MARTIN WEISS'
Safe Money REPORT

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Weiss Early Warning Index:
S&P 500 — 39% Overvalued

S&P: Bearish
Nasdaq: Bearish
Bonds: Bearish

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INSIDE...

American Airlines and HealthSouth are on the brink of failure. Sprint, Rite Aid, Gateway, Lucent, plus eight other major firms are also vulnerable. If the economy sinks further ...

Delta, Ford, or AOL could be the NEXT giants to fail!

As the new millennium began, the firms going bust were just a trickle — primarily small dot-coms with unrecognizable names.

Then, starting in 2001, the trickle became a flood: Montgomery Ward ... Bethlehem Steel ... Polaroid ... Enron ... Kmart ... Global Crossing ... WorldCom ... United Airlines ... Conseco. All huge, multibillion dollar companies with big names! All bankrupt!

Now, just as Wall Street was hoping the worst was behind them, a new flood of even larger bankruptcies looms.

American Airlines is still on the brink, despite having bought some time with concessions from unions. **HealthSouth** is already in default, slammed by charges of massive fraud. Plus, we have identified 12 other major companies that we believe are vulnerable to bankruptcy:

Earthlink has never shown an annual profit since it went public, losing money hand over fist. That's why Sprint has dumped its shares like a hot potato.

Rite Aid, the nation's third-largest drug store chain with 3,411 stores in 28 states, has a total debt of $3.7 billion and is facing intense competition from Walgreens and CVS. It's a classic case of a company that tried to expand too quickly, took on too much debt, and now doesn't have enough revenues to pay its bills. It could easily become the next Kmart.

Sprint PCS keeps losing money — $1.2 billion in 2001, another $578 million in 2002. The cost of its widely advertised all-digital network was staggering. The company's total debt now exceeds $16.3 billion.

Nortel Networks has not made any money in the last five years. In 1999, the company lost $350 million. The next year, it lost $3.4 *billion*. In 2001, it lost eight times more — or $27.3 billion. Last year, it lost money *every single quarter*. The big problem: Sinking demand for the company's products.

Other companies that are vulnerable include **CKE Restaurants** ... **Gateway** ... **Loral Space & Communications** ... **Lucent Technologies** ... **Primedia** ... **Silicon Graphics** ... **Solectron** ... and **United Global Communications.**

Remember: *All these bankruptcies have taken place despite a GDP decline in 2001 that was milder and shorter than that of the average recession of the past 50 years!*

What will happen if 2003 brings an average recession?

What will befall Corporate America if we experience a recession that is *more* severe than average!?

We're bound to see a bankruptcy crisis of unprecedented dimensions, sweeping through every sector of the American economy, potentially felling huge companies that no one would have ever dreamed vulnerable just months ago: Companies like **Delta Airlines, Ford Motors**, or **AOL Time Warner.** These are companies that could be ...

Going Broke The Old Fashioned Way

In the last three years, one bubble after another has popped.

First it was the dot-com bubble ... then the telecom bubble ... next the accounting bubbles.

These were the weakest links — the sectors that got hit even *before* the economy tanked.

Why? Because their business models were reckless aberrations ... or they stretched accounting rules to the limit ... or they were outright frauds.

It didn't take a recession to bring them down. Nor did it take a terrorist attack. All it took was the manifestation of one all-powerful force — the truth. As soon as the truth came out — that they had no earnings, no viable products, no business — they were gone in a flash.

But, now the prime candidates for bankruptcy are not just harebrained Internet start-ups ... or companies with outrageous accounting irregularities. We're going to see the downfall of formerly solid, well-managed companies that will go broke because of old-fashioned problems:

Problem #1: Plunging Sales

In the first 24 months after the bear market began, it seemed most US consumers would never stop spending. They froze momentarily after 9/11. But even before the dust of the disaster had settled, they started binging again.

One not-so-minor detail: The most recent spending binge was based almost exclusively on one factor: DEBT. Consumers borrowed more on their credit cards. They rushed to refinance their home mortgages. They grabbed up any borrowed cash they could lay their hands on to sustain their old spending habits and put off the day of cost-cutting as long as humanly possible.

Result: We've just seen one of the wildest borrow-and-spend rampages in the nation's history.

US consumers have a total credit card debt of $712.9 billion and a record-breaking delinquency rate of 4.07%. Meanwhile, *mortgage refinancing has gone wild, surging by a whopping 245% in 2002.*

Now, however, the binge is finally ending. Last Christmas was the worst holiday selling season in a generation, and the first two months of 2003 have been *another* retailing disaster.

Examples: McDonald's is reporting the 12th consecutive monthly decline in sales. Worldwide sales in February fell 4.7% on top of the announcement in January of McDonald's first-ever quarterly loss.

Other big name companies are watching in horror as their gross sales revenues plummet — Ciena Corp (down 77%) … Applied Microcircuits (down 65%) ... Corning (down 47.6%) … Centerpoint Energy (down 26%)… Duke Energy (down 14%)… AT&T (down 10%)… and Gemstar-TV Guide (down 13.6%).

The pundits have claimed that all of this was all due to fear of war, fear of terrorism or severe winter weather. But now, as the sales declines hit multiple industries, in all regions of the country, month after month, the pundits are running out of excuses.

Problem #2:
Cut-Throat Competition and Falling Prices

Suppose you're a manufacturer or a retailer. You're stuck with sprawling, expensive facilities. Or you're loaded with unwanted inventories. But consumers don't have the money or the desire to buy. What do you do?

Unless you have a finance subsidiary that can dish out zero-interest cash to your customers, you have only one course of action that can give you immediate results: *You must slash your prices.*

Right off the bat, your dollar revenues plunge. Then, just as soon as your competitors start slashing *their* prices, your unit sales plunge again, too. Now, you have the worst of both worlds — fewer units sold, *and* fewer dollars per unit.

Take Ford, for example. In 2001, its sales dropped 5% to $162 billion from $170 billion the year before, driving the company deep into the red — a whopping $5.4 *billion* in losses.

Ford's knee-jerk response: It slashed the prices of its cars and trucks down to the bone. At first, the strategy was working. But ... *a big chunk of Ford's sales were borrowed from the future, and that future is now here.*

Indeed, Ford's sales have been falling steadily — from 3.7 million units (on an annualized basis) in December ... 3.6 million in January ... and just 3.2 million for March.

Now, Ford has announced it will cut second-quarter production by 17% from last year, a staggering admission that its price-cutting strategy isn't working anymore.

Meanwhile, **Intel** recently cut prices of some Pentium 4 desktop and Xeon server microprocessors by as much as 21% ... **Sony** is set to announce a major reduction in the price of its PlayStation 2 ... and **Carnival** announced it is slashing prices of its cruises across the board.

What happens when companies slash prices? Profit margins are smashed! For example ...

* **Reliant Resources** has seen its gross profit margin plunge 81% quarter to quarter.

* **Sepracor**, one of the largest pharmaceutical companies in America, has seen its profit margin plunge 79%.

* Profit margins are down 66% at **AES Corp.**, 42% at **TXU**, 14%

(continued on page 7)

Let's have breakfast together — it's on me.

I'll be in Las Vegas for the Money Show, Tuesday, May 13 — the perfect time for us to get together.

There's so much happening right now — the war, the sinking economy, the knee-jerk reaction of markets to the news — we need to talk, and soon.

So, please accept this issue of *Safe Money* as your official invitation to **The Weiss Power Breakfast** at the Las Vegas Money Show.

This event is by invitation only — exclusively for *Safe Money* subscribers. *It is not open to the public!*

Warning: Last year, for a very similar event, we had to turn hundreds of subscribers away. I was very disappointed, and so were they.

So this year, to avoid disappointment, please call us to register now. There's no charge, but it's first-come, first-served.

Plus, make sure you register for the balance of the Money Show, where I will be giving a three-part Weiss Seminar:

Part 1. The Next Financial Shocks.

Part 2. Can Washington Save The Economy?

Part 3. Make Money When Stocks Sink AND Soar.

To register for the Money Show and the Weiss Power Breakfast, call 800-970-4355, and give the operator the code: 001978. They'll give you all the information you need when you call.

Mr. CONSERVATIVE

A Portfolio For The More Conservative Investor

Millions trapped in the "war relief rally," assuming bear market is over. BIG MISTAKE! Here's what you should do instead ...

Don't you dare get trapped into this rally — regardless of the cause.

The fact is, we are in a giant bear market that is still unfolding ... that has not even come close to hitting bottom ... and that is going to rip several *trillion* more in wealth away from investors.

That's why I've stayed focused on the safest high-yielding portfolio I could design for you ... and why this portfolio has cranked out steady, double-digit returns, while still protecting the bulk of your principal with the safest investments in the world.

Still, many subscribers ask: Why don't you subscribe to the theory that the bear market will end with the war? The answer:

* Back in 1991, when the first Gulf War began, the Dow was trading at about 15.5 times earnings. Today, the Dow is trading at 28 times earnings, almost twice its historical fair value!

* In 1991, the dividend yield on the Dow was nearly 4% — not far from a normal 5% yield. Today, the dividend yield is less than 2%!

* In 1991, mutual funds had nearly 12% of their cash on the sidelines, about normal for the start of a bull market. Today, they have just over 4% of their cash on the sidelines.

Conclusion: The stock market is in exactly the *opposite* position it was when Gulf War I broke out. It's still grossly overvalued, and has a long way to go before hitting bottom.

Portfolio Update

Hold 55% of your conservative portfolio in short-term US Treasury bills. One of the most convenient ways to buy them is through money market funds specialized in Treasuries, such as: the American Century Capital Preservation Fund (800-345-2021), Dreyfus 100% US Treasury Fund (800-645-6561), Fidelity Spartan US Treasury Fund (800-544-8888), and USGI US Treasury Securities Cash Fund (800-873-8637). (Also consider our own Treasury-Only Money Market Fund, 800-814-3045.)

Hold 20% of your conservative portfolio in 3-5 year Treasury notes. But don't reach out to long-term bonds. They lock you in for too long, and the price risk is too great.

Allocate 10% to hedges against a falling dollar. I recommend half in the *Prudent Safe Harbor Fund* (800-711-1848, www.prudentbear.com/funds_pshfund.html) and the other half in the *American Century International Bond Fund* (800-345-2021, www.americancentury.com). As the dollar resumes its decline, these are bound to move higher.

Enerplus Resources Fund (ERF) — 5%. This gas and oil royalty trust has been going gangbusters since I recommended it. Originally recommended at $17.20, it's currently trading at near a 52-week high of $19.13. Plus, it pays a dividend of 11.71%. Hold.

Provident Energy Trust (AMEX-PVX) — 5%. Last month, the company announced excellent annual results: Oil and gas production more than doubled in 2002, and the company's energy reserves increased by 130%. Despite the good news, the share price suffered a setback, but I expect it to rebound nicely. If not on board, buy now. It pays a healthy 20% dividend.

Larry's recommended gold shares. If you were able to act on Larry's recommendation to sell half last month, your allocation should be close to 5% of your portfolio. Otherwise, it would be closer to 10%. See page six for further instructions.

The Weiss
Protection

Our Crash Protection Strategy combi
page 5) with zero-coupon bonds (det
www.safemoneyreport.com). If you're on b
of the positions, with no changes in the allo
nicely, and the LEAPS are bound to surge
subscriber, we recommend only the purcha

Larry Edelson's

mr. speculator

Profits bagged on LEAPS; Citigroup and Target shorts. Here's the next trade!

If you've followed my recommendations to short Citigroup and Target, you should have been able to bag profits of 18% and 8%, respectively.

And the profits bagged on your LEAPS puts were far greater, ranging anywhere from 23% to 264%, depending on how soon you bought them.

Now, on to the next trade: As Martin points out in the front-page article, there are literally hundreds of companies headed for trouble.

How to profit? One way is to buy LEAPS put options in companies that will be most directly impacted. These long-term put options give you plenty of time to capture profits from a stock that could sink in price, and they limit your risk strictly to the amount you invest.

My top choice for a LEAPS put on a vulnerable company: General Motors.

GM is not a candidate for bankruptcy. But its share price will be impacted by the same forces that could drive Ford into a financial tailspin: Consumer confidence plunging from 110.7 to 62.5 in the space of 12 months ... auto sales falling despite zero financing ... more lay-offs depressing demand.

Buy the **$30 Jan 2004 LEAPS puts on General Motors (Symbol LGM MF)**, paying no more than $4 per share for an overall cost of $400.

Portfolio Update

Rydex Ursa (RYURX), designed to go up 10% for every 10% decline in the S&P 500, is my favorite vehicle for hedging against — or profiting from — a market decline.

But it also works the other way: When the market rallies, this fund goes down. So, the war relief rally reduced its value a few notches in March, from $13.80 to around $13.06.

If you don't already own this fund, this is a good opportunity to buy.

You can open an account directly with Rydex by calling 800-820-0888, or you can buy Rydex funds through Fidelity Investment (800-343-3548), T. Rowe Price (800-638-5660), and Dreyfus (800-421-8395), or one of the other brokers listed on the Rydex website (www.rydexfunds.com).

Rydex Arktos (RYAIX). While the Ursa fund reacts inversely to the S&P 500 index, the Arktos reacts inversely to the performance of the Nasdaq 100. This fund also dropped somewhat last month from $40.40 to around $36.11. If you own it, hold. If not, buy now.

Dow Jones 76 Dec 2003 LEAPS puts (DJX XX) also fell as the stock market rallied. Don't worry. I expect the next wave down soon — regardless of the outcome of the war. If you don't own these, buy now (they're selling at $4.50 per share or $450 per 100-share contract). Otherwise, hold.

S&P 500 80 Dec 2003 LEAPS puts (LSX XY). If you own them, hold. If not, buy two now. They should move up sharply when the S&P caves in.

Rydex Juno (RYJUX) is my favorite vehicle for profiting from rising interest rates. For each 10% decline in long bond prices, the fund should rise by 10%. I originally recommended it at about $21.51, it fell to $20.66 and has now rebounded to $21.26. Hold.

iss Crash
n Strategy

ombines a balance of LEAPS puts (see
(detailed in December issue and at
e on board with this strategy, stick with all
e allocations. The zeroes have appreciated
surge as the market falls. If you're a new
urchase of LEAPS at this time.

Gold ready to roar back!

Larry Edelson

Last month, when gold was trading in the mid $350s, I told you mining shares were vulnerable to a temporary setback. The prudent thing to do was to trim your existing holdings by half. If you did, good.

My fundamental outlook on gold, however, was not changed. That's why I specified relatively good minimum prices for any sales. And that's also why I told you to hold on to the balance of your positions. Most important, *this also means that if you didn't get a chance to sell before the gold shares corrected, it's also OK.* Just keep all your positions intact.

Now, the setback has come, and it has turned out very much as expected: Gold tested critical support on the charts. It held firmly. And now it's on its way back up. Meanwhile, as I told you last month, the decline in the shares, although sharp, is temporary and largely technical.

Indeed, the entire episode confirms my feelings about the strength of gold's bull market; and in the big scheme of things, *nothing has changed:*

The US dollar is still declining. Billions of dollars are pouring out of US stocks, mutual funds, and bonds. So, I still expect a further dollar decline of up to 20% this year as overseas investors repatriate funds.

A weak dollar is good news for gold. It boosts the attractiveness to all investors seeking a hedge.

Tight supplies. Mining companies have been focused on reining in costs — and avoiding expanding their production — for so long, gold supplies could remain tight for many years to come. Even now, after the resurgence of gold, the pace of exploration is still less than *half* of what it was 10 years ago. So, anyone who thinks new supplies are going to turn up overnight is dreaming.

Portfolio Update

Anglogold (AU). If you've sold half your shares, await further instructions. If not, hold the balance and cancel your order to sell.

Durban Roodepoort Deep (DROOY) suffered in the setback last month, but has recovered to $3.03. If you sold half, sit tight. If not, hold the balance and cancel your order to sell.

Royal Gold (RGLD) remains one of my favorite mining stocks, and after the setback is now bouncing back nicely. The company recently announced significant advances in its proven and probable reserves at several of its mines. It has roughly one-third more reserves of an even higher quality than it believed at the end of 2001. At Bald Mountain, for example, its interest yielded 18,000 ounces of gold in 2002, but the operator expects that number to be almost 85,000 in 2003. Currently, shares are at $13.68. Hold your entire position.

Agnico Eagle (AEM) announced bullish results for the fourth quarter. Earnings are up nicely and proven and probable reserves of 4 million ounces are up 23% on 2001. Plus, they're cranking up production this year to 375,000 (up 44%) and reducing cash costs per ounce of gold mined to $125 per ounce (down 31%) — very cheap cost of production. If you sold half your shares, stand by. If not, hold everything, and cancel any sell orders.

Newmont Mining (NEM) has just gained approval to mine in Ghana's protected rainforest reserves — an investment costing $450 million. The mines in Ghana were part of the Normandy Mining acquisition last year and would start producing in 2006. The company expects to produce 7.5 million ounces of metal worth $2.7 billion over the lives of the mines.

Newmont also recently released great fourth-quarter 2002 numbers, with gold sales up a healthy 57% against the same period in 2001. For the year, it sold 40% more gold than in 2001 at a total cash cost of $189 per ounce.

Same instructions: If you got out of half, fine. If not, hold everything and cancel any sell orders.

Glamis Gold (GLG) boosted its gold production in the fourth quarter of 2002 with just over a third of the net income attributable to that one quarter. Expect more great news from this company. If you sold half, sit tight. Otherwise, hold your entire position. Cancel any sell orders.

Cover Story *(cont. from p. 3)*

at the already-battered **Nextel**, 12% at **Xerox**, 9% at **General Motors.**

Problem #3: Staggering Debts

When AOL merged with Time Warner two years ago, the company's founder and chairman, Stephen Case, predicted it would break all records and soon become the largest company in the world.

It's broken the records all right — for losses. In 2002, the company recorded the largest loss of all time — a record-smashing $99 billion, eclipsing the previous records by JDS Uniphase and AOL itself in 2001. Case is gone. So is Ted Turner.

The final day of reckoning, however, is still to come. The company has just announced *another* $400 million in exaggerated earnings. It faces still-stagnant profits, *plus*, at the same time, a crushing debt load of $27.5 billion.

Meanwhile ...

* **Ford's** debt is $29 for every dollar of shareholder equity!

* **Maytag** — $26 in debt for each dollar of equity!

* **Nextel** — $23 in debt per dollar of equity!

* **Weight Watchers** owes nine times more than it has in equity.

* **Xerox** owes seven times more ... and **Kellogg Foods** owes 6.3 times.

When the economy heads south, these enormous debts can be the final nudge that can send big corporations over the cliff.

Problem #4: Near-Worthless Assets

Not long ago, in the Mohave desert about 100 miles north of Los Angeles, there were 60 shiny 747s, 737s, and MD-11s, baking in the sun — a sorry testimony to the overcapacity in the US airline industry.

Now, there are 300 aircraft ... and soon there will be over 400! Row after row of giant jet aircraft. Unused and unwanted.

A disaster just for the airlines? I'm afraid not. More than a dozen companies in various sectors have announced their earnings will be reduced because of airplanes they bought but can no longer lease.

GE is writing off $260 million; Boeing, $250 million; Morgan Stanley, $74 million; John Hancock, $95 million; Pitney Bowes, $100 million; Walt Disney, $114 million. Overall, at least $1 billion has been lost worldwide on airline leases in the past year alone.

Meanwhile, American companies have overspent and overbuilt across a broad spectrum of industries. We have too many fiber optic cables, too many satellites, too many cars and trucks, too many high-rise office buildings.

Problem #5: Sky-High Fixed Expenses

Prudent companies, like prudent families, can try to slash their expenses. But many US corporations cannot. They're locked in to high fixed overhead.

Delta Airlines is battling cutthroat competition, plunging bookings, and falling prices. That's why revenues plummeted 17.1% in 2001. That's also why there was no recovery in 2002, and why 2003 is turning out to be another horrible year, war or no war.

Delta has just announced major cutbacks in domestic and international flight schedules. But that has virtually no impact on its enormous fixed expenses — pilot salaries, wages for ground crews, maintenance of idle aircraft, insurance, rent, and interest.

What will happen to Delta Airlines if the war lasts longer than expected ... or leisure and business travel fail to recover swiftly after the war? What happens if bookings drop even further? What happens if fuel prices spike again?

In any of these scenarios, I believe Chapter 11 for Delta is likely.

The Consequences ...

■ **More layoffs:** Kmart, already in Chapter 11, has 242,000 employees, nearly all of whom would lose their jobs in a liquidation. If Ford Motor goes under, 352,000 jobs will be threatened. Verizon Communications, also vulnerable, employs 247,000. American Airlines provides jobs for 123,000.

■ **Banks take huge hits:** I count 1,697 banks and 945 insurers that are vulnerable — institutions that currently have a Weiss Safety Rating of D+ (weak) or lower, implying a higher than average probability of failure.

■ **Suppliers get hit hard.** In March, when Ford and GM announced sharp production cutbacks, the shares of Delphi, the world's largest auto supplier, with $27 billion in revenue, dropped 8% on the news. American Axle, another one of GM's main supplies, plunged 8.2%.

Price declines. Corporate bankruptcies naturally unleash a wave of fire sales — not only of unsold merchandise, but also of unwanted subsidiaries, partnerships, and joint ventures — all at discount prices. The price declines, in turn, trigger more bankruptcies in an unstoppable vicious circle.

What to Do

To protect yourself from the next wave of corporate bankruptcies, take these steps:

Step 1: Immediately sell any stocks of companies with a Weiss risk rating of D+ or lower. To get the latest Weiss risk rating on almost any publicly traded company, log on to www.safemoneyreport.com and click on the "Ratings" tab at the top of the page.

Step 2. Take advantage of the latest rally in the market to sell the *rest* of the stocks in your portfolio.

Step 3: If you're employed by a publicly traded firm, check its rating. If you're running a business, check the ratings of your primary customers, suppliers, and joint venture partners. A Weiss Risk Rating of D+ or lower is an indication of possible trouble for the company's finances in a normal economy, probable trouble in a sinking economy.

Step 4: If you're stuck in a situation that you feel is risky, hedge with a program that is designed to profit from falling share prices and a deteriorating economy.

PROFESSOR INVESTOR

Special Questions From Our Readers

Q: My broker says the "war relief rally" could be the beginning of the end of the bear market. What do you think?

A: There have already been six major rallies since the bear market began in March 2000. Each time, brokers tried the same pitch, and each time, the rally proved to be a cruel hoax — a trap that slammed those investors for more big losses! This one is no different. Indeed, the bear market can *not* end ... the next bull market can *not* begin ... until there are no more hidden shocks waiting to ambush these rallies and crush them before they can take root.

Q: You've recommended several different bear investments. Which should I concentrate on?

A: Primarily the Rydex URSA fund and the LEAPS put options

Q: What should I look for in long-term care policy?

A: Don't buy too early, and don't buy too much. For detailed instructions, get the fully updated edition of my *Ultimate Safe Money Guide*, just released in paperback. (www.amazon.com/safemoney and bookstores everywhere.)

Q: I gather from your March cover story that you expect interest rates to climb as the deficit soars and the dollar drops. You also expect deflation. How might these trends interact, and what should we do to hedge against them?

A: In the early 1930s, interest rates spiked higher for more than a year, despite a long-term deflationary trend (see my book, *Crash Profits*, page 320). Something similar could happen again this time.

To hedge against deflation, use investments designed to profit from a falling stock market, such as Rydex Ursa or LEAPS puts. To hedge against a dollar decline, use the two foreign bond funds recommended in Mr. Conservative. And for protection (or to profit) from higher interest rates, consider allocating a modest amount to Rydex Juno Fund (page 5).

Q: You recommend Treasury bills. But you say the deficit is ballooning. So, why are they safe?

A: Even in the worst of times, the US Treasury has *never* defaulted on its debt. Despite a big deficit, they are the highest-quality securities in the world.

Q: I want to invest in a larger home. You expect interest rates to go up — so now would be a good time to lock in a low-rate mortgage. But you also expect real estate values to go down. Which of the two should I base my decision on?

A: The real estate values. Their decline will have a larger impact on your investment. The interest rate you can lock in is secondary. Besides, this is the worst time to load up with debt.