America's Great Debt Disaster:

Protect Yourself and Profit

Mike Larson

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Introduction

I'm Martin Weiss, founder of Weiss Research.

You may know that name because every day, more than 600,000 people get our financial publications.

And hundreds of thousands more have used our famous Weiss Ratings on banks, insurance companies and stocks to help make prudent financial decisions.

You may also know us because we've been on TV and in the newspapers a lot lately ...

We recently became the first ratings agency in the world to tell everyday citizens and investors the truth, the whole truth and nothing BUT the truth about the financial mess the United States government has gotten itself into.

Unlike Moody's, Fitch and even S&P, which still give the U.S. a stellar rating despite all its troubles, we give Uncle Sam a credit rating that places him where he really belongs — just above nations that are already on the brink of bankruptcy.

Boy, did the media ever have a field day with that story! *The Wall Street Journal* and *Barron's* reported that the Weiss Rating on Uncle Sam is a mere two notches above "junk" — the category assigned to nations like Greece, Ireland and others.

Fortune expressed shock that we ranked America's finances below several smaller countries.

And Forbes, reported that Weiss beat Standard & Poor's in downgrading the United States government.

You may also know me because, in the 40 years since I founded this company, so many of our prior warnings made the news.

Months in advance, we warned about the S&L crisis of the 1980s, the giant insurance company failures of the 1990s, plus the great "Tech Wreck" of the early 2000s.

And in the financial crisis of 2008, ours was the only firm in the world that issued low ratings — and specifically named, well in advance — nearly every major company that collapsed. That includes Bear Stearns, Lehman Brothers, Ford, General Motors, Fannie Mae, Wachovia, Citigroup, Bank of America, and many others.

Despite the greatest government rescue operations of all time, the advanced countries of the world are now facing a great debt Armageddon.

The place is every government, home, business, and community.

The time is now.

And the pattern is clear: First the near meltdown of Wall Street in 2008 ... then massive bailouts, stimulus and money printing by Washington ... and now a great sovereign debt crises of federal governments themselves.

The big questions: What next? How is this crisis likely to unfold?

What can you do to protect yourself?

How can you actually build wealth even in the worst of times?

To give you the answers, I've assembled a three-person team, each giving you the answers in a separate chapter.

In Chapter 1, I show you what to expect in the months ahead.

In Chapter 2, *Safe Money* editor Mike Larson gives you specific instructions to protect and build your investment portfolio.

And in Chapter 3, Weiss Research's Sean Brodrick, author of *The Ultimate Suburban Survivalist Guide*, gives you very specific tips to help you protect your physical security in turbulent times.

Chapter 1

How This Great Debt Disaster Is Likely to Unfold

by Martin D. Weiss, Ph.D.

Even in normal times, no one can predict the future with precision; in treacherous times like these, it's even more difficult.

But carefully learning the lessons of history — and applying them appropriately to the future — can shed light on a very dark subject.

So before we speculate about what's likely to come, let's glance back at four financial disasters of the recent past that could return to haunt us.

I call them the Four Horsemen of the American Apocalypse ...

Horseman #1: Depression

No one under the age of 80 has had personal experience with the economic cataclysm that struck the nation in the 1930s. Nor have I.

I was born in 1946, just as we were leaving the final vestiges of that era behind. I've studied that historic period with books, charts, and numbers, but that's not the same thing. I've 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 the Great Depression is the half century I shared with my father, J. Irving Weiss, one of the few economists who not only advised investors during that period, but actually predicted it.

The bubble turned to bust when the stock market cashed 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 '29 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.

J. Irving Weiss, father of the author, circa 1927. Three years later, he borrowed $500 from his mother to short the stock market and by the time the market hit rock bottom, had close to $100,000.

"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.

"Yes, 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."

Was Dad Right?

As right as you can be without the benefit of 20-20 hindsight!

Sure, the government intervened more aggressively in 2008 and 2009 than it did in the 1930s. But did that make it better or worse?

Yes, we have a more modern market system, but we also have new, unprecedented risks and weaknesses that were small or non-existent in the 1930s, which I'll explain in a moment.

No matter how you look at it, one thing is clear: In the twenty-first century, we face similar dangers and have similar opportunities.

Despite the many historic differences between then and now, the 1930s and the current era do have some key elements in common: A severe contraction in the economy over multiple years, creating massive long-term unemployment, delivering devastating financial losses to large segments of the population, creating giant federal deficits and prompting governments to take extraordinary measures.

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 strong.

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.

Still finding it hard to believe that the United States risks another great depression?

Then consider the comments made by former U.S. Fed chairman Alan Greenspan. In testimony before Congress, he explicitly said the debt crisis of 2008 was the worst in 100 years. That means the financial dangers were even GREATER than those of the 1930s!

Or remember the unforgettable image of former U.S. Treasury Secretary Paulson, literally dropping to his knees before Congresswoman Pelosi, begging for the billions he said were needed to prevent “a total Wall Street meltdown.” That did not happen very long ago.

Or simply get up from your chair, open the door, and take a walk outside.

If you live in the U.S., nearly everything you see and hear will clue you in to the true plight of our times — 1 out of 7 homeowners delinquent or foreclosed on their mortgage; 4 out of 10 upside down on their home equity; nearly 5 out of 10 among the millions of unemployed out of work for over six months; 7 out of 10 Americans fearful of their economic future, and rightfully so.

If you live in countries like Greece, Ireland, Spain, Portugal or Italy, you will see even more evidence of the economy’s long-term decline. And if you live in many other countries of the world, the evidence of economic, social and political upheaval is even more dramatic.

Even as they tried to justify their past actions, the leaders of the most advanced countries inadvertently sounded 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.

They bailed out bankrupt banks, broken brokerage firms, insolvent insurers, and even entire sovereign governments.

They pumped money into mortgage markets, consumer credit markets, government bond markets and even stock markets.

They prodded lenders to lend, consumers to consume, investors to invest.

And they justified all these extreme measures as their only hope to prevent “the end of the civilization as we know it.”

Clearly the urgent measures that leaders have sought so strenuously to justify now beg three equally urgent questions that I challenge them to answer:

Question #1. Now that the U.S. has lost its triple-A rating for the first time in history, European countries are being downgraded left and right, and the global economy is in turmoil, what new rabbit are you going to pull out your hat that’s possibly big enough to do the trick?

Question #2. Even if you DO have some additional tricks up your sleeve, do you have the political will and financial resources to rescue the global economy again?

Question #3. If not, what are the consequences?

Here’s Dad’s answer to similar questions 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 to decipher what went wrong. They concluded that it was mostly the government’s fault, especially the Federal Reserve’s. They developed the theory that the next time we’re on the brink of a depression, the government can nip it in the bud simply by acting sooner and more aggressively.

"Bah! Those guys weren't there back then. When I first went to Wall Street, Friedman was in junior high and Greenspan was in diapers.

"I saw exactly what the Fed was doing in the 1930s: They did everything in their power to try to stop the panic. They coddled the banks. They pumped in billions of dollars. But it was no use. They eventually figured out they were just throwing good money after bad.

"You didn't have to be an economist to understand what the real problem was. It was sinking public confidence, and money didn't buy confidence. To restore confidence would take more than just money. It would also take time.

"The true roots of the 1930s bust were in the 1920s boom, the Roaring Twenties. That's when the Fed gave cheap money to the banks like there was no tomorrow.

"That's why the banks loaned the money to the brokers, the brokers loaned it to speculators, and the speculation created the stock market bubble. That was the real cause of the crash and the depression! Not the government's 'inaction' in the 1930s!

"By 1929, our economy was a house of cards. It didn't matter which cards the government propped up or which ones we let fall. We obviously couldn't save them all. So no matter what we did, it was going to come down anyway. The longer we denied that reality and tried to fight it, the worse it was for everyone. The sooner we accepted it, the sooner we could get started on a real recovery."

Today, however, it seems the governments of the world have yet to learn this lesson.

Horseman #2: Stagnation

Imagine a world where 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, spreading poverty — even spreading homelessness among college graduates.

Try to envision a 21-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 2011.

I know from personal experience. 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.

Sure, there are important cultural differences between the U.S. and Japan. But there is one over-arching similarity: *Massive, persistent government attempts to boost the economy, which ultimately failed.*

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 massive trading 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 2011, Japan had fallen to number three in GDP, surpassed by China and slipping on nearly every single front where it was leading before — technology, trade and cash.

And consider this: In years past, more than 99 percent of college graduates were employed during Japan's critical April hiring season. If significantly more than 1 percent failed to get work, it was considered shocking.

Reason: Unlike their counterparts in the U.S., once they missed that window, most become unemployable. Companies viewed them as rejects, failures. In the next hiring season, it became extremely difficult for them to get another interview. In contrast, by 2011, 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 *twenty* 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 non-existent. By 2011, although still small compared to homelessness in the U.S. 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 2011, 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 two-decade depression. From 1990 through 2011, Japan's economy has been in a semi-permanent catatonic state — wavering from subpar growth to mild recession. An old friend, formerly 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 mega-mergers 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. All failed to revive Japan's banking sector.

Two-decade 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 more than twenty years, it never 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 by the end of 2011, even after a global stock market recovery that began in March of that year, the Nikkei was still down 78 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 21-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, much as U.S. Federal Reserve has done.

Japan was the first to bail out so many large banks so consistently, just as the Bush and Obama administrations have done in the U.S.

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.

At first, Japanese economists thought what they were witnessing was a "double-dip" recession. But after subsequent rounds of stimulus *also* failed, it made little sense to call it a "triple-dip" or "quadruple-dip" recession. Ultimately, they were forced to admit that it was really *one long, protracted depression*.

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."

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 chase an elusive dream of creating eternal prosperity and an unending bull market. And many other advanced countries — especially in Europe — did the same.

Obviously, this didn't work in Japan. It was destined to fail in the United States and as well.

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 — over and over again. That helps explain why, by 2011, Japan had been through five prime ministers in four years and was going on a sixth. That's why voters had permanently kicked the ruling party out of office for the first time in modern history.

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 feeble rally attempts 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 U.S. 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 U.S. middle class was being challenged.

The entire future of the nation was widely questioned.

And with the downgrade of U.S. government debt in early August 2011, those grave doubts were given even greater prominence.

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

Was the U.S. truly following a similar path? If so, how much longer could America's on-again-off-again recession last? How much further might home prices fall? What about the stock market? Would the U.S. government change course and shift from stimulus to austerity?

What about Western Europe? What about fast-growing emerging markets like India and China?

And what about the central banks of the world? Would the Federal Reserve print money wantonly to offset the shock? Would the European Central Bank do the same? These last questions are among the most critical, because they bring us to the danger of ...

Horseman #3: Hyperinflation

I personally lived through one of the worst hyperinflations of modern times — in one of the largest countries of the capitalist world.

When their leaders made some of the same mistakes Washington has made, all hell broke loose. Prices skyrocketed. Local governments went broke.

Things got so bad in the town where I lived that thousands of children had to quit school to help support their families. One 14-year-old student put it this way ...

"I found a job working for the local city government as a street sweeper, but the government always paid workers like me three months late.

"The problem was, in the three months we had to wait, I could only buy half as much with my pay as I would have when I earned it! My family and I literally went hungry."

Inflation ravaged the country on all levels. It corroded society, corrupted politics and destroyed people's careers. A college graduate in the prime of his life said:

"I graduated college as an agronomist, but pursuing that career was a pipe dream. I was lucky to get a job working nights in a supermarket.

"I joined a team of clerks who raced around the store from closing time to opening time the next morning, raising the prices on every single item in the store.

"We did this every night. Even on weekends. Sometimes, prices were going up so fast we had to close in the middle of the day to re-price many items."

Or consider this scene:

You're in biology class on a sunny afternoon.

The teacher has opened the windows so a warm breeze flows through the classroom. Suddenly a thunderous noise shakes the entire school. The tallest skyscraper in town, still under construction, has collapsed.

Another teacher, who lives next door to the construction site, bolts from the school only to find his home crushed under the rubble, his wife still inside.

Who was to blame for collapse? I later connected the dots directly to the federal government: The country's central bank — that nation's equivalent to our Federal Reserve — had been printing paper money like there was no tomorrow. As a result, inflation was raging and cement prices were soaring.

So to save money, the builders made their cement go farther by mixing in more sand. Then, to get more sales to cover soaring costs, they added a few more floors to the building that were not in the original plan. They got the blame. But it was ultimately the government's stupidity that doomed that building to collapse.

“Gold for the Fatherland”

A few months later, the president of the country desperately appealed to the people’s patriotism. All loyal citizens were asked to collect any gold they had in their home and donate it to the government. He called it “gold for the fatherland.”

Remarkably, many people obeyed. They voluntarily collected their gold jewelry and handed it over to the government. One woman even pulled the wedding ring off her finger, drove to the town square and dropped it off in a big bucket as local officials shook her hand.

Then it was revealed that gold donated by citizens was winding up in the pockets of corrupt politicians.

Confiscation!

Ultimately, inflation exploded to over two *thousand* percent. That’s when the government got so desperate it summarily froze everyone’s bank accounts and confiscated their savings.

One computer programmer said: “Sure, the government eventually gave us all our money back. But they replaced the old, nearly worthless currency with a new currency that was worth even less. Millions who had savings wound up with virtually nothing.”

And all of this was only a small part of the want and humiliation the people would suffer. In the end, the people were doomed to decades of intense financial pain, shame and lost personal liberty. Unbelievable? Well, I can assure you every one of these stories is true — because I witnessed them personally.

The young boy who went to work as a street sweeper was my neighbor.

The college grad who got a job changing prices in the supermarket was my friend.

The teacher who bolted from the school to rescue his wife under the collapsed rubble was my teacher.

The patriotic woman who pulled her gold wedding band off her finger to donate to the government was my best friend’s mother.

The computer programmer whose savings were confiscated came to work for me years later.

All these things happened when I was a young man living in the most advanced state (São Paulo) of the third largest country in the capitalist world at the time — Brazil.

But Brazil was not alone.

Horseman #4: Social Chaos

More recently, this kind of crisis has also happened in a very powerful European nation. But in many respects, it was far worse — due to the acute and chronic social ills that came in its wake.

The country’s bonds collapsed in value; interest rates exploded to over 200 percent. In just six months, its stock market plunged 75 percent.

The common people suffered tremendously: A staggering 60 percent of the workforce was paid only partially and received their paychecks months after they were due.

As the economy imploded, millions of average citizens fell victim to crime and corruption. The police demanded bribes for traffic violations, whether real or imagined. Public officials lined their own pockets with the people’s money.

Organized crime syndicates divvied up the country into their own private fiefdoms, profiting from protection rackets, prostitution, smuggling, narcotics-peddling and even murder for hire.

The government itself admitted that the criminals owned or controlled about half of the country’s private businesses.

A friend of mine was an engineering student at a national university at the time. Here’s his story, in his own words:

“My first notion of how serious the situation would become hit me when I noticed that my cost of living nearly doubled. I was just a poor student, so the rising cost of food and petrol and books hit me hard.

"Many banks, including some of the largest in the country, shut down. They closed their doors forever. Our savings were wiped out.

"All people could do about it was to go to their banks and hammer on locked doors. Other people demonstrated on the streets. They carried their devalued money in miniature coffins and marched past our central bank.

"The government didn't even have enough money to pay the military. So hundreds of thousands of soldiers were broke and many used their skills to resort to crime.

"Today, I want to go back to an engineering career, but I can't. All my academic records were destroyed in the chaos. So there is simply no possible way to prove I have a degree.

"It was the worst economic disaster in 100 years. I now live in the United States. I pray to God that nothing like that ever happens here."

That's my friend's story, and he's talking about Russia, formerly one of the most powerful nations in the world. Russia's leaders had made many of the same mistakes our leaders are making right now. Russia paid dearly for its leaders' sins. America is about to pay a very high price as well.

Yes, of course, the U.S has stronger democratic institutions than Russia had. But as I'll show you in the next chapter, Washington and Wall Street have abused their historic strengths to take far greater financial risks than Russia could have ever dreamed of taking!

U.K., Greece, Spain and Italy

You don't even have to go back in time to see how severe these kinds of crises can get. All you have to do is read today's headlines. The same kind of catastrophe is beginning to take place right now in Western Europe.

Ask British Prime Minister David Cameron. He could tell you what he's been through.

Soon after Cameron came to power, he encountered a fiscal mess similar to the one the U.S. Congress and President Obama battled over during the great debt ceiling debate of 2011.

But unlike the debt deal sealed on August 2, which merely kicked the can down the road, Cameron was able to pass what many considered a package of Draconian austerity measures, including massive cutbacks in social programs for the youth and the poor.

At first, it seemed to be effective, helping the U.K. avoid the contagion of fear that was spreading across the continent.

But in early August of 2011, just as the U.S. government was being punished by rating agencies for its *lack* of courageous austerity measures, the government of David Cameron was being punished by the people for "overly severe" austerity.

In the U.S., the punishment came from the financial markets. In the U.K., in contrast, the punishment was dished out by rioting youth gangs ransacking and burning neighborhoods of London, Liverpool, Birmingham and Bristol.

Or consider Greece. In 2010 and 2011, we've seen riots, the firebombing of banks and blood in the streets. Once again, the crisis was created by the nation's politicians and bureaucrats. Once again, the common man has had to pay the price.

Everywhere in Greece, home values have plunged.

Unemployment has soared.

One in four Greeks, including over 450,000 children, live in poverty. Crime is exploding.

A Facebook friend of mine recently moved to North America to escape the chaos of the Greek economy.

His story is compelling: "To lower government deficits, the politicians have imposed high taxes on business owners.

"But all they are doing is driving them out of business. Athens is beginning to look like a ghost town. Everywhere you look, shop windows are boarded up. Of those that are still open, most are running going-out-of-business sales."

Or look at Ireland. Just a few years ago, its economy was booming. Banks loaned people money hand over fist to finance homes, cars — all the joys of modern life.

Then, the bubble burst. Real estate values crashed. Mortgage defaults and bank foreclosures soared. Suddenly, the banks had lost billions of euros and were in danger of failure.

So, just as in the U.S., the Irish government stepped in and bailed out the banks. And soon, it was the government itself — not just the banks — that was in danger of going under.

In May of 2010, with Dublin on the verge of defaulting on its debts, Europe rode to its rescue with a $140 billion bailout.

But now, the Irish people are living under crushing austerity measures. Countless jobs have been wiped out; the official unemployment rate is 15 percent. Salaries have been cut to the bone; pensions and health benefits have been slashed.

Paddy Quigley, a resident of Moneygall — the ancestral home of President Obama's Mother — put it simply: "The banks ripped us off. The government ripped us off."

Similar stories are being told in Madrid, Barcelona and 53 more cities across Spain, where tens of thousands of workers have taken to the streets to protest a problem they thought they'd NEVER see again in their lifetime: Not just 10 percent official unemployment like we've recently seen in the U.S. — but 21 percent official unemployment!

A Spanish friend of mine says:

"You wouldn't believe what I'm seeing here on the streets of Madrid. In big central squares like Plaza Mayor, or even in small, picturesque ones like Plaza de la Villa, it seems beggars outnumber tourists and protesters outnumber beggars.

"In front of Parliament, riot police stand watch to protect lawmakers from angry mobs. All over the country, in Viscaya, Cataluña, Andalucía, we see the same thing.

Worse, the crisis is clearly spreading like wildfire — to bigger and bigger countries, such as Italy.

The combined GDP of all three countries that have needed a bailout so far — Greece, Ireland and Portugal — is $739 billion, and the impact has been huge.

But the GDP of Italy alone is over $2 trillion, nearly three times more! So a financial disaster in Italy will have triple the impact on global markets as the failure of a Greece, Ireland and Portugal put together!

Already, Italy's government bonds are plunging, its borrowing costs surging. And look at the demise of Italy's UniCredit, one of the largest banks in Europe.

In the June 24 issue of his free e-letter, The S&A Digest, Porter Stansberry — a good friend and one of America's leading crisis forecasters — explains it this way:

"UniCredit is the largest bank in Italy, and it owns other large banks in Germany, Austria, and Poland. The Italian government cannot afford to bail out UniCredit's depositors, many of whom reside in other countries.

"These same factors, ironically, led to the failure of big bank Credit-Anstalt in May 1931.

"The bank's failure knocked Europe off the gold standard and directly led to the Great Depression. Credit-Anstalt is the predecessor of UniCredit."

If Europe's largest banks merely recognize the true value of their loans to the bankrupt countries of Europe, most of those banks will be wiped out. Thus, the people of Europe are only beginning to pay the price for their leaders' greed and stupidity.

If history proves anything, it's that when the next shoe drops in Athens, Dublin, Lisbon, Madrid, Rome, and other struggling capitals, the pain they have felt so far will pale by comparison. As in Russia and Brazil, these nations will also be sentenced to years, perhaps decades, of deepening poverty and lost liberties.

Again, you're probably thinking: "Powerful countries like the United States, Germany or Japan are different! Nothing like that could ever happen here."

Well, the people of Russia, Brazil, Greece, Spain and many other nations never dreamed it could happen there, either! The truth is, our own leaders have made the same financial errors that their leaders made, the same blunders that destroyed their people's wealth and freedoms.

The pattern is clear:

First, the government spends everything it has.

Next, the government borrows all it can from its people.

Then, it borrows still more from foreign countries and banks.

Finally, the debts become so onerous and horrendous that panicky political leaders turn on their own people.

They confiscate their wealth and destroy their freedoms. As another Greek friend of mine puts it:

"Nobody believes that the bailouts of Greece and other failing nations will work — not the people on the street, not the politicians in our capitals, not even the European officials who are giving us the money.

"What we discovered in Greece and what you will discover in the United States too, is that you can't save a nation that's drowning in debt by throwing more debt at it any more than you could save a drowning man by throwing more water on him."

No one can deny that America is still the biggest and richest country in the world. However, it is also undeniable that ...

America's strengths have enabled its leaders to take the greatest and most dangerous risks in the world.

Size is one thing; stability is another.

Indeed, in some key aspects, the U.S. is now in *worse* shape than many important countries that have suffered the greatest economic disasters of modern times.

The facts:

In Brazil, Russia, and Greece, the people had to scrimp and save to buy a house. As a result, very few lost their homes due to mortgage defaults. By contrast, in the U.S., big mortgages are the norm.

In Brazil, Russia, and Greece, the banks were never exposed to large numbers of extremely risky investment instruments called derivatives. But in the United States, the largest banks — JPMorgan Chase, Citibank, Bank of America and Goldman Sachs — have placed massive bets on derivatives.

Warren Buffett calls them "financial weapons of mass destruction." And, in fact, it was these dangerous derivatives that actually *caused* the 2008 meltdown in U.S. banks.

So you'd think our banks would have learned their lesson. You'd think they'd be avoiding derivatives like the plague. But the shocking truth is, our financial institutions own more derivatives today than they did in 2008.

Here are the facts provided by the Comptroller of the Currency, a division of the U.S. Treasury Department ...

- In 2008, at the height of the debt crisis, U.S. banks held $176 trillion in derivatives.
- Today, U.S. banks hold $244 trillion in derivatives.

That's nearly 40 percent more of the very same kind of high-risk gambles that nearly caused the end of America as we know it just a few years ago!

I repeat: This is a key factor that's riskier than anything ever witnessed in countries like Brazil, Russia or Greece!

Here's another big weakness those countries did not have: Greece and Ireland could count on being bailed out of their crisis by larger economies. Brazil, Russia and even Japan were cushioned — or even pulled up — thanks to global growth. But as the richest and largest economy in the world, the United States does not have that option.

There is no nation — or group of nations — on Earth rich enough to save the United States of America.

The Bills Come Due

Safe Money Report editor Mike Larson and I warned of precisely the crisis the U.S. is facing right now in a white paper we submitted to the U.S. Congress on September 25, 2008.

We warned that the government bailouts would backfire. We wrote that even as the government sweeps piles of bad debts under the carpet, it would accumulate mountains of *new* debts — the biggest federal deficits of all time.

And this is precisely what has happened.

Washington is now sitting on the largest pile of debt in the history of civilization: Now over $15 trillion and counting. It's a positively staggering amount of money.

And it doesn't even begin to include the debts Washington inherited from Freddie Mac and Fannie Mae or all the money Washington owes to seniors for Social Security and Medicare, or to veterans and government pensioners. Add that in, and Washington's total obligations are over $120 trillion!

But it's not just the sheer size of our nation's debt that's so frightening. It's the fact that it's mushrooming so rapidly — at a speed that's far greater than anything we have ever seen: Washington is growing the debt by *at least* $1 trillion each and every year.

Now, at this point, you're probably thinking: "But surely — our leaders will ultimately do the right thing and STOP bankrupting us — right?"

Wrong. The fact is Washington has consistently made the opposite choice.

The die was cast in 2008, when the housing bubble burst and giant banks were going bust. At the time, the U.S. government could have simply allowed those who had made the big gambles to suffer the natural consequences of their actions. Instead, Washington bailed out the banks, absorbed those bad debts, and spent trillions of dollars to fight the recession.

Some people thought that was a good idea. But look at what happened: In just 12 months between 2007 and 2008, Washington tripled the federal deficit from $161 billion to $459 billion. Of course, our leaders swore on a stack of Bibles that this was a one-time-only event, needed to fight the recession.

They lied.

Even in all the years prior to the Great Recession of 2008 — including the years of the Civil War, the Great Depression and the Great Influenza Pandemic of 1918 — the United States did not borrow as much as it will have borrowed in the in the five years after the Great Recession.

Washington tripled the deficit again — to $1.4 trillion in 2009. Then, again, they solemnly promised that this, too, was temporary — for emergency purposes only.

But that was a lie, too. The 2010 deficit was $1.3 trillion.

Plus, the deficit for 2011 was the biggest of all: More than $1.5 trillion! And even the White House admits that the 2012 deficit will be at least $1.1 trillion. That's a total of $5.6 trillion!

How much is that?

Look at it this way: In the two centuries before the Great Recession of 2008 began, despite massive borrowing to fight the War of 1812, the Spanish-American War, the Civil War, World War I, the Great Influenza Pandemic of 1918, the Great Depression, World War II, Korea, Vietnam, plus Iraq and Afghanistan, the U.S. government only borrowed a grand total of $4.6 trillion.

But in the five short years *after* the Great Recession began, the government will have borrowed $1 trillion more!

The big dilemma: In the past, Washington always borrowed nearly all the money from its own citizens. But in recent years, it has borrowed most of the money from foreigners, especially China; and now it owes foreigners $4.4 trillion dollars.

That's more than four times what it owed foreigners when the U.S. plunged into recession in the early 2000s.

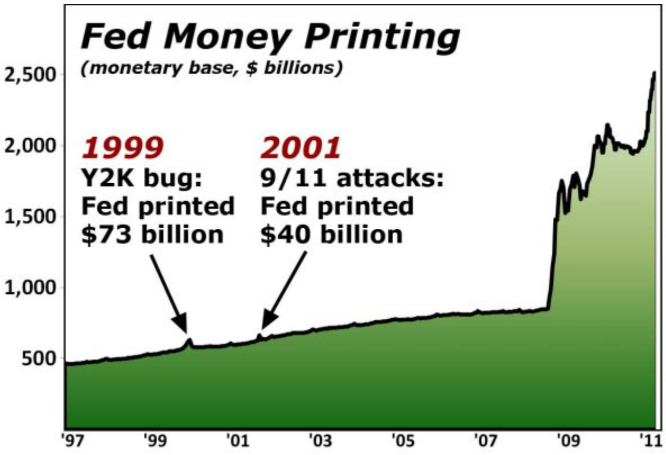
But it still hasn't been enough! The White House and Congress wanted to spend even more money than American and foreign investors would loan us — combined.

So the U.S. Federal Reserve printed hundreds of billions of paper dollars and loaned most of that money to the U.S. Treasury, too. How many hundreds of billions of dollars?

Let me put it into perspective for you ...

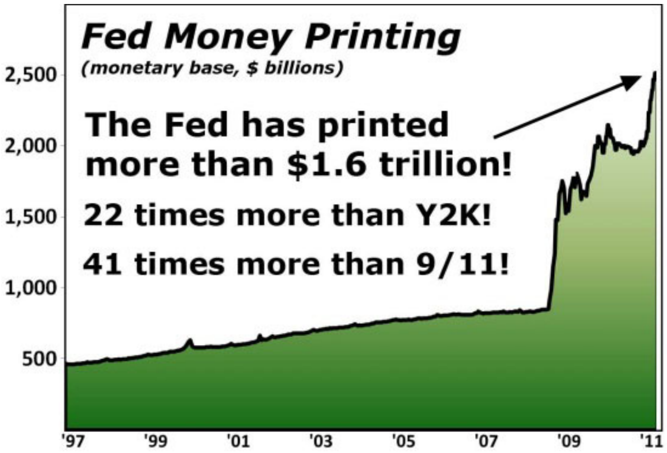
Remember 1999, when everyone was worried the Y2K bug would crush the U.S. economy?

Well, to avert a collapse, the Federal Reserve printed $73 billion to keep the banks from collapsing. That's the first tiny blip on this chart.



Now fast-forward to the 9/11 terrorist attacks. In the days that followed, the shock and fear paralyzed the economy and threatened the entire banking system.

So the Fed responded by pumping another $40 billion into the economy. That's the second blip on the chart.



Each time the Fed cranked up the printing presses, financial experts responded with shock and anger. They said these amounts were so huge, it might trash the dollar's value. And sure enough, the value of the dollar did plunge.

But that was only a drop in the ocean compared to what the Fed has done now.

Since the big debt disaster of 2008 — when the giant Lehman Brothers failed — the Fed has printed more than $1.6 trillion dollars. That's twenty-two times MORE money than the Fed created during Y2K. And it's 41 times more than it printed after 9/11!

Meanwhile, many central banks all over the world followed the same pattern.

That's why the buying power of your money is cratering. That's why your cost of food has soared.

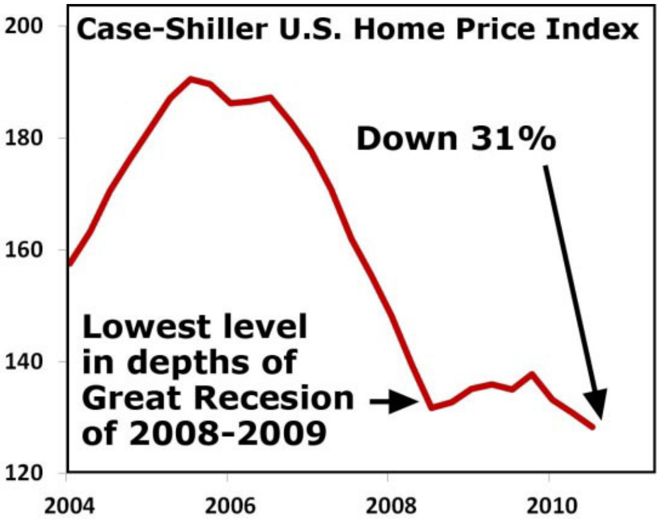
Look at gold. Just since the Fed began its money-printing binge, the price of gold has more than doubled! But all this is only the beginning.

In Russia, Brazil, Greece and Ireland, what happened next was that revenues and tax collections began to fall. It became impossible for the government to repay its debts. And here again, the United States is following a similar pattern:

Despite the massive amounts of money Washington has thrown at it, the U.S. economy is sinking — and government revenues are falling — again!

The U.S. Bureau of Labor Statistics reports that long-term unemployment in the United States is now at catastrophic levels: More than 14 million Americans are now out of work — and every week, hundreds of thousands more get their pink slips.

And once someone loses a job, it takes longer than ever to find a new one. In fact, in terms of the time it takes to find a job in the U.S., the situation is not just "a little bit" worse than during prior recessions. It's more than 2.5 times worse than during the mid-1970s. And it's also far worse than during the financial crisis of 2008-2009



Plus, the crisis that triggered this great recession in the first place is now growing more severe. Consider the conclusions of Case-Shiller, the real estate industry's most trusted source of home price information:

They report that the median price of existing homes in America has fallen *below* the lowest level it reached in depths of the Great Recession of 2008-2009!

In short, despite the trillions Washington has blown on stimulus and bailouts, we are now staring down the barrel of a huge double-dip recession.

That's especially scary this time around.

Because this time, the government isn't putting money into the economy with more stimulus. It has no choice but to take money OUT of the economy with budget cuts!

And as the economy falls, instead of collecting more from taxes, it collects *less*. The money Washington so desperately needs to pay the interest on its $15 trillion debt simply vanishes.

Throughout history, when a nation becomes this deeply indebted and in this much economic trouble, the next step is always the same: In every case, the next step is a monumental event — a far greater calamity ...

A historic, life-changing, world-changing event!

It is an event that could vaporize massive amounts of wealth and potentially threaten our liberties right here in the United States of America: *The singular moment in time when the last investor willing to loan money to the government calls it quits; when the government can no longer borrow and simply runs out of money.*

That's the moment when all hell breaks loose.

No, I'm not talking about what would happen if the U.S. Congress simply failed to raise the debt limit like it almost did in August of 2011. That was a just a small sneak preview of the true big event still dead ahead.

I'm talking about a sudden, rejection of U.S. debt by the world's investors — a creditors' revolt that suddenly leaves Washington with no choice but to live within its means.

Think about that: What would happen right now if the U.S. federal government was no longer able to find more willing lenders, no longer able to borrow money?

Before you answer, remember this: Washington has to borrow nearly half of every dollar it spends today! It has to borrow nearly half of every dollar it spends on national defense, homeland security and nearly half of every dollar it sends to other countries as foreign aid.

It has to borrow nearly half of every dollar it pays in pensions (Social Security), health benefits to senior citizens (Medicare), and unemployment benefits — plus half of what it gives to U.S. veterans, government pensioners, the poor and the disabled

And it has to borrow half of every dollar it spends to repay money it borrowed five years ago ... ten years ago ... even 30 years ago.

What will happen when global investors deny our application for yet another loan? When the Chinese and other foreign lenders say "**No more!**" to losing their shirts as Washington guts the value of the dollars they earn?

When they simply say: **"Sorry — but America's line of credit is CANCELLED. Washington's loan application is DENIED!"**

This is not far off. The warning signs are already here ...

Warning sign #1. China's first rating agency — Dagong Global Rating — has already issued warnings about the dollar and has rated the U.S. much lower than Moody's or S&P.

Warning sign #2. According to Beijing officials, China, the world's largest buyer and holder of U.S. government securities, has suffered a loss of $271.1 billion between 2003 and 2010 as a result of the dollar's steady depreciation.

Warning sign #3. In June of 2011, China's National Development and Reform Commission announced it could lose another $578.6 billion if it continues to hold these huge loans to the U.S. Will they continue to suffer these losses passively?

The answer is ...

Warning sign #4. Two high officials — Zhou Xiaochuan, the head of China's central bank and Xia Bin, a member of the monetary policy committee of the central bank — are ready to bolt. Both recently made it clear that they could easily get away with a huge reduction in the amount of U.S. treasuries they own.

Other nations are also shifting their reserves from U.S. Treasuries to gold and silver, plus oil, coal, and other tangible assets.

Mexico, Russia and Thailand have recently bought well over 100 tons of gold instead of U.S. treasuries. Even Tanzania is planning to shun the dollar and shift its reserves into gold!

Warning sign #5. On August 5, 2011, Standard & Poor's downgraded the debt of the U.S. Treasury Department and then, on August 8, did the same to the debts of all government agencies, including Fannie Mae and Freddie Mac.

It was not a deep downgrade. But it shattered a century of tradition and marked the beginning of the end for America's ability to borrow to its heart's content. It was a stark prelude to that fateful day when Washington is no longer able to borrow the money it desperately needs.

This is why U.S. Congressman Ron Paul recently issued this somber warning:

"At the present time, the Chinese have backed off from what they're loaning us, interest rates are starting to go up, inflation factors are coming up. Believe me, that next step is a currency crisis because there will be a rejection of the dollar. The rejection of the dollar is a big, big event."

Congressman Paul is correct: When Washington can no longer borrow money, it will have no choice but to immediately slash spending. And since nearly half of every dollar it spends is borrowed, our leaders will have no choice but to radically reduce, delay or even cancel payments to ... seniors, veterans, the poor, the disabled and to pensioners. Millions who count on government checks will suddenly find themselves on the ropes, struggling to survive.

Therefore, with government programs slashed or cancelled, the consumers paralyzed in fear, the U.S. economy in intensive care, tax revenues falling, and with global investors refusing to lend more money to

Uncle Sam, here is the worst-case scenario, the scenario I fear the most — not only for the U.S. but also for the other advanced countries:

Hunger and homelessness explode to pandemic levels. The victims take to the streets. Rallies turn into demonstrations ... then, into protests ... and finally, into riots.

With law enforcement severely crippled by the spending cuts, crime skyrockets. With fire departments running at austerity levels, cities burn. With emergency services and hospitals out of money, people die.

As we saw in Russia and Brazil, Washington and other governments have no choice but to restore order by taking away your personal freedoms.

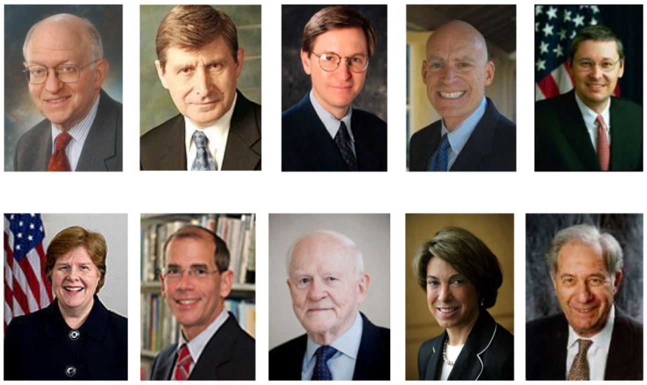
No More Big Bailouts

And never forget this final, devastating fact: The last phase of this great debt crisis ended because Washington bailed out the largest failing companies. This time around, there are two reasons why there can be no giant bailouts:

First, because the recently elected fiscal conservatives in Congress are sworn to oppose them. And second, because no bank ... no government ... no group of nations ... is rich enough to save America.

Still finding all this hard to believe?

Then consider these ten former heads of the Council of Economic Advisors. They are the men and women who directly advised the presidents of both major parties, including President Obama, and all of them have since departed from their office.



They recently wrote that that the next debt crisis could, **"dwarf 2008!"**

That's an absolutely shocking assertion: In 2008, Wall Street came within a hair of a massive, devastating meltdown. Virtually ALL of our largest banks were pushed to the brink of failure. The entire country was only a few hours away from a fatal collapse.

Now, these ten former White House advisors are warning that this next debt crisis could dwarf the last one!?

Why? What would cause that? They say it's precisely the monumental event I just told you about: The fact that one day foreigners may simply stop lending more of their money to the United States. And these ten former presidential advisers are not the only ones ringing the alarm bells.

U.S. Senator Mark Warner says, "We're approaching financial Armageddon."

U.S. Senator Joe Manchin calls this crisis, "A fiscal Titanic."

Admiral Mike Mullen, the chairman of the Joint Chiefs of Staff, is warning that this crisis is, "the biggest threat to our national security."

Economist Robert Samuelson warns that this crisis has the power to trigger, "An economic and political death spiral."

Democrat Erskine Bowles, who headed up the president's deficit commission, warns that this crisis is, "like a cancer; it's truly going to destroy the country from within."

Senator Mike Crapo says it is "a threat to not just our way of life, but to our national survival." It has the power to " ... guarantee that this nation becomes a second-rate power with less opportunity and less freedom."

And David Walker — former U.S. Comptroller General and director of the Government Accountability Office says:

"The Greeks engaged in a variety of creative accounting practices, and there were a lot of big and bad surprises that caused this situation to arise. The U.S. has [also] been engaged in a lot of creative accounting for years with regard to the Social Security trust funds ...

"[And] now, we've got major creative accounting going on with government-sponsored entities — Fannie Mae and Freddie Mac. We own a super-majority of them, but we're not consolidating them into the financial statements. We don't consolidate the Federal Reserve into the financial statements [either].

"The bottom line is: We're not Greece. But we could end with the same problems down the road if we don't get spending under control and start dealing with our structure deficits soon."

These men are not extremists. They have nothing to gain by trying to scare you. They are merely following the facts to their logical conclusion. That's what we have done here at Weiss Research and what I have done in this report.

The warnings I've given you are based on nothing more — and nothing less — than economic reality and historical fact.

My research team and I have simply crunched the numbers and let the chips fall where they may.

Just like we did when we issued "D" ratings on nearly every big bank and savings and loans that subsequently failed!

Just like we did when we became the very first rating agency in America to downgrade the United States.

We have no political axe to grind.

We are not beholden to Republicans, Democrats, or any other political party.

Nor do we owe allegiance to Wall Street or any of the thousands of banks, companies and countries that we rate.

In fact, most of them would probably prefer that we just kept our mouths shut — like on giant company that even threatened my life by saying "Weiss had better shut the %$#& up or get a body guard."

But to quote U.S. President Harry Truman, "I never give them hell. I just tell the truth and they think it's hell."

Our loyalty is with the people — consumers, savers, investors and everyday citizens — who rely on us to tell them the truth about what we see in the future, and about the companies or governments they entrust their money to, invest in, or do business with. The good, the bad and the ugly.

This is how my company has become the last line of defense for the average Joe against greedy and power-mad CEOs, politicians and bureaucrats. Nevertheless, if the crisis I've just described is hard for you to imagine, I certainly understand.

The Great Denial

We've never seen anything like this happen before in America.

We always believed we were somehow insulated from these kinds of catastrophes.

Besides: Things still seem so "normal" for people living in advanced countries today — so routine. It's hard to imagine that such terrible things could happen to us, and that it could happen so quickly, in the twinkling of an eye.

But isn't that always the case? Isn't there always a calm before the storm? Aren't people always caught by surprise when historic crises strike?

After all, nobody believed the Soviet Union would collapse virtually overnight. And when it did, it caught everybody by surprise. Even the C.I.A. failed to see that one coming!

And remember, for years, Islamic extremists made no secret of their determination to knock down the World Trade Center. They actually tried to do it in 1993.

But among the thousands who streamed into the twin towers on September 11, 2001, how many — if any — believed they had anything to worry about?

Many, including my cousin's daughter and friends, just kept going to work as they always had — and thousands paid the ultimate price.

In Japan, even though they had been repeatedly warned, nobody — including my own son, who lives in Tokyo — believed the nuclear power plants would suffer multiple meltdowns. But they did. And now, despite repeated government denials and cover-ups, radiation poisoning has infiltrated the nation's food supplies.

And alas, today, even the greatest denials cannot withstand the pressure of the truth.

Boom and Busts

By 2011, anyone not blinded by greed could plainly see the sequence of events of recent years:

First, the U.S. and other governments helped create a great asset bubble.

Next, the government-created bubble burst under a dark cloud of hardship for millions of citizens.

And third, the governments would respond by creating still *another* bubble, often far more dangerous than the previous.

A one-time event? Hardly. In ten short years, we'd already seen three — the tech bubble and wreck of 2000-2002, the housing bubble and bust of 2006-2009, and the sovereign debt explosion and implosion of 2009-2011.

So by this time, most savvy investors — and many average citizens — already knew the drill. What they didn't yet know was the answer to the biggest question of all:

What's the end game?

Would we face a crisis similar to Brazil's and Russia's.

Or would it be more like the U.S. in 1930s? Or Japan in 1990-2011?

Which of the four horsemen would return to haunt us the most and the soonest — Depression, Stagnation, Hyperinflation, or Social Chaos?

Would the world's money printing presses run amuck, trashing any remaining value in paper currencies?

Would major governments ultimately default on their debts, destroying the global credit system?

Would our entire civilization crumble?

My answer: Such threats are certainly real. But no matter how wild this 21st century roller-coaster ride may get, there IS also another possible outcome: *Austerity.*

Austerity can come in many forms: Governments may impose austerity strictly in reaction to market-driven forces. Or they may do so pro-actively.

Austerity may be imposed only *after* hyperinflation. Or it may come before.

It could trigger deep social upheaval. Or the social reaction could be more limited and less disruptive.

But regardless of how austerity finally arrives, it cannot happen without sacrifice and a reduced standard of living. That's the hard reality.

Greece, for example, finally bowed to unrelenting attacks from global investors and slashed 30 billion euros from its budget in three years.

Spain, also buckled under massive pressure from investors, announcing spending cuts of 15 billion euros, plus a 5 percent reduction in public worker wages.

Portugal embarked on a program to cut 2 billion euros this year alone. Italy slashed 25 billion euros from its budget over two years.

Germany, supposedly the most robust of all euro-zone countries, had no choice but to follow a similar path — cutbacks of 85 billion euros by 2014.

And the U.K. implemented the deepest cutbacks of all — slashing its military and social welfare budgets at the same time.

Will politicians in Washington, Tokyo, London, Berlin, Rome, Lisbon, Madrid, or Greece cut enough to restore fiscal balance in the near future? Very doubtful.

But even if they didn't cut their spending by a penny — even if they simply failed to *renew* their stimulus programs — the impact could be severe. If they cut back in an economy addicted to stimulus, it will be tantamount to shock treatment.

It's at this juncture — when governments have their back against the wall — that we come to ...

The Great Fork in the Road: Inflation or Deflation?

In their zeal to fight the crisis at all costs, will the Federal Reserve and the central banks of the world bring about *unbridled inflation*, driving nearly all prices sharply higher?

Or will austerity and the sinking economy bring *deep deflation*, driving nearly all prices sharply lower? Before I answer that question, let me first show you the true consequences of each scenario:

The true consequences of unbridled inflation: Inflation may ease the pain of debtors temporarily, help provide the semblance of a recovery, and even give the illusion that "the crisis is over."

But such benefits are almost invariably short lived. They are limited to a privileged few. And even if they're more widespread or last a bit longer, they almost inevitably backfire in the form of new bubbles, new busts and, ultimately, an even deeper recession with more financial losses, more bankruptcies and more layoffs. In a nutshell, unbridled inflation brings:

- *Still more bad debts.* Individuals and companies are once again encouraged to borrow, spend and speculate, adding a new layer of burdensome debts to an already-overburdened economy.
- *The ultimate moral hazard:* Speculators, among the primary culprits of the boom and bust, are rewarded with even more cheap money and credit; while savers, essential to help finance a true recovery, are punished. After deducting inflation, they earn less than nothing for their money. Or worse, the value of their money is quickly eroded.
- *The destruction of the dollar.* Savings and retirement nest eggs are eroded. People have little incentive to work hard and every incentive to find alternative schemes for making money. The inflation corrupts society and sabotages efforts to bring about an economic recovery.
- *The greatest danger of social chaos.*

The true consequences of deep deflation: Deflation comes with deep financial losses, more corporate bankruptcies and much higher unemployment. But *those consequences are largely unavoidable anyway.* Moreover, there are major, lasting benefits that accrue with deflation:

- *A much-needed reduction of burdensome debts:* With deflation, debts are paid off or liquidated in bankruptcies. Bad debts are cleansed from the economic body, creating a clean slate for future growth.
- *Fair punishment:* Speculators who took the most risk during the bubble suffer the biggest losses, while those who had the foresight and prudence to save their money benefit from the best real returns. Thus, deflation naturally delivers the most punishment to those who *caused* the crisis; while delivering the greatest rewards to those most capable of *ending* the crisis.
- *A strong dollar:* The U.S. dollar gains in purchasing power, giving every American a bedrock of value to strive for, to save and to invest prudently. This lays the foundation for shared sacrifice by families, local communities and the country as a whole.
- *Some social rebellion:* But that rebellion is greatly tempered by a sense of shared sacrifice — the realization that even the rich are among the victims.

Clearly, despite the near-term pain, *deflation* is the lesser of the evils.

But, there's no assurance that deflation will prevail. Yes, in 2008, U.S. commodity prices, wholesale prices and consumer prices plunged; mortgage debts, corporate debts and other forms of debt were liquidated at the fastest pace since the 1930s; and the U.S. dollar enjoyed the most rapid surge overseas since the mid-1980s.

But it was because of that deflation that government officials thought they had the leeway to bail out failing companies without restraint, cut interest rates to zero, print money to their heart's content and pump up the economy with the largest stimulus packages of all time.

"Who cares how much inflation that might create?" they reason. "Right now, as long as we have deflation, we can afford some inflationary consequences."

Plus, it was also due to that line of thinking that, in 2010, the Federal Reserve officially declared that one of its key goals was to actually *create inflation.*

They viewed deflation as a vicious plague. They figured a "little inflation" is okay or even healthy. So they actually ran the money printing presses to make it happen. What they didn't realize is having "a little inflation" is as difficult to achieve as getting "a little pregnant."

Moreover, recent history shows, that their rationale is gravely shortsighted.

The government's efforts to end the tech bust of 2000-2002 produced the housing bubble of 2003-2005; its efforts to end the subsequent housing bust produced the energy and commodity bubble of 2006-2007; and its current, desperate struggle to end the resulting economic disasters may harbor even greater dangers.

Indeed, looking back at these bubbles and busts since the new millennium, it's clear that, despite some near-term successes, nearly everyone has lost:

Millions of citizens were denied access to affordable homes, lured into unpayable debts, and then thrown out on the street with foreclosures.

They were squeezed by surging fuel prices, squeezed again by vanishing credit, and then punched below the belt by job losses.

In the final tally, even the initial beneficiaries of the booms — the technology industry and the housing industry — were smashed.

Investors in those industries experienced massive losses. And federal governments themselves were severely weakened as its debt and deficits exploded in size.

Each time, just as soon as consumers resumed buying and business resumed expanding, most of the extra money and credit pumped in to the economy merely reignited more borrowing and speculation. With each new cycle, each country's finances, competitive ability, and recuperative power were weakened further.

Instead of real growth, we got more bouts of inflation.

Instead of lasting recoveries, we got more bubbles, more busts, and, ultimately, more tough times.

Clearly, you must be ready for all both inflation and deflation. You must be prepared for all four horsemen of the American Apocalypse.

Mike Larson, editor of our *Safe Money Report*, will now show you how.

Chapter 2

Your Comprehensive Plan for Financial Safety, Protection and Profits

by Mike Larson

Your very first priority should be to protect your retirement.

I know. If you're young, financial advisers are telling you that you have time to recoup a stock market decline. You can withstand the declines and hold on for the subsequent recoveries.

But that logic only works if the declines are shallow and short, lasting no more than a year or two at the most. Given the facts we've just cited, it should be obvious that this decline has the potential to last a lot longer and be far deeper.

Another fallacy: To get out of the market, some people think they have to get out of their retirement plan — such as a 401(k) in the U.S. — or other tax-protected retirement accounts and pay big penalties.

Not true! A simple phone call will get you out of most of the danger: You simply shift your money from a stock market fund to a money market fund. Your retirement program stays 100 percent intact. You pay no tax penalties. And you can avoid tremendous losses.

In your taxable portfolio, before you go on the offense — whether you're talking about a World Cup soccer match or your investment portfolio — you have to make sure you've shored up your defenses.

That's even more important when the global impact of an American Apocalypse is crashing down on you.

We recommend taking three steps immediately:

Conservative Step #1: Close Out Vulnerable Positions! The easiest way to lose money in the American Apocalypse is to have too much of it exposed to market risk. With few exceptions, stocks are no place to be when the economy is declining. Earnings and sales will plunge ... inventories will pile up ... debt burdens will crush the weak, while investors will begin throwing the babies out with the bath water.

So I recommend you start closing out positions right away. Sell approximately HALF of your vulnerable stocks at the market. Then sell the REST into any significant rally, except for special situations discussed in your regular *Safe Money* issues. This goes for individual stocks, mutual funds, exchange-traded funds (ETFs), the whole lot.

Ditto for bond funds with a significant amount of credit risk. High-yield, or "junk," bonds tend to trade like equities. So they should be jettisoned. Even higher-quality municipal and corporate bonds are vulnerable given the threat of a significant recession and the dismal condition of municipal and state balance sheets.

Conservative Step #2: Raise Cash! So what should you do with the money you raise from those sales? Most brokers will tell you to plow that money back into other stocks, bonds or commodities. I reject that approach. I think you should raise CASH.

Cash is not a four-letter word. Provided you take proper steps to hedge against inflation (see below), it's the must-have asset class. By building up your store of cash now, you'll leave yourself with the means to buy other assets on the cheap in the depths of the American Apocalypse.

If you live in the U.S., rather than bury a bunch of dollar bills in the backyard, I recommend you move the funds into short-term Treasuries or Treasury-only money funds. You can buy Treasury bills with maturities of one year or less from Uncle Sam himself via Treasury Direct (www.treasurydirect.gov or 800-722-2678) or through your broker.

If you live in Europe or Asia, you can usually buy similar instruments. Just be sure to keep them as SHORT TERM as possible. That way, if the risk of default or inflation reaches a critical point, you are never locked in. You always have the flexibility to shift. And in our regular monthly *Safe Money Report*, or in our daily *Money and Markets*, we will do our utmost to alert you ahead of time.

Another alternative for your cash is the strongest banks in the world. Yes, as we have warned, many large banks are candidates for future failure. But there are also quite a few banks that are still very strong financially.

With your cash in a safe place, the primary risk you face is inflation and the falling purchasing power of your dollars invested in Treasury bills. But to cover for that risk, we recommend ...

Conservative Step #3: Add Hedges! Raising cash is a protective strategy and there's nothing wrong with it. But if you want to go a step further, you need to hedge against downside risk in any remaining stocks you may own.

Inverse exchange traded funds, designed to rise in value when stocks fall, are a key component of this strategy. Put options are another valuable form of downside insurance.

Equally important: Hedge against inflation and surging interest rates. Out-of-control money printing by central banks can only reduce the value of paper currencies, helping inflate the price of all kinds of essential commodities. That makes it imperative to protect your portfolio against falling BOND prices and a falling currency.

Fortunately, it's easier than ever to do so, thanks to two powerful profit vehicles for bad times. (For instructions on each, see our accompanying special reports, "Shield Your Wealth in Terrible Times," and "The Ultimate Crisis Investments.")

But first, I want to make sure you're fully prepared for one of the greatest continuing threats to the wealth of most investors ...

The NEXT Phase of the Real Estate Bust

I take pride in my track record on the real estate market. Long-term subscribers know I unambiguously predicted the collapse in the housing and mortgage market before it happened.

Then, in early 2009, I said that the real estate market was temporarily bottoming ... and what followed was a powerful rally in every stock sector tied to real estate, including home builders, construction suppliers, mortgage insurers, and banks.

Now I'm seeing another important shift occurring. The plunge in home prices and mortgage rates — which were helping to stimulate some demand — aren't working any more.

The obvious reason: With the underlying American economy spiraling downward, I don't care how cheap homes or financing get. If you don't have a job, you aren't going to buy a house. Worse, this economic apocalypse comes precisely when home foreclosures are rising again.

More than 300,000 U.S. borrowers are falling into some stage of foreclosure every month, according to RealtyTrac. And we see a similar pattern in other countries that have experienced major real estate booms and busts.

What does this mean to you? If you're a homeowner ... it means your hard-earned investment is in jeopardy.

If you're an investor, it means that the rally in real estate and related share prices could be over, and that we're going to now see sharp declines across the board.

And if you're a patient renter or cash-rich potential buyer ... it means eventually, you're going to be able to scoop up a dirt-cheap home that you can live in for the long term.

So homeowners have no time to wait. They must take action. To help you, here is my four-step plan to protect every dollar you have invested in your home ... to insulate your investment portfolio ... and to go on the offensive, making gains of up to 56 percent as real estate values fall.

How to Eliminate or Reduce Your Exposure to Plunging Real Estate Prices

There are a lot of reasons people sell their homes. Some people need to move for a job. Some want to downsize after the kids go off to college. And some need a bigger home for a growing family.

But right now, there's another, more important reason to consider selling: Real estate prices are set to plunge again! With investment property, it's a no brainer. Sell and don't look back. The decision can be more complicated with a primary residence. But with prices likely to fall further, it makes sense to consider doing it.

So how can you be a "smart" seller? This information will help you ...

Step 1. Make sure you work with a competent agent, choosing a Realtor with the following minimum capabilities:

- A recent track record of selling many properties in the same general category as yours.
- Strong marketing savvy, including not only traditional channels, but also email, the Internet, and the ability to develop a stunning virtual tour of your property online.

Step 2. Work with your agent to review recent sales of comparable homes in your neighborhood. Make sure they are:

- Truly recent. If prices are changing rapidly, the usual timeframe, such as the last six months, may be too long.
- Actual sales. "Asking" or "list" prices could be based largely on fiction and fantasy. Do not rely on them.
- Really comparable. Make sure it's an apples to apples comparison. If not, work with your Realtor to make the needed adjustments.

Step 3. Calculate an average on the comparable home prices and mark it down at least 10 percent. If market conditions are deteriorating rapidly and/or you're in a particular hurry, mark it down another 10 percent.

Specifically ...

- Compare the number of homes on the market to the number of homes sold. If the number of homes on the market is far larger, that gives you an idea of how much competition you have.
- Check the average price per square foot or square meter. Is it falling? If so, you need to make sure your price is not only below last month's level, but also below what the current month and the next couple of months are likely to be, assuming the decline will continue at the current pace.
- Review the average number of days that homes are on the market before they're sold. If it's high, or worse, going higher, that should redouble your resolve to price the home aggressively. Remember: The longer your property stays on the market, the more its price can decline and the less likely you'll be able to sell it.

Another reliable indicator: The months of inventory of homes on the market. If it's high and rising, discount your property accordingly.

Step 4. Work with your agent to estimate the final proceeds of the sale — the amount you're likely to receive after negotiations, commissions and costs. If you've priced your property aggressively, the final sale price should not be significantly lower than your asking price. If a home is priced with some room for additional back-and-forth bargaining with the buyer, the sale should not have to be lower than 10 percent off the asking price.

In some communities, however, where previous buyers have historically gotten better deals, say 12-15 percent discounts from the asking price, new buyers will push for — and typically get — a similar deal. If that's your case, ask for a bit more up front to compensate for the fact that your price will probably be negotiated down more aggressively.

Step 5. Compare the estimated proceeds to the outstanding balance on your mortgage. If it's not enough to pay off your mortgage, I would strongly recommend paying the difference with cash from one or more of the following sources:

- First choice: The sale of other assets you own that are not a necessity, such as investments, equipment, a second car, collectibles like art and antiques, business assets, etc.
- Second choice: Cash savings
- Third choice: A loan or temporary withdrawal, if permitted, from your retirement plan — such as a 401(k).
- Fourth choice: Cash loans from friends and relatives

I recognize that these are tough choices. But if your original decision to sell the property was based on valid reasons, those reasons are not altered simply by the fact that you're upside down on your mortgage. Even borrowing from other sources is probably a better choice than being trapped in a sinking asset with a burdensome debt load.

I can think of only one combination of circumstances that would justify canceling the sale and keeping the property:

You see strong indications that the real estate bust is over and that home prices have indeed reached rock bottom in most areas. Plus ...

Your mortgage is a low-rate, fixed-interest mortgage and you are relatively sure you will continue to earn enough income to cover the monthly payments until it's completely paid off.

Step 6. When you're ready to list the property, do not mark the price down incrementally. Some people think "I'll try listing my home at a higher price first. If it doesn't sell, then I'll mark it down some more." But that approach is asking for failure because the best time to attract buyers is within a short time window after your initial launch.

Months later, your listing will be stale and attract fewer buyers. So it's always best to offer your lowest, most aggressive price right from the outset. The longer the property is on the market, the greater the danger that you'll find yourself chasing, always one or two steps behind the falling market prices.

Step 7. Offer a special commission bonus to Realtors. In the U.S., commissions are typically 6 percent, give or take a percentage point in special situations. So using the U.S. as an illustration, to make sure your property has a competitive advantage over other, similar properties, I highly recommend that you:

Offer a two-point, extra commission bonus, bringing the total commission to 8 percent. That way the listing agent (your broker) and the selling agent (the buyer's broker) will each get an extra one-point incentive to focus on your property above anyone else's.

Tell your agent to make sure the extra commission is clearly stated in the MLS listing — both under "commissions" and under "broker remarks."

Step 8. A no-brainer: Make your house clean! If that means repainting, new carpets and a lawn make-over, it will be worth every penny of cost and every minute of your time. Never underestimate how much poor appearance will turn away potential buyers, or, at best, diminish the value you get out of any sale. You want buyers to take one look and say "Wow! I could move right in today!"

Step 9. Develop a carefully crafted, multi-channel marketing plan. Many sellers assume a beautiful home will simply sell itself. So they underestimate the importance of strong marketing. Don't make the same mistake!

Even in a not-so-weak market, there is often tough competition for scarce buyers; and without strong marketing, your property may not get the time of day. No matter how wonderful the house may be, if no one comes to see it, what good will it do you? You should:

Brainstorm with your Realtor to come up with the single most important, outstanding feature that makes your property different from others. That's your unique selling proposition (USP). It could be something about the home itself, the neighborhood, or the location. If everything seems uninteresting or plain vanilla, then pick the one feature you like the best and couple it with the low price.

Brainstorm further to develop a list of other special features. Unlike the USP, these don't have to be unique. If there are many, the list can be relatively long. If there are few, the list can be short. Rank the items from most to least important. Then, put #1 and #2 at the top of the list, #3 and #4 at the bottom of the list, and the balance in the middle of the list.

Make sure all your advertising and communications begin with the USP and, space allowing, include as many of the special features as you can.

Develop a virtual tour online. Make sure that ...

- it is professionally photographed, reminding you of something you might see in a home magazine;
- it illustrates your USP and special features;
- each photo or video segment includes a strongly worded caption that points out interesting details or features (whether clearly visible in the photo or not);
- the photographer also shoots any attractive views of mountains, water, gardens, or other scenery;
- the slide show is accompanied by background music carefully selected to bring out the ambience of the home.

Place the listing online — not only on primary sites like Realtor.com CraigsList.com, Yahoo.com, Zillow.com, but also on Internet real estate sections of local newspapers.

Dedicate some quality time or a bit of money to creating a dedicated webpage of your own, including:

- all the professionally created materials developed for other sites;
- additional photographs highlighting aspects that you could not include in the virtual tour, such attractive scenes in the neighborhood and the region;
- maps that demonstrate the convenience of local shopping, recreation and other facilities;
- favorable comments about the community.

Your dedicated page doesn't have to have everything to be ready for launch; you can always improve upon it as you go. Just be sure to have your Realtor review the site carefully to identify anything that might be misinterpreted by buyers and potentially kill a worthy sale. For more ideas, also visit sites like www.ziprealty.com and www.realestate.msn.com.

Print out your dedicated web page to a color printer. Or better yet, work with your Realtor and a professional graphic artist to craft it into an attractive flyer or brochure.

Create a special launch email to send to all Realtors in the area. In your email, be sure to use:

- a sender name that Realtors are likely to recognize (Remember: Most people don't open emails from strangers.);
- a strong subject line that, in a few short words, communicates the USP of your property;
- a message that begins with the full USP and then bullets each of the special features — plus, don't forget to highlight the two-point commission bonus;
- a link to the page with your listing for further details.

Adapt the Realtor launch email to send personally to friends, neighbors and others that may be interested in buying your property themselves.

Add a personal note along the lines of: "If you have friends or relatives planning to move into this area, this could be the solution for them."

Invite them to forward the email.

Do your best to personalize as many of your emails as possible. But if you must send out a mass email, enter the recipients' email addresses in the "Bcc" field of your email to avoid broadcasting your email list to everyone.

I repeat: Do not underestimate the importance of all of these efforts.

Step 10. When you get bids for your property, never say "no," regardless of how ridiculously low you may think they are. Some sellers say, "That bid is so low, it's an insult. I don't even want to talk to those people." But in a very weak market, you have to deal with what you've got. If you do not reject the bid out of hand ...

- Your agent will have the opportunity to nurse it along and possibly warm the buyer up to a price that you may be able to live with.
- It will be a learning experience: You'll get a sense of what a buyer's typical objections may be and you'll have a chance to try out some arguments to overcome the next buyer's objections.
- Based on what you learn, you can update all your marketing materials and dedicated web page while your listing is still relatively new.

Step 11. Consider offering special incentives to the buyer. In a buyer's market, new home builders will likely be handing out incentives like Halloween candy. To sell a used home, you may need to do something similar. For example, you could offer:

- An allowance for closing costs. If your agent thinks it will make a significant difference, you can specify the allowance in MLS listing with words like "Seller willing to pay closing costs." Otherwise, save it for negotiations and deploy it as an ace in the hole to help close a deal that's on the fence.
- A "buy-down" of the buyer's mortgage. I don't recommend owner financing. It's too risky. But often, the lender will accept a deal in which the seller pays some portion of the interest in the early years of the mortgage, e.g., two percentage points in the first year, one point in the second year, or the like. Not a very good deal for you! But if that's what it takes to make the sale, it might be worth it.
- A decorating allowance worth some small fraction, say, one percent, of the sale price. Just be sure not to make this known except to buyers who see the house. Otherwise, they may interpret it as a sign that the home is not clean and needs work.

In each case, your Realtor should seek to get a sense of what the buyer's objections are or what special extras the buyer is looking for. Then, try to customize your incentives to meet each buyer's individual needs and tastes.

Step 12. What about a short sale, an alternative available to U.S. residents? I don't like this solution for two reasons:

In a short sale, you effectively default on the difference between your final proceeds and the balance on the mortgage. For example, if you owe $300,000 on your mortgage and the most you can get from a sale is $270,000, you pay the bank the full $270,000 and default on $30,000. This leaves a stigma on your credit record that can last as much as five years.

You may have to wait for months to get the bank's approval, and until that day arrives, it is very difficult to know what the chances of approval may be. Despite bona-fide offers from buyers, banks are known to take a long time to make a decision and still turn down the request. In the meantime, you may lose your prospective buyer, who has other choices not requiring approval from the seller's lender. Some Realtors, virtually promised an approval by bank officers and then turned down, are suing the banks. But they're unlikely to prevail.

However, if your only two options are a short sale or foreclosure, the short sale is the lesser of the evils.

How to Virtually Eliminate Your Real Estate Investment Risk

If we're heading into a real estate apocalypse, as I believe we are, you can bet that stocks and bonds of all kinds of companies will get slammed. The most vulnerable?

1) Home builders — With the real estate market sliding into an economic apocalypse, we'll see a fresh flood of homes hitting the market. We'll also see major drops in orders. That will lead to a renewed plunge in sales and earnings at public home building companies that operate around the U.S.

Vulnerable Stocks: **Lennar (LEN), Ryland Group (RYL), KB Home (KBH), Toll Brothers (TOL)**

Vulnerable Exchange-Traded Funds and Indices: **PowerShares Dynamic Building & Construction Portfolio ETF (PKB), Philadelphia Housing Sector Index (HGX), SPDR S&P Homebuilders ETF (XHB)**

2) Mortgage insurers — These insurance companies write policies that pay off banks in the event low-down-payment borrowers default. Their losses are going to explode again as the market rolls over for a second time.

Vulnerable Stocks: **MGIC Investment (MTG), Radian Group (RDN), PMI Group (PMI)**

3) Diversified banks — Many banks got hammered in Phase I of the real estate collapse. Some failed, while others were forced into shotgun marriages with stronger institutions. Now with a real estate apocalypse coming, they're going to see a fresh surge in loan and credit losses and a fresh collapse in the value of loan collateral.

Vulnerable Banks: **Citigroup (C), Wells Fargo (WFC), Bank of America (BAC)**

Vulnerable ETFs and Indices: **PHLX/KBW Bank Index (BKX), Regional Bank HOLDRS Trust (RKH), Financial Select Sector SPDR Fund (XLF)**

4) Retailers — Consumers can't cash out home equity to fund spending binges anymore. Their confidence is plunging along with the value of their homes. And the job market stinks. That makes retailers incredibly vulnerable. Stores specializing in home improvement goods, yard supplies, furniture, appliances, and other related goods should suffer the most.

Vulnerable Stocks: **Home Depot (HD), Lowe's (LOW), La-Z-Boy (LZB)**

5) Construction-related businesses — These include suppliers of things like lumber, concrete, carpet, and paint ... companies distributing or leasing construction equipment ... and more. The basic rule of thumb is clear-cut: If the company relies on the housing industry for its livelihood, it's vulnerable.

Vulnerable Stocks: **Masco (MAS), Sherwin-Williams (SHW), Stanley Black & Decker (SWK)**

Vulnerable ETF: **iShares Dow Jones US Home Construction (ITB)**

How to Cut Your Home Ownership Expenses

Okay, let's say you realize how deep and steep future home price drops could be, even after the declines that have already occurred. You know how shaky the stock market and the economy may become, and how that might affect your real estate investments.

If, despite these dangers, you feel your financial condition can easily withstand the downside, or you have decided to keep your home for other personal reasons, that's understandable. There are millions of Americans who do not want or need to sell their own home. But there are, still, some basic steps you can take to reduce your costs — to help ensure you'll survive the Great American Apocalypse Real Estate Bust:

Step 1. Cut your property taxes.

Determine if the residences in your neighborhood have been falling in value, and by how much. For a quick estimate go to http://realestate.yahoo.com/Homevalues and enter your address and zip code. Not only will you see your residence's estimated value but also the price of nearby similar homes for sale. If property prices have fallen significantly in your area, you have every right to cut your property taxes accordingly.

If you're experiencing a significant price decline in your area (say, 10 percent or more from the peak), ask your Realtor to help you gather evidence of the decline, including sales records of properties similar to yours.

Contact your county property appraiser's or Treasurer's office and ask for the property appraiser or other officials responsible for determining the value of residential property for tax purposes.

Step 2. Shop around for homeowners insurance. In tough times, it's not unusual for insurers to compete aggressively for your business. They want your business because they hope you'll buy other insurance products. And in areas where homeowners insurance is harder to get, you can take steps to cut your insurance costs by installing hurricane shutters, adding a burglar alarm system, getting a special roof inspection and more.

Step 3. Consider a mitigation inspection. If you live in an area considered prone to natural disasters, the moderate cost of a mitigation inspection may be money well spent. One of my co-workers did just that in South Florida. A licensed contractor visited her newly-built home, inspected the home's storm-proofing features, and then provided signed paperwork to the insurance company. Result: She saved 56 percent on homeowners insurance.

Step 4. Refinance if possible. Mortgage rates are essentially the lowest they've been in the past century. If you have equity in your home and your credit is good, you have every reason in the world to refinance. You could save hundreds or thousands of dollars a year in interest charges and payments.

A good place to check on current mortgage rates: www.Bankrate.com.

And for more resources on refinancing, check:

- www.fool.com/personal-finance/home/60-second-guide-to-smart-refinancing.aspx
- www.hud.gov/buying/refinance.cfm
- www.consumersunion.org/finance/refinance.htm
- http://finance.yahoo.com/how-to-guide/loans/12821

Step 5. If you're struggling to make your mortgage payments and are at risk of default, the Home Affordable Modification program could help you. The $75 billion loan modification program, which runs through 2012, is designed to reach up to 4 million at-risk borrowers.

Check out these highlights to see if you qualify:

- Mortgages for single-family properties that are worth more than $729,750 are excluded.
- The home must be a primary residence and may not be investor-owned.
- Borrowers must provide their most recent tax return and two pay stubs, as well as an "affidavit of financial hardship" to qualify.
- Borrowers in bankruptcy are not automatically eliminated from consideration for a modification.
- Borrowers in active litigation regarding the mortgage loan can qualify for a modification without waiving their legal rights.
- Eligibility is restricted to loans originated on or before Jan. 1, 2009.

How to apply? Contact your mortgage servicer at the number listed on your monthly mortgage bill or coupon book, and ask about the Home Affordable Refinance application process.

Step 6. Pay down your mortgage. With bonds yielding so little, your best financial bet may be to "earn" a "return" of 5 percent or 6 percent easily — by paying off your mortgage! Every dollar of debt you eliminate at an interest rate around that level is saving you money. It's certainly better than parking money in a bank account that's paying all of 0.1 percent in yield!

How to Go on the Offense and Make Good Money as Real Estate Tanks

When stocks or real estate tank, many investors freeze like a deer in headlights. They just sit there and listen to their broker's or agent's lousy advice to "hold for the long term."

But you don't have to be taken to the cleaners anymore! You can go on the OFFENSE, using inverse ETFs as I described earlier. With the rally in real estate and related share prices coming to a close, you should consider two primary inverse ETFs that are focused on real estate:

- The **ProShares Short Real Estate (REK) —** REK is an unleveraged, inverse ETF that's designed to rise 1 percent for every 1 percent decline in the Dow Jones United States Real Estate Index.
- That index includes 76 companies active in all areas of the real estate business — from mall owner **Simon Property Group (SPG)** to apartment community operator **Equity Residential (EQR)** to mortgage REIT **Annaly Capital Management (NLY)**.
- **The UltraShort Real Estate ProShares (SRS) —** SRS is a leveraged, inverse ETF that's designed to rise 2 percent for every 1 percent in the same index that REK targets. Just keep in mind that while the use of leverage can magnify your gains, it can also increase your losses if you get the direction of the underlying market wrong.

My recommendation: Use one or both these inverse ETFs to target big gains from the renewed decline in real estate. If real estate shares fall back to the level they were trading at in phase one of the economic decline, this ETF could return as much as 56 percent. And if the American Apocalypse carries prices to even lower lows, all bets are off! You could make significantly more.

With these steps, you will now be well prepared for the worst financial and economic scenario. But there is still one additional concern. What do you do in case the economic chaos spills over into the social realm, threatening your physical safety?

Thanks to the research and wisdom of our Weiss Research colleague Sean Brodrick, we give you our best answers in the next chapter.

Chapter 3

Protecting Your Security in Tough Economic Times

by Sean Brodrick

The key focus of protection must be your house, and indeed, a house can be many things — a home, a stronghold against intruders, and a base of operations.

In this chapter, we delve into ways to secure your house against intruders, how to hide valuables in your home, and what you can do to make your home and neighborhood safer if society starts to break down.

The first rule: Don't make it easy for intruders to enter your home, whether they're intent on burglary or something else. Intruders can access your house when:

- Your door is unlocked.
- The doors can simply be kicked in.
- The door lock can be hammered until it simply falls off.
- Your lock can be drilled out using a power drill.
- The locks can be easily pried off with pliers or wrenches.
- The doorframes can be spread apart using a spreader bar.
- There are panes of glass in the door itself or beside the door. The panes can simply be broken before the intruder unlocks or destroys the lock.

Many of these problems can be fixed by installing a good lock with a deadbolt in your front door. And make sure that door is solid wood or metal, and the frame the deadbolt goes into is also solid and has metal strike plates.

For extra security on the cheap, you can install a bar brace. It isn't pretty, but it will let you sleep well at night. A bar brace is basically a heavy, adjustable steel bar that wedges against your door at an angle so that it can't be opened. These usually cost less than $25 and are easy to install.

Electronic Home Security Systems

The FBI estimates that a break-in occurs around every 16 seconds. You only have to be burgled once to decide you need a home security system. It's best to get one before your heirlooms, electronics, gold, and guns are stolen.

If we are in a worsening economic crisis, it's likely there will be more burglaries. And a study in Britain shows that electronic alarms really work. Only 1.6 percent of households with good home security systems were victims of burglary. But 22.5 percent of households with little or no home security measures were burglarized.

The home alarms most people are familiar with are perimeter systems — detectors or sensors placed on and around main entry locations such as windows and doors. These usually work using magnetic detectors, switch detectors, and glass break detectors for windows. The alarm will be triggered if any of the sensors detect a foreign presence.

Most home security systems are comprised of a control unit, detectors, or switches built into door and window frames that sense when the door or window is opened. These then trigger a siren or bell. Most sirens sound for 20 minutes and then shut off. Some alarms are connected to a monitoring service via phone line.

Wired electric alarms have their good points and bad points. The pros:

- They're inexpensive.
- They're easy to operate.
- They will alert the police.

They also have cons:

- Most require a functioning electric grid.
- While they sound loud, they don't do anything to discourage a determined burglar.
- The time between alarm and police response is fairly long — long enough for a burglar to get inside, grab your most expensive stuff, and split.

Wireless home security systems have important differences. First, they're battery powered and they transmit a radio signal to the control unit in order to trigger the alarm — no wiring is involved, so the wire can't be cut, and these systems won't fail if the electric grid goes down. Second, most wireless systems I've seen are do-it-yourself systems and are not connected to a security company. So there won't be anyone picking up a phone.

Doing it yourself is cheaper over the long run (no monitoring fee), but you have a bigger investment up front. Going with a corporate provider is usually cheaper up front (they may even throw the system in for free), but it involves a recurring charge.

If you choose to go with an electric alarm, you'll want to make sure the alarm you choose is loud enough. Anything less than 95 decibels can't be heard from a distance.

Choose a big name for your monitoring (ADT, Brinks, APX). ADT is the leader in the industry and they have interconnected monitoring centers throughout the United States.

If you want a better price, go with an ADT Authorized Dealer. They own their own equipment, so you'll probably pay less at the time of installation.

An independent dealer (as opposed to a corporate representative) may also throw in extras to get your business — a free panic button, motion sensor, smoke detector, or an additional door sensor — along with the main home security package. But you'll never know unless you ask.

A good site for reading about home security systems is www.homesecurityguru.com. Another is www.securehomeadvice.com.

A Home Security System with Four Legs

There is a home security system that can be cheaper than an electronic alarm (not always) and is certainly more cuddly — a dog. Many burglars will ignore a ringing alarm during a quick smash and grab; they will not ignore a dog, and they usually won't take their chances on one, either.

For home security, you want a dog that sounds big and vicious. Teacup poodles and other tiny dogs are not effective home security systems.

Other cheap home security systems:

Lock the doors: Yeah, it sounds simple, but you'd be amazed how many burglary victims don't lock their doors.

Seal your windows with paint: Paint over your window seals on the ground floor. A thick coat of paint will make your windows much harder for burglars to open, and most burglars, being lazy good-for-nothings, are easily deterred by any unanticipated difficulty. Sealing your windows will also make your heating and cooling bills lower.

A neighborhood watch: Neighbors watching out for each other is one of the best deterrents against crime. And if you see suspicious behavior around the neighborhood, don't keep it to yourself. Saving someone from being burgled is a great way to be a hero. The safer your neighbors are, the safer you are.

When Things Get Really Bad — Guard Your Windows

I grew up in a house in Maine that was so old that it dated to the French and Indian Wars. One of the windows still had Indian Shutters — an interior piece of wood with a built-in gun slit. In good times, the Indian Shutter was recessed into the wall. In the bad times, you pulled that shutter tight and started shooting out the gun slit. Securing the windows (and doors) against attack saved lives more than once.

We can hope that things don't get that bad for our kids and us. But too many U.S. homes are designed with little thought for safety; there are windows directly beside the front door or close enough that a thief could just smash it and unlock the door. Sliding glass doors that open to patios and backyards are big enough to literally drive a truck through.

So how are you going to secure your windows? Newer homes in hurricane-prone areas are already equipped with nice steel hurricane shutters. You can put them up in a matter of hours — much more quickly than a breakdown in society will take.

If you're going to turn your home into a refuge, seriously consider steel shutters, roll-up shutters, or retractable shutters for your first-floor windows. Alternately, you can get impact resistant windows, a security grille, or retractable security grates.

Once you have your outside secure, it's time to think about the inside.

Hiding Valuables in Your Home — the Pharaoh's Treasure

For a second layer of security, make the valuables in your home tough to find, even if someone does manage to get inside. Cash, important papers, gold, and guns — these are all things you want to hide as effectively as possible.

This reminds me of a story that illustrates the difficulty of home security. If you own gold and silver, you'll be able to sympathize with one of the most famous pharaohs in Egyptian history, Ramses III.

Ramses III was a noted collector of treasure. In fact, he may have ended up with the Lost Ark of the Covenant after sacking Jerusalem — Stephen Spielberg borrowed heavily from this legend for the movie Raiders of the Lost Ark.

According to the ancient Greek historian Herodotus, Ramses' vast and valuable hoard of gold dwarfed all others. Consequently, he faced a problem that has bothered gold owners to this very day — a problem that may be bothering you: How do I keep my gold safe?

Ramses thought he had the answer. He hired two of the most famous architects in the then-known world: The Greek brothers Agamedes and Trophonious.

They'd made quite a name for themselves designing temples and palaces — the kind of places that have a lot of gold to keep safe. And sure enough, the brothers designed an impregnable treasury for Ramses.

When it was done, the treasury was a huge stone building built next door to Ramses' palace (all the better for him to keep his watchful eye on it), and it was considered to be burglarproof.

The walls were thick stone, there were no windows, the door was sealed by the pharaoh's personal seal, and the door was manned around the clock by armed guards. Ramses made sure he was there in person every time the seal was broken and the building entered.

So it was especially disturbing for the watchful pharaoh when his treasure started disappearing.

The pharaoh was determined to solve this mystery. He had his personal guard set deadly traps throughout the treasury — traps that were kept secret from everyone else.

The Pharaoh Takes a Head Count

On his next visit, the pharaoh found that, indeed, one of the traps had worked and killed a would-be thief. However, the mystery deepened, as the thief's head was missing! And along with the missing head, the biggest share yet of the pharaoh's treasure had been pilfered.

The thieving stopped, but with no head, the thief couldn't be identified. It took some time for the persistent pharaoh to figure out the truth, but he eventually realized that his two architects had also disappeared.

The body was the corpse of Trophonious. He and Agamedes had designed the treasury walls with one outer stone that could be moved away easily, making a secret entrance. Thus, while guards stood dutifully at the front door, the unscrupulous

Agamedes and Trophonius constantly snuck around the back and robbed the impregnable treasury.

When the trap caught and killed Trophonius, Agamedes didn't panic. Keeping a cool head (sorry, I couldn't resist the pun), he beheaded his dead brother and took as much gold as he could carry. He then high-tailed it out of Egypt.

Agamedes vanished into legend; he was supposedly swallowed by Earth. Maybe the pharaoh's treasure still remains to be discovered.

Though Ramses solved the mystery, things didn't go well for the pharaoh, either. Soon afterward, Egypt was beset by invaders. With one calamity after another, Ramses found himself chronically short of funds.

Eventually, he couldn't pay his workers, and he got hit with the first known labor strike in recorded history. Oh, if only he'd been able to efficiently safeguard his gold.

And that brings us to the question: What is the best way to store your valuables at home?

Expert Tips to Keep Your Treasure Safe

Let's say there's a crisis that triggers social collapse. Bad guys break into your home and threaten your family in front of you. The cops won't be showing up because they're too busy and overwhelmed, or they've run off. Of course you're going to give the bad guys your valuables. But you don't have to give them everything.

The first rule of keeping your treasure safe is not to store it all in one place (Ramses really had that one wrong). And there are other options ...

Home safe. Make sure the safe is bolted to the floor, or otherwise secured, and it's much better if it's concealed. If you store valuables in your safe, just remember that it will be the first thing bad guys want to open. There had better be something in the safe, but that something doesn't have to be everything.

Gun safe. For that matter, if you have a gun safe, you can also use it to store other valuables. If big trouble arrives on your doorstep, you might be going for both your guns and your gold at the same time. A concealed or non-obvious gun safe, separate from your regular safe, is best — if bad guys get your guns, your situation goes from bad to worse.

Underneath the silverware. An alternate place to store gold and silver coins is taped or glued to the bottom (or top) of the drawer that holds the silverware. If thieves are using a metal detector, they'll assume that the silverware set it off and not look any further. For the same reason, the back of your tool cabinet can also be a good place to hide your valuables.

Hidden in your car. You might want to keep some precious metals in your car. If you do this, make it a place that you need at least a screwdriver to access. The advantage is that if you're racing to get out of town, you already have some gold in the car.

The disadvantage is that if you're in a car accident severe enough to rip up your car, you might lose your gold, too. Also, remove the gold before you have any work done on the car, or your mechanic could end up with one heck of a tip!

In the insulation of your attic. Most thieves are (1) not looking in the attic, and (2) lazy SOBs who aren't going to go crawling around in fiberglass insulation. If you have a hanging ceiling with removable panels, you can also tape valuables to the opposite (hidden) side of the panels. Just be sure not to put so much weight up there that it comes crashing down.

Secret cache. This is a concealed hiding spot in an ordinary wall, which anyone with even the most rudimentary skills (yes, even you) can construct. It works in typical wood frame houses with sheet rock walls. Pick a section of wall in an interior bedroom where a mirror wouldn't look out of place. Locate the wiring in the wall. It typically runs through the wall about one foot up from the floor. Do not choose a section of wall with vertical wiring in it.

Use a magnetic stud finder or otherwise locate the studs in the wall. Make small holes to confirm the location of the studs. You also want to avoid sections of walls that contain fire stops, or building materials installed to slow the free passage of flame through concealed spaces.

Buy a vertical mirror that is at least 16 inches wide and three or four feet tall. It works best if you can find a mirror the same width as the distance between the studs in your wall. These mirrors usually come with a set of L-shaped mounting clips that attach to the wall with screws.

Cut a hole in the wall between two to four studs. This hole is your cache. Don't rest anything heavy directly on the wiring. Mount the mirror over the hole. You can access it by twisting the L-mountings, or if you're in a hurry to get out, by smashing the mirror.

The Most Important Rule of Hiding Valuables

There are pros and cons to all of these hiding places. For one thing, the safest way to hide anything valuable is to not tell anyone where it is.

As Confucius said: "Three men can keep a secret ... if two of them are dead." And yet, supposing you croak next week; after all, along with taxes, death is unavoidable. If you hide your valuables too well, your family may not be able to find them. So be sure to write down the location of your valuables in your will.

Start or Join a Neighborhood Watch

A neighborhood watch is good to have anyway, and it will be a real lifesaver if society breaks down. Neighborhood watch members are extra eyes and ears for the police when law enforcement is functioning. If and when a crisis overwhelms the police, a neighborhood watch can channel information between neighbors to keep the bad guys out and the good guys safe.

The police probably will help you set up a neighborhood watch. Be the first on your block to get the ball rolling.

Establish the borders of the watch area at your first meeting. It must be an area that can be effectively watched and maintained. Set guidelines on what to report to the police and others. The police will tell you how best to use 911, and discuss crime trends in your town or city.

Some police departments will discuss home security measures and make recommendations. A police officer will probably attend the first few meetings.

Any neighborhood watch needs block captains, so be one. A chairperson will give the program some direction and a rotating chairperson will prevent anyone from letting the power get to his or her head.

The National Sherriff's Association has a Neighborhood Watch manual that you can download at their web site: www.usaonwatch.org/pdfs/WatchManual.pdf.

A Watch Can Become Neighborhood Survival

A neighborhood watch can be one of the first steps to building a survival group out of your family, friends, and neighbors. In fact, your neighbors will probably make the difference between you riding out a crisis at home and you turning into a refugee.

Even the most prepared individual cannot defend his or her home 24 hours a day, seven days a week. Your home is your fortress in a crisis. And you'll make it as strong and survivable as you can. But you may not even need a fortress if your entire street or neighborhood is working together. You are going to need your neighbors, and they are going to need you.

Use the neighborhood watch as an opportunity to put together a list of all residents with their home and e-mail addresses, phone numbers, and list of skills. Be sure to note skills that would be useful in a real crisis or even a collapse (doctor, carpenter, plumber, etc.).

You can also do this with an informal meet and greet. I work a lot, so I was terrible about meeting the neighbors, beyond the usual friendly hellos. So, my wife and I organized a couple of barbecues first for our neighbors to the south of our house, and then for the neighbors on the north side of the street.

These are friendships that will help us find out what's going on in an emergency on the local (sheriff) and national (Homeland Security) levels, advice on medicine in a post-crash situation, and how to survive if things get really bad.

You can do the same thing in your neighborhood. Be the leader. Take the initiative to educate your friends on the kind of rough times that we will probably face, and how they can prepare for them. The more your neighbors are prepared, the easier it is for your lifeboat to float.

Along with the neighborhood watch, potluck, and barbecue dinners, here are some other activities you can do to educate, prep, and organize your neighbors:

- Start a garden club and get your neighbors going on their gardens. A couple of our neighbors have been inspired by our gardens.
- Learn as much as you can about their skills, backgrounds, and interests.
- Buy useful tools that you can share.
- Organize a neighborhood fishing contest at a local lake or stream.
- If you have a firearm, and some of your neighbors do, too, go to the shooting range together.
- Build a survival library of books and lend them to your neighbors. See what books they have that they would be willing to lend to others in the neighborhood.
- Get them started on food storage. If you have a coupon obsessed spouse who stuns store clerks with their shopping savvy, have them educate the neighbors on how to save money. Everyone wants to save money.

The Volunteer Center of Marin County, California, has a Guide to Organizing Neighborhoods for Preparedness, Response, and Recovery, which you can get FREE on their web site at http://www.preparenow.org/marin-g.html.

And supposing there is no disaster or crisis. Let's say nothing bad happens ever and you all live incredibly mundane lives.

At the very least, you'll form lasting friendships with your neighbors and rebuild the sense of community that so often seems missing from modern American life.

About the Authors

Martin D. Weiss, Ph.D.

Among the nation's leading experts who can help you through an economic depression, Martin D. Weiss is easily one of the most qualified.

Thanks to his truly independent and unbiased ratings, for the past three decades, he has specifically named — and publicly warned about — nearly every large financial failure in the United States, giving millions of Americans the opportunity to get their money to safety well ahead of time.

The *New York Times* wrote that Weiss was "the first to warn of the dangers and say so unambiguously." Separately, a study by the U.S. Government Accountability Office (GAO) concluded that Weiss's ratings far outperformed all of the nation's major rating agencies, including Standard and Poor's, Moody's and A. M. Best, in warning of future life and health insurance company failures.

And more recently, *The Wall Street Journal* reported that his company's stock ratings outperformed those issued by all brokers and independent research firms they covered, including JPMorgan Chase, Merrill Lynch, Goldman Sachs, Piper Jaffray, Credit Suisse First Boston, Smith Barney, S&P Equity Research, Morgan Stanley, and 14 others.

A key factor in Dr. Weiss's success is his devotion to empirical research and zero tolerance for bias, the reason *Forbes* named him "Mr. Independence" and *Esquire* wrote he is one of the few who is "free of any possible conflict of interest."

Throughout his career, the author has been an advocate for consumers and investors, providing congressional testimony and proposals for better risk disclosure by financial institutions, sounder accounting by corporations, and more prudent fiscal policies by government.

Dr. Weiss is the CEO and founder of the Weiss Group, Inc., which includes Weiss Ratings, the nation's leading independent rating agency and Weiss Research, a think tank and publishing firm. Separately, Dr. Weiss also founded The Weiss School, a not-for-profit pre-K, elementary, and middle school for gifted children.

The author is also cofounder of the Financial Publishers Association, whose members reach 14 million investors; and Chairman of the Sound Dollar Committee, a nonprofit organization founded by his father, which helped President Dwight D. Eisenhower balance the federal budget in 1959.

Martin Weiss's publications include *Money and Markets*, and *The Ultimate Safe Money Guide*, a *New York Times* and *Wall Street Journal* bestseller. He holds a Ph.D. in cultural anthropology from Columbia University and is fluent in nine European, Asian, and African languages. After living many years in Latin America and Asia, he currently resides with his wife of 43 years in Palm Beach Gardens, Florida.

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Among the first analysts to call the housing slide, Mr. Larson's policy paper, *How Federal Regulators, Lenders and Wall Street Created America's Housing Crisis: Nine Proposals for a Long-Term Recovery,* received broad media coverage following its July 2007 submission to the Federal Reserve and FDIC. In the paper, Mr. Larson accurately predicted the long-term impact of the deepening subprime mortgage crisis on the broader economy that the nation faces today.

Mr. Larson holds B.A. and B.S. degrees from Boston University.

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Sean Brodrick is the author of *"The Ultimate Suburban Survivalist Guide,* which helps readers prepare for a wide variety of physical and economic crises and has been on Amazon.com's bestseller list. He edits a duo of services — *Crisis Profit Hunter* and *Red-Hot Global Resources*, while also contributing weekly to *Uncommon Wisdom*. His special reports, including "The Golden Age of Green Energy" and "The New Gold Rush — to $2,000 and Beyond" have gathered accolades from investors and industry insiders alike.