

Financial Crisis Survival Kit



INSIDE:

The common-sense guide to managing your financial life, and why the economy is NEVER going back to the old "Normal".

Financial Crisis Survival Kit

- How to Get Your Financial House in Order
- 5 Tips for Gold and Silver Buyers
- 10 Things You Must Know about Dividends
- Commodity Supercycle Could Boost Total Returns

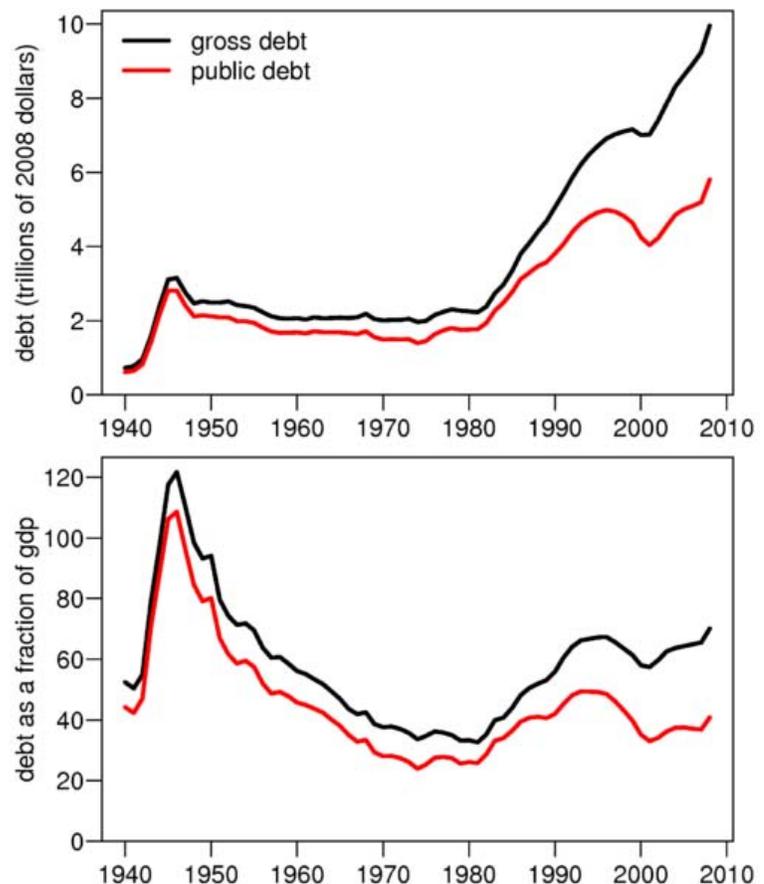
If you're reading this Financial Crisis Survival Kit, congratulations. You're taking a good step toward preparing your finances for the hard times ahead. And that makes you much better off than many of the "sheeple" — you know, the ones who believe the song-and-dance from the TV touts that this is an ordinary recession and an ordinary correction. No, and no!

You know about the housing bubble, and how its bursting knee-capped the U.S. economy. And yes, the banks blew all our money on exotic derivatives that few people could understand. I sometimes wish they blew the money on exotic dancers — it would cost taxpayers a lot less dough, because you can't leverage strippers.

I explained part of the underlying problem in my book, *The Ultimate Suburban Survivalist Guide*, in a section I called ...

Why the Economy Is NEVER Going Back to the Old "Normal"

From 1995 through 2009, America's central bank, the Federal Reserve, flooded the economy with trillions of dollars through increased money supply and easy credit. This triggered a massive consumption boom along with several bubbles such as the stock and housing bubbles. All of this created artificial "stimulated demand" as consumers bought and bought and grew more and more indebted as they spent beyond their means.



In other words, the lifestyle we enjoyed for 15 years was based on a lie. It was like living a high-falutin' lifestyle paid for with bad checks. Eventually, those bills come due. A sustainable lifestyle — the “new normal” is actually at a much lower level.

Another reason why we won't see the old normal any time soon is because many of the actions taken by both the Bush and Obama administrations in the name of “stimulus” are not stimulus at all. The bank bailout is a pass-through of taxpayer dollars to well-heeled con-artists on Wall Street. Another name for it would be legalized fraud.

Sure, these ruinous bank bailouts may have helped reinflate the bubble, but they may also worsen the coming crash, as the bill for trillions of dollars in debt and derivatives comes due. As Martin Weiss wrote on MoneyandMarkets.com: “The Treasury's plan primarily shifts the burden of toxic assets from the private banking sector to the public. This can only (a) bloat an already-ballooning federal deficit, (b) damage the credit of the U.S. government, and (c) raise the risk that borrowing costs will surge for nearly everyone.”

How to Get Your Financial House in Order

Are you in debt up to your eyeballs? That's not a good place to be — it's stressful, and it may become untenable in a time of rising unemployment and falling incomes. The common-sense thing to do is pay off your highest interest-rate debt first. And just consider some of the following ...

- 1. Cheaper auto insurance.** You can also compare premiums from multiple carriers by using independent Web sites, such as Insweb.com, Insurance.com, and Insure.com.
- 2. Smarter food shopping.** I have a whole chapter on this in *The Ultimate Suburban Survivalist Guide*. Apart from that, just by cutting restaurant spending in half, the average American family could save \$30 to \$60 per month. But coupons, home-cooked meals, off-brands, discount cards and more can all trim your food spending.
- 3. Pay off your credit cards.** One of the best things you can do financially is pay off your credit card balance. At the end of 2008, American credit card debt in total hit \$972.73 billion. The average outstanding credit card debt for households that have a credit card hit \$10,679. If your credit card rate is 18%, and you pay a minimum 2% of the balance, that works out to an extra \$30,461 in interest payments, and it would take you 50 years to pay off! The amount Americans owe on their credit cards has since come down a bit, but as a nation we are still in way over our heads. If you have a tendency to be surprised by how much you spend on credit, consider burying your credit cards in a water-proof container in the back yard (don't cut them up — you might need them for emergencies).

These are just some starter ideas. There's a lot more you can do.

Once you're in the black, consider socking away money into cash-ready investments (short-term Treasuries, gold, etc.). And start putting a portion of your money into survival investments — water, food, an alternate power system, home security and more.

One thing many survivalists recommend is to pay off your mortgage. The best reason to pay off a mortgage is to have emotional peace of mind. But I can also think of a couple of reasons NOT to pay off your mortgage:

Why You SHOULDN'T Pay Off Your Mortgage Right Away

- 1)** You might need that money — especially if you're preparing for the End of the World as we know it. I'm much happier with a fat cash cushion. In fact, if you can afford to pay off your house, one option would be to NOT pay it off and instead put the money in an interest-bearing account. As long as mortgages stay tax deductible, you'll come out ahead of the game.
- 2)** The value of your home may go down. In fact, it may go down a lot. So how will you feel if you've sunk all your money into your home and it is worth less every month?
- 3)** It's much more important to pay off credit card debt and other high-interest debts. As long as you have a low rate of interest on your home loan, that's the last debt you want to pay off.
- 4)** The next person to get "bailed out" may be you. As election time nears and the folks in Washington panic, expect more bailouts — never mind how they'll be paid off later.

What You Should Do Starting Now

- Pay one extra payment a year on your mortgage. This can save you hundreds of thousands of dollars in interest and years on your mortgage.
- Pay off your credit cards every month. Credit cards are one of the most expensive kinds of debt. Interest rates can run as high as 25% for credit-card holders who are late with a payment or have low credit scores. If you have multiple credit card balances — ouch — focus on paying off high-interest-rate cards first. But don't do a balance transfer without reading the fine print.
- Get rid of auto loan debt. Next to credit cards, auto loans often carry the highest interest rates that many consumers pay.
- Double-check the figures on any medical debt. Many things can end up on your medical bill that shouldn't be there. For example, an insurance company will use a code for a procedure and your doctor's office incorrectly inputs the code — this gets kicked out by the insurers' computer and you get stuck with the bill. The insurer WON'T pay unless you bring it to their attention.

- Take a good hard look at your current spending. It's tough to change spending habits, even wasteful ones. Streamline for more efficiency and stop wasting money on frivolous or impulsive items. Shop like you're preparing for the end of the world ... because you are.

Next, let's look at your 401(k).

Your 401(k) Survival Guide

If you have an eye on the really long term, a strong stomach for losses and the luxury to wait things out, you can try to do just that. But if you're going to need your money in the next decade, be aware that (1) we probably haven't seen the real bottom in stocks yet; (2) we don't know how far stocks will go down; and (3) we don't know how long they'll stay down. And by the time stocks do come back, resurgent inflation might have destroyed all your gains anyway.

With these things in mind, you might want to consider doing the following:

1. Get a list of the investment options available in your 401(k).
2. Look for the safest investments. The safest is a Treasury-only money market fund. The next safest is a government-only money market fund. Third is a standard money market fund. Fourth is a fund that invests mostly in U.S government notes and bonds and as little as possible in corporate bonds.

What you're trying to do is choose government paper over corporate or bank paper and short-term instruments over long-term.

3. Put at least 50% of your money in the safest fund. If you're doing this after the market has plunged, and you worry you are selling at the wrong time, cut the amount you were going to put in the safe fund in half again. When you get a rally, sell the rest into that.

So now half of your total 401(k) money should be in very safe investments.

4. The rest can be invested in a mix of precious metals, bonds, ETFs that track sectors or commodities, and U.S. and foreign stocks. The hard truth is that the market changes constantly — there is no one investment to fit all people all the time. And depending on market conditions and business and market cycles, there may be times when you want to put money to work.

The mix of these other investments will vary depending on your financial situation and market conditions, but one investment I keep coming back to again and again is precious metals.

Why Gold Deserves a Place in Your Portfolio

Gold has eternal value, it will never go to zero, it's a hedge against inflation, and I sleep better having a substantial portion (10% or so) of my wealth in it.

I've been at financial conferences where speakers have advised people to put 100% of their money in gold. That's absolutely insane, and if anyone tries to tell you that,

run away! You wouldn't have wanted to have all your wealth in gold during its 20-year bear market. But it definitely has a place in your portfolio.

Precious metals are usually sold by the troy ounce, which weighs more than the typical ounce we use in everyday life. But just to add further confusion, there are 12 (not 16) troy ounces in a troy pound.

Bullion Bars and Coins

Bullion coins — American Eagles, Buffaloes, Canadian Maple Leafs, etc. — allow you to own investment grade gold (between 0.90 and 0.9999 fineness) in a quantity that will be recognized at any gold dealer in the Western world.

Most bullion coins are minted in 1/10-ounce, 1/4-ounce, 1/2-ounce and 1-ounce form (some can be larger). However, one-ounce gold bullion coins such as Eagles or Krugerrands are by far the most popular for small investors.

However, I'd avoid obscure gold coins, sometimes given as commemorative pieces or medallions. You might get a junk price for something a dealer can't easily sell.

Be careful buying gold or silver bars — they're easier to counterfeit than a coin. Coins have much, much wider recognition.

Semi-Numismatic and Numismatic Gold Coins

Numismatic or older and rare coins are bought not solely for their precious metal content but also for their rarity and their historical, aesthetic appeal. They are leveraged to the gold price, which means that the price of these coins can increase faster than the gold price in a bull market (due to their historical and aesthetic value and to their rarity) and can decrease by more when gold is in a bear market.

Many investors opt for high-quality pre-1933 high-grade gold coins.

These can be great investments. On the other hand, if you're one of the people worried about a money panic and a potential breakdown in society, you have to wonder how well numismatic value will hold in such a situation.

Physical Alternatives to Coins and Bars

Most people buy gold bars or coins. But gold buyers and sellers also traffic in gold dust, nuggets, wire, and even gold chips used by dentists to fill teeth. But none of these are as fungible as coins or bars and coins are the most fungible of all. The more a gold piece is a fabricated product of known weight and purity, the better off you usually are. Gold dust in particular can be diluted or even counterfeited.

Gold Investing — Keep it Simple

Your investment advisor may have other ideas, but I recommend:

Investment #1 — Buy gold. And I mean physical gold, the kind you put in a safe. You don't buy physical gold to get rich; you buy it to preserve wealth. If Treasuries implode, gold will make a mighty fine insurance policy. Also, you might want to pick

up gold in forms that you can easily barter if paper money becomes worthless — simple gold rings, for example. Wedding bands are good for this. I know of a guy who has hundreds of wedding bands stored on clothes hangers in his closet.

The worst time to buy gold is when it's going higher. Nothing travels in a straight line, so wait for a pullback and pick up simple gold coins or gold bars.

Investment #2 — Silver. Again, I mean physical silver. If our economy, financial system, and paper money go south, you'll want gold and silver. Flashing around too much gold could make you a target. Silver doesn't attract as much attention and it's still a precious metal. In fact, silver is undervalued compared to gold by some metrics.

Five Tips for Gold Bullion Buyers

Here is a collection of five tips from expert sources.

1. Call at least three dealers for a price. The difference between a good price and an almost good price can be the difference between getting 100 ounces of gold and 90 ounces of gold.
2. Make sure you include shipping costs in your calculation of the price of the coin — shipping costs vary wildly from dealer to dealer.
3. You need to be explicit on what you are locking in, including price, merchandise, and terms of payment. If there seems to be any waffling on the part of the dealer, this is a warning sign to steer clear.
4. Look for a dealer who has been in business for a number of years. Ideally, if you go to someone who was in business in the 1970-to-1980 boom, they've seen enough ups and downs in the market to handle the challenges of price fluctuations and coin availability.
5. Get to know a local dealer. The advantage is he can call you when he gets new inventory and there will be no shipping involved.

So now that I've scared you out of the market, let's talk about what you might want to invest in if you have the stomach for risk and an appetite for returns.

10 Things You Need to Know About Dividends

Investing in dividend stocks is a proven strategy to beat the market and generate income. I believe you should look for stocks that A) deliver dividend growth, B) have strong potential for share price gains and C) are riding the commodity supercycle, a

Decade	Average Annual			Dividend Contribution
	Price Return	Dividend Return	Total Return	To Total Returns
1900s	6.92%	4.56%	11.48%	40%
1910s	-0.43%	5.88%	5.45%	108%
1920s	10.96%	5.70%	16.66%	34%
1930s	-0.29%	5.05%	4.76%	106%
1940s	4.36%	5.83%	10.19%	57%
1950s	14.20%	5.28%	19.48%	27%
1960s	5.02%	3.26%	8.28%	39%
1970s	3.46%	4.14%	7.60%	55%
1980s	12.57%	4.55%	17.12%	27%
1990s	16.15%	2.64%	18.79%	14%
2000s	1.29%	1.66%	2.95%	56%

Source: Dividend Growth Investor

force that is pushing commodity prices generally higher over time and taking the stocks that deal in those commodities along with it.

The combination of hefty dividends and share price appreciation is called "Total Return." In the decade of the 2000's dividends contributed 56% of total return, according to research from Dividend Growth Investor.

I like high-yield stocks as much as the next guy. But while you don't want to put stocks with minimal yield in a dividend portfolio, you may not want to chase yields that are too high, either.

Why? Because at the very least, a stock with an elevated yield suggests that the market is discounting SOME kind of risk in the stock. A potential investor should be very sure he or she fully understands what those risks are before investing.

That said, I think nice, fat, sustainable dividends are great, and companies that are growing their dividends are even better. You win two ways when the dividend increases. First, the yield on your initial investment goes up with the dividend, and even better, the dividend increase often propels the share price higher. Conversely, a dividend cut shrinks your yield and often precipitates a drop in the share price as well.

Here are *some* factors you might consider while selecting stocks for your portfolio ...

- 1) A good history of dividend growth, with the potential for dividend growth over time. After all, dividends are what this service is about. I like stocks with average annual dividend growth of 5% or more.
- 2) When it comes to the actual dividend, we want at least 3% and preferably higher. Higher is better, as long as the dividend is safe. How do you know that? Read on ...
- 3) Strong financial performance in the past, and the potential for even better financial performance in the future.
- 4) Strong free cash flow; this will help a company grow its dividend and its business.
- 5) Below-average debt. The financial leverage ratio, which is total assets divided by shareholders' equity (book value), is a good all purpose debt measure. A leverage ratio of 1.0 means that the company has no debt, and the higher the ratio, the more debt. So I like to stick with leverage ratios below 5.0.
- 6) An advantage in the company's business model, something that will protect them in the bad times and help them outperform in the good times.
- 7) A good entry price. If we can't get what I consider a good entry price, we'll enter a stock in stages. Because one truth of the market is that stocks go down as well as up, and we may get a better price later on. But that said, we want to avoid stocks trading below \$5 a share. They're probably in trouble, and that means their dividend probably is, too.

These are guidelines, not the clasps on a straightjacket. There will be exceptions. But it's a good start.

What you need to bring to the table is patience; the ability to have a longer-term investment time frame of 5 years or more, and the appetite for an income stream that could grow and grow over the next 20 years.

Now let me explain some dividend basics ...

Dividend Stocks Pay YOU to Own THEM

That's the basic principle behind dividend paying stocks, one that is absolutely crucial — they pay YOU to own THEM. After all, many stock analysts will tell you the basic strategy in the market is to buy low and sell high. While I've done that successfully for years, it's not as easy as it sounds. What's more, it's a lot more difficult in bear markets and markets bound in trading ranges, which are two distinct possibilities going forward.

The buy-low, sell-high strategy requires you to outguess the trading wizards at Goldman Sachs and other big trading houses; fat-pocketed traders who have access to a lot of technology you don't. That's getting harder and harder to do.

That doesn't mean I don't like stocks. Stocks are capable of providing great returns and even jackpot-like payoffs. But putting all your money into risky stocks like lottery tickets is not a good long-term strategy. It might be better to become a *partner* with select companies, ones that pay you regularly. This payout, or reward, should come at no additional effort, and should not be subject to the capricious whims of Wall Street. And you should be paid in cash.

In short, these rewards are dividends.

10 Things You Must Know About Dividends

1. In general, a company can choose to initiate, suspend, raise, or lower its dividend at any time. Dividends are not guaranteed.
2. However, as cash payments, dividends are non-refundable. Unrealized capital gains can disappear if a stock falls, but the minute a dividend is deposited into your brokerage account, it's yours to keep.
3. Dividends are one of only two ways you can make money from stocks without losing ownership.
4. Dividends are usually paid in quarterly installments.
5. Some companies also issue "special" one-time dividends. For example, if a company sells off a portion of its business, it might choose to distribute the proceeds to investors.
6. A stock's indicated dividend (also known as the "current dividend") is the amount an investor *should* receive over the next year. For example, if a stock currently pays a quarterly dividend of \$0.25 a share, its indicated dividend is \$1 a share. Special dividends are not included in the indicated dividend.
7. Investors will often talk about a stock's yield. The concept is similar to bond yields — i.e. yield is equal to the annual regular dividend payment divided by the stock's current price. *A yield is always expressed as a percentage.* For example, a \$10 stock that pays an annual dividend of \$1 a share has a 10% yield.
8. Unlike earnings or sales, a dividend is not an abstract accounting construct. A company only has two choices: Pay the dividend or don't. This is an important fact: If a company doesn't have the money, it cannot cover its dividend.
9. Historically, stocks that pay dividends are less volatile and have weathered bad markets better than their peers that don't pay dividends.
10. For most people, the tax rate on qualified dividends is 15%.

What Is a Dividend, Anyway?

A dividend is a transfer of assets from a corporation to its shareholders. These assets are almost always cash, though in special circumstances they can be shares.

A share makes you a partial owner in a company. You own a piece of a company's treasure. Not all companies want to share their treasure/cash assets with shareholders. Some pay out only a little. We aren't interested in either of those. But some companies pay out a lot, and keep paying, and potentially will raise their payments. These are the kind of stocks I'm interested in, and you probably are, too.

It may sound like a no-brainer to you, but it's amazing how many seasoned investors still ignore the power of dividends: Simply by recognizing that only some companies distribute a portion of their profits to their shareholders gives you a leg up.

Normally, your broker adds your received dividend to your cash account. However, some offer automatic reinvestment plans. With these plans, your dividends are used to purchase additional shares, even if the dividend equates to only a fraction of a share.

Definition of Dividend Yield

A stock's dividend yield is the estimated dividend payouts over the next 12 months divided by the price you pay for the shares. For instance, the yield would be 5% if you pay \$20 per share for a stock expected to pay \$1 per share dividends over the next 12 months.

Many investors look to tax-advantaged entities such as real estate investment trusts (REITs), Master Limited Partnerships (MLPs) and Business Development Companies (BDCs) for higher yields. REIT's MLPs, and BDCs do not pay corporate income taxes as long as they pay out most of their earnings to shareholders. However, their shares trade on the major exchanges, the same as any other stock. Their dividend yields typically range between 4% and 10%, and in some instances, even higher. Dividends paid by firms such as REITs that do not pay income taxes are taxed as ordinary income.

REITs, MLPs & BDCs

REITs are required to invest only in real estate. There are two types of REITs, mortgage REITs and property REITs. Property REITs own real estate such as office buildings, shopping centers, residential apartment complexes, and so on. Mortgage REITs do not own property, instead, they invest in mortgages.

MLPs are managed by general partners. Other investors are termed unit holders (shareholders) and are limited partners. MLPs tax advantages appeal to major energy companies and many have transferred their petroleum and natural gas pipeline assets to MLPs that they control as general partners. MLPs offer a potential tax advantage to you because a portion of their payouts, termed distributions, can be tax-deferred. However, they may not

be suitable for tax-sheltered accounts, so consult your tax advisor before putting them into IRAs, 401k plans, etc.

BDCs are special purpose entities formed to provide financing and management assistance to small- and mid-sized companies.

Picking the Best Dividend-Payers

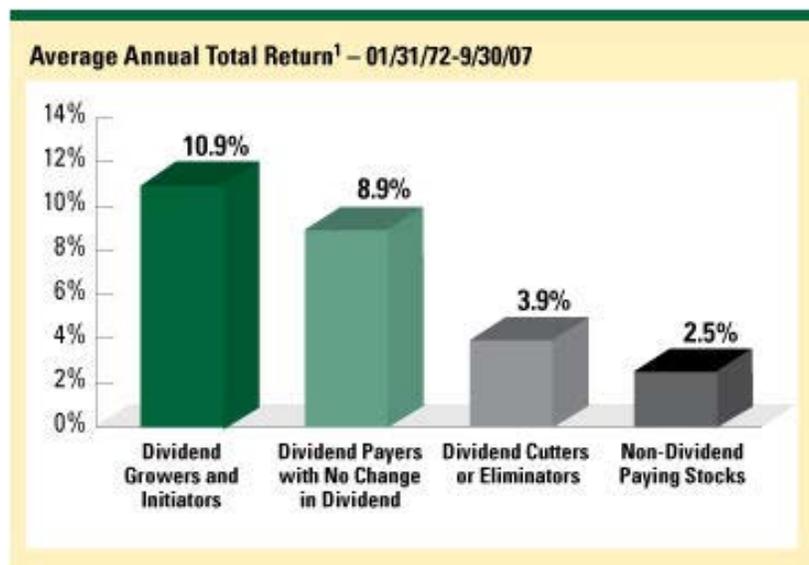
Successful dividend investing requires finding candidates with: 1) minimal risk of dividend cuts and/or other negative events, and 2) a high probability that the dividends will increase while you own the stock.

Here are seven simple checks to help you pick the best dividend candidates. You can find the required data on sites such as Yahoo! (finance.yahoo.com) or MSN Money (moneycentral.msn.com).

Do dividend-paying stocks outperform non-dividend paying stocks over time?

The answer to this question is "it depends on your time frame." If you compared the two during the go-go days of the tech bubble, dividend-paying stocks were left in the dust. However ...

In most markets, dividend-paying stocks do at least as well as non dividend-paying stocks, once you add dividends back in, and ...



In bearish or underperforming markets, dividend paying stocks can *really* outperform.

In 2008, Ned Davis Research published a chart showing just this going back to 1972. It clearly shows that stocks that are dividend payers outperform the non-payers over a longer time period.

The return results showed dramatic differences in the absolute dollar growth of investment portfolios as well. The growth of a \$100,000 portfolio invested in 1972 through September 2007 would equal:

- Non-dividend paying stocks: \$240,000
- Dividend paying stocks: \$3,223,000
- Dividend growers and initiators: \$4,059,000

So, over a 35-year period, non dividend-paying stocks posted an average annual return of 2.5%. That's less than T-bills. But dividend-paying stocks averaged an annual return of between 8.9% and 10.9%. That's a huge difference.

The bottom line: Given proper selection and a bit of patience, buying and holding stocks that steadily increase their dividends can produce levels of income that are virtually impossible to find from other investments.

The 1-2 Combo of Dividends and Share Price Appreciation

As a dividend investor, you are probably focused on the stability and growth of your dividend income. But share price appreciation is also important. No matter what kind of stocks you buy, be aware of this inescapable fact: When the market goes up, 80%-90% of all stocks follow its moves. When it goes down, 70% of companies go lower in tandem with it.

Beyond Dividends — A Powerful Reason to Choose Dividend-Paying Resource Stocks

I like to ride the big trends. One big trend is the Commodities Supercycle. Along with the cyclical forces that should drive copper, oil and other commodity prices higher, the world is running low on some important natural resources.

Ordinary commodity bull markets can last 17 ... 18 ... even 22 years. So even if we're in an ordinary commodity bull market, we have 7 to 10 years left to go.

But I think we're in a commodities supercycle. There have been only two in the last 150 years:

Commodities Supercycle #1 drove prices sky-high for thirty-three years between 1885 and 1918 as the Industrial Revolution created powerful and sustainable demand for raw materials.

Commodities Supercycle #2 started after World War II and pushed prices through the roof for twenty-nine years between 1946 and 1975 as the reconstruction of Europe and Japan helped set off a global commodity price explosion.

And now, all my indicators tell me we're in ...

Commodities Supercycle #3. There are many reasons, but I'll give you two of them — India and China. Today, China, India and the rest of Asia boast fully HALF of the world's population — a staggering three billion souls!

Combine their massive new demand with rapidly dwindling supplies — and you begin to see the true potential of this supercycle to drive prices to all-time highs.

According to The Worldwatch Institute, if China and India were to consume resources at the current U.S. per capita level, it would require two planet Earths just to sustain their economies.

China and India get more of our money every day to spend on cars ... refrigerators ... air conditioners ... all things that require steel and copper, zinc and nickel!

Heck, India's middle class grows by the equivalent of the population of Canada every year. And China? Well ...

- China builds a new power plant capable of handling Kansas City's electricity needs every nine days. And to house its rapidly urbanizing population, China builds the equivalent of a city the size of Philadelphia every 30 days.
- China is now the world's largest car market, having displaced the United States in 2009. Sales of home appliances are also up sharply, rising more than 35% in 2009. In 2009 the aggregate increase in consumer spending in China became larger than the retail spending growth in the United States, European Union and Japan combined.
- China has \$2.3 trillion in capital reserves. So, if its economy starts to sputter, China can simply open up the taps and flood new money into the market to jumpstart economic activity.

In many ways, China reminds me of the U.S. at the turn of the 20th Century. The U.S. population was 76 million — about 4% of the world's population — and industrialization of this country pushed many commodity prices up 500% and more.

These countries aren't going to be content to be our dirty factories and IT phone banks. They are morphing into giants of consumer demand.

At the same time, a supply/demand crunch in energy is coming — the world uses one billion barrels of oil every 12 days. Do we find a billion barrels of oil every 12 days? NO!

And global demand is pushing the limit of global refinery capacity. This is setting up what I like to call "The Big Squeeze."

Not all commodities will go up. And not everything goes up in a straight line. That's why dividend-paying resource stocks are a great place to be.

They'll pay to hold them through the bad times ... AND be positioned to ride the big trend in the good times. In other words, by choosing dividend-paying natural resource stocks, you are positioning yourself to reap big total returns.

Yours for trading profits,

A handwritten signature in black ink, appearing to read 'SEAN' in a stylized, cursive font.

Sean