleashed a mammoth wave of commodity inflation. As a result, the Fed's key rates are now so low, they're two full percentage points *below* the government's own measure of inflation. That's egregiously irresponsible. In order to avoid inflation and discourage wild risk taking, they should be at least two percentage points *above* inflation.
- **Economic growth and inflation generally remain strong outside of the U.S.** So that's pressuring international interest rates higher, which, in turn, forces U.S. rates higher.

Fortunately, there's a vehicle readily available to protect yourself from this move and/or aim for profits: The **Rydex Inverse Government Long Bond Strategy Fund (RYJUX)**. Formerly known as "Rydex Juno," it's designed to *rise* 10% for every 10% decline in the price of long-term government bonds (currently, the 30-year bond).

In our April 17 Flash Alert, we recommended you purchase 300 shares. If you own it, hold. If not, buy at the market today, assuming an overall portfolio of $100,000. (When buying from Rydex directly, the minimum is $25,000. But you can also buy in smaller amounts through major brokers such as Fidelity Investments and E*Trade.)

Another recommended vehicle in this environment is the **UltraShort Real Estate ProShares (SRS)**. Reason: Rising interest rates are likely to slam the commercial real estate sector, and this double-inverse ETF is designed to rise 20% for each 10% decline in the Dow Jones U.S. Real Estate Index, which is loaded with REITs. Buy 50 shares at the market if you don't own any.

China Life Insurance

Chinese shares took a beating earlier this year. But the economic news coming out of China still looks solid: The benchmark CLSA China Purchasing Managers Index set a new all-time high in April. Chinese retail sales surged 22% year-over-year in April, the biggest rise since at least 1999, while foreign exchange reserves swelled by a record $74 billion. These are the kinds of forces starting to breathe new life into Chinese shares.

China Life Insurance (LFC) is the biggest insurer in the country, with premium growth up 39.5% in the quarter and much more to come.

What about life insurance claims from earthquake victims?

(continued on page 8)

Now, the correction seems to be beginning, at least in gold — the yellow metal topped out at $1,034 an ounce in March and was recently going for around $887. Silver is down from $21 to $16.90. And oil, which briefly traded above $135 a barrel, has also pulled back.

But the long-term fundamentals are firmly intact …

Silver: Last year, demand jumped 7.2% to a record of 455.3 million ounces, according to the World Silver Survey 2008. Plus, the total silver supply had the smallest increase since 2002, when silver supplies declined 19.6 million ounces.

Gold: In 2007, the world's gold supply dropped 3% to 110.7 million ounces. Overall, gold mine production hit an 11-year low of 2,447 metric tonnes. Africa had the most precipitous drop of 29 metric tonnes, while Latin America's output declined 23 metric tonnes.

Oil: Although U.S. demand for refined products like gasoline is cooling, foreign demand is still going strong. Meanwhile, Russia's oil production slumped to 9.72 million barrels per day in April, an 18-month low … Mexico's is also falling

Calling All Savvy Investors: Use the Coming Pullbacks to Load Up on Precious Metals!

by Larry Edelson

As expected, savvy, smart-money investors are using the pullbacks in gold and other precious metals to look for the sweet spot — the next level of major support to load up!

In my view, there's no way the dollar's short-term strength is going to last, and no way inflation is going to moderate.

But right now, gold and other resources are caught in a cross-current: They need — and deserve — a breather, and that breather can last a while longer. There's also no question in my mind they're headed higher long-term …

- While gold production is declining and supply is dwindling, global demand is increasing. Also, gold is entwined with the value of the U.S. dollar and considered the ultimate hedge against inflation. As high oil prices weigh on the dollar, gold will rally and is expected to head upward again to at least $1,250 an ounce.
- Construction in Asia and other developing regions continues at a feverish pace — especially in the wake of the recent devastating earthquakes in China and the upcoming Beijing Summer Olympics. That's fueling the demand for base metals, while the growing affluence of the Asian middle class is driving the sale of precious metals.
- Industrial demand for silver is growing. The next generation of batteries uses silver, and the inevitable mass production of affordable electric cars could also feed the demand. Plus, supply is tight. In 2007, total silver supply was 784.8 million ounces, the smallest increase since 2002. Meanwhile, government inventories fell from 63.7 million ounces in 2006 to 55.7 million ounces. Last but not least, silver coin demand is soaring as a hedge against inflation.
- Oil demand is exceeding even the most optimistic estimates, exploding to more than 87 million barrels per day this year — and headed much higher in the years ahead, even if the U.S. economy continues to slump.

Portfolio Update

Core position in gold bullion: Buying and holding gold bullion is the purest way to maintain a core allocation to the yellow metal. We recommend an allocation of up to 5% for your portfolio.

SPDR Gold Trust (GLD): This is the ETF formerly known as the "streetTRACKS Gold Trust"; its name changed on May 21. The GLD holds gold bullion for you. That makes it easy for you to trade the peaks and valleys in the gold market right in your traditional stock account. Our suggested position is 25 shares. If you're not on board yet, buy those shares at the market now.

Sterlite Industries India (SLT): This non-ferrous metals and mining company, specializing in zinc, aluminum and custom copper smelter, is poised to profit from the next rally in base metal prices. Net sales have already increased more than 8% year-over-year and the company is on track to become the world's largest integrated zinc-lead producer by 2010. Hold. If you don't own it, buy 200 shares at the market.

(Larry Edelson is editor of *Real Wealth Report* and a contributing editor to *Safe Money Report*.)

steadily … and the International Energy Agency is due to release a report later this year that could slash dramatically supply projections — from 116 million to as little as 100 million barrels per day by 2030.

Your action: Continue to maintain select few core positions (more details on pages 4 and 6.). Then wait for our signal to buy more.

New Opportunities in Foreign Markets

If you're investing solely in U.S. stocks, we feel you could be shortchanging yourself. Just consider what's happening in …

⇨ **China.** After a major surge in 2007, key Chinese indices stumbled earlier this year, but are now showing new signs of life. Despite the unfortunate human toll of the recent earthquakes, the underlying economy is still performing very well. Retail sales just skyrocketed 22%, the biggest surge since at least 1999. Manufacturing has soared by as much as 58.4%. And with each day that passes, Beijing is adding an average of $3 billion to its already-bulging $2.3 trillion cash hoard.

⇨ **Brazil.** Investors are pouring into the country's bonds, shares and

Safe Money Model Portfolio

Company Name	Ticker	Reco Date	Entry Price	Quantity	Stop	Dividend Yield (%)	Current Reco	(What to do if you don't own it.)
Mr. Conservative: Approx. 4/5 of Model $100,000 Portfolio								
Energy Investments								
Progress Energy	PGN	01/07/08	$48.37	50	N/A	5.80	Hold	*(Buy 50 shares at market)*
Gold & Silver Investments								
Gold Bullion	N/A	11/08/99	$289.75	4	N/A	N/A	Hold	*(Buy equal to 5% of total portfolio)*
Sterlite Industries India Ltd	SLT	11/05/07	$24.07	200	N/A	N/A	Hold	*(Buy 200 shares at market*
SPDR Gold Trust	GLD	02/24/05	$43.33	12.5	$62.00	N/A	Hold	*(Buy 25 shares at market)*
SPDR Gold Trust	GLD	11/21/05	$48.99	12.5	$62.00	N/A	Hold	
Other Funds & Stocks								
Coca-Cola Company	KO	12/10/07	$62.97	25	$54.50	2.47	Hold	*(Buy 25 shares at market)*
CurrencyShares Japanese Yen Trust	FXY	03/10/08	$98.33	50	N/A	N/A	Hold	*(Buy 50 shares at market)*
General Mills Inc	GIS	06/09/08	TBD	50	N/A	2.50	**Buy 50 shares at market**	
Kinder Morgan Energy Partners LP	KMP	05/05/08	$59.63	25	N/A	6.15	Hold	*(Buy 25 shares at market)*
Prudent Global Income Fund	PSAFX	01/09/06	$11.87	100	N/A	3.84	Hold	*(Buy 200 shares at market)*
Prudent Global Income Fund	PSAFX	12/11/06	$12.91	100	N/A	3.84	Hold	
Cash and Equivalents	**1/3 of Conservative Portfolio**							
3-Month T-Bill	N/A	12/31/00	N/A	N/A	N/A	N/A	Hold	
Mr. Speculator: Approx. 1/5 of Model $100,000 Portfolio								
Reverse-Index Funds								
Short Dow30 ProShares	DOG	08/07/06	$68.87	50	$58.50*	3.30	Hold	
UltraShort Technology ProShares	REW	11/19/07	$56.74	25	N/A	5.02	Hold	*(Buy 25 shares at market)*
Rydex Inverse Government Long Bond Strategy	RYJUX	04/18/08	$17.39	300	N/A	3.68	Hold	*(Buy 300 shares at market)*
Positions								
China Life Insurance Co	LFC	06/09/08	TBD	50	N/A	1.94	**Buy 50 shares at $65 or better**	
iShares DJ EPAC Select Dividend Index Fund	IDV	05/05/08	$44.07	50	N/A	2.49	Hold	*(Buy 50 shares at market)*
UltraShort Real Estate ProShares	SRS	03/10/08	$125.01	50	N/A	1.88	Hold	*(Buy 50 shares at market)*
Zimmer Holdings Inc	ZMH	04/07/08	$78.41	50	N/A	N/A	Hold	*(Buy 50 shares at market)*

The table includes all open positions recommended in the monthly *Safe Money* newsletter or flash alerts. The model portfolio assumes a total investment of $100,000. If your portfolio is larger or smaller, you should adjust the specific recommendations accordingly. For any remaining funds not invested in our recommended stocks and mutual funds, we recommend a Treasury-only money market fund for safety and liquidity. New Subscribers: Follow the recommendations in parentheses.

* Newly raised stop

currency amid growing optimism about Brazil's prospects. S&P upgraded the country to investment grade in late April and Fitch has just followed suit. Brazilian retail sales exploded by 11.4% in March. The country's currency, the real, has touched its highest level in more than nine years.

⇨ **Australia.** The country is benefiting from strong demand for its exports, especially from China. A recently announced plan to cut taxes by almost $45 billion over the next four years is a big boost to confidence overall. And the Australian dollar just soared to a 24-year high.

Your action: Maintain a healthy allocation to overseas markets in your personal portfolio. Our favorite vehicles include the **iShares Dow Jones EPAC Select Dividend Index Fund (IDV)**, **Sterlite Industries (SLT)** and others. See pages 5 and 6 for more details and a new recommendation.

In sum, we are on track! And our view is *if it ain't broke, don't fix it*. By avoiding weak sectors with heavy domestic exposure — and targeting sectors benefiting from strong growth overseas — you can minimize your risk and position yourself for nice profits.

Mr. Speculator

(continued from page 5)

The unfortunate reality is that only 4% of China's 1.3 billion people have some form of life insurance (compared to 77% of Americans). That's why Citigroup recently estimated China Life's losses from the recent earthquakes at just 500 million yuan ($72.1 million) to 1 billion yuan ($144.2 million). If anything, the disaster will encourage *more* policy sales. Our recommendation: **Buy 50 shares of LFC at $65 or better**.

Portfolio Update

iShares Dow Jones EPAC Select Dividend Index Fund (IDV): You should have bought 50 shares of this ETF for about $44. It owns high-yielding stocks based in Europe, the Pacific region, Asia and Canada — economies which have generally been performing better than our own. Buy 50 shares at the market if you're not yet on board.

UltraShort Technology ProShares (REW): This double-inverse ETF is designed to appreciate 20% in value when the Dow Jones U.S. Technology Index declines 10%. Continue to hold a half position, or 25 shares. If you have none, buy 25 shares now at the market.

Short Dow30 ProShares (DOG): Another excellent hedge against the continuing risk of a broad market decline. Sit tight. But **raise your stop-loss order price from $55.50 to $58.50.**

Zimmer Holdings, Inc. (ZMH): Shares of this orthopedic surgery device manufacturer have bounced back from the mid-$60s in May, and the outlook for growth is solid. Hold, or buy 50 shares at the market if you don't own it already.

PROFESSOR INVESTOR

Special Questions From Our Readers

Q. Everyone now seems to be saying that the credit crisis is over except you. Why?

A. Everyone? Not exactly! Super-investor Warren Buffett has said that the U.S. is less than halfway through the credit crisis and that the U.S. recession will be deeper and longer than many think. The IMF agrees — it estimates that, before the credit crisis is over, the losses will add up to $1 trillion, three times more than what's been revealed so far. And even the FDIC now reports that "we're still in the early stages of the traditional credit stress you typically see during an economic downturn."

Yes, you *are* hearing a "credit-crisis-is-over" mantra from Wall Street. But that's driven mostly by their desire to keep the party going and continue to earn big fees on high-stakes derivatives. Don't believe them. The worst is yet to come.

Q. All the major crises you warned us about seem to have played themselves out. Congratulations. But now you seem to be beating the same dead horse. What's new?

A. Several things, including: (1) rising interest rates on long-term Treasuries — now busting through critical levels, driving up fixed-rate mortgages and delivering yet another big blow to housing; (2) recession — now deepening; (3) cities and states — now slashing their budgets; and much more.

Q. With all of these woes, why isn't the Dow sinking?

A. The market is split down the middle between sectors that are hurt by the domestic problems and those that benefit from booming resources and foreign economies. That's why we're recommending you buy the best and dump the rest. But with the recession deepening, the risk of a decline is still greater than the chance of a surge — the main reason you should hold some inverse ETFs for protection.

Q. Until we're back on the gold standard, all currencies are just worthless paper. Yes?

A. No. But they will be *worth less* over time. Plus, don't forget: There's a day-and-night difference between the U.S. dollar, which is falling in value, and the world's strongest currencies, which are going up.

Yes, maintain a moderate core position in gold. But otherwise, trade gold investments like any other: When they're cheap, buy; when they're expensive, sell.

Q. What are "real interest rates"? Why are they so important?

A. "Real" refers to *adjusted for inflation*. Right now, for example, the federal funds rate is 2%. But inflation (based on the Consumer Price Index) is close to 4%. So the *real* fed funds rate is 2% minus 4%, or 2% *below zero*. That's dangerous. It means the Fed is making money better than free — it's effectively *paying* borrowers to take out loans and plow that money into other assets.

Result: Accelerating inflation and a sinking dollar. Plus: Major opportunities ahead with investments that naturally rise as the dollar falls — foreign currencies, natural resources and select foreign stocks.

Q. Is it time to buy into the housing market? Is all the bad news "priced in"?

A. No. Not yet.