

Investor Market Alert

Unraveling of the Credit Crisis

Prelude:

I will take you through the present credit crisis as it is unfolding followed by suggestions for protecting your savings. Following that, there are five current financial news articles for your review followed by my final thoughts.

Introduction:

As many of you are aware, there have been serious upheavals in the US markets over the past week. We have seen tremendous swings in the Dow Jones Industrial Index with 500 and 450 point declines two days and two 400+ point up days within a 5 day period. Trading like this is attributed to extreme fear and euphoria.

The root causes of these gyrations are the bankruptcy of Lehman Brothers last weekend, the US bailout of AIG (the world's largest insurance company), the world wide injection of \$180 Billion in the world's capital markets, the US Treasury Department injection of capital into the Federal Reserve's balance sheet, Washington Mutual's failure to find a buyer and the potential for Goldman Sachs and Morgan Stanley going down the path of bankruptcy. The two large Dow down days was due to worries over these issues. Large upward swings were caused by euphoria that the US bailed out or was about to bailout certain financial entities.

Unfortunately, I believe we may be on the cusp of financial failure of the US system. Believe me that I know how extreme that statement sounds. I risk my reputation and being labeled as a kook or dooms day prophet. However, despite the risks of being labeled as such I think it good to error on the side of caution and warn readers of the very real possibility of the financial system spiraling out of control.

I have detailed in my Market Updates the financial risks associated with the credit crisis. We have repeatedly seen for the last year and a half that the US Treasury Department represented by Hank Paulsen and the Federal Reserve's Ben Bernanke first deny, down play, then finally recognize and now go to extreme measures to "solve" the credit crisis. These top two representatives of the US financial system have clearly demonstrated they will not be upfront with the US people or the rest of the world in terms of how serious the financial crisis is. The events of this past week have convinced me that neither they nor anyone in the US government know what to do to solve this crisis. They are not operating in a manner of having and executing a sound financial plan but executing quickly planned, daily stop gap measures to "plug the holes in the dike".

These stop gap measures have been highlighted by activities of the past week. A major meeting of Wall Street financial firms last weekend was conducted to find a buyer for the troubled firm Lehman Brothers. No one would step up to the plate and Lehman filed bankruptcy. Paulsen was all over the air waves that no more public money would be used for bailing out troubled firms. Tough love was in the air and clearly evident by the snub of several financial firms calling for a half-point Federal Reserve rate cut Tuesday. The FOMC meeting came and went with no rate cuts, indicating that a new policy for the markets is tough love. While the FOMC meeting was being held, buyers for AIG were being courted to avoid a bankruptcy filing of the world's largest insurer. Goldman Sachs

and JP Morgan, the two leading candidates, declined to buy AIG. Then, in a complete about face, the US government announced bailing out AIG Tuesday evening. The Dow fell steeply Wednesday with this news but then reversed course Thursday and Friday to yet a new rumored US government led bailout plan. This weekend, a \$700 Billion bailout was announced by President Bush. In less than six days, we saw the US go from tough love to bailout master of about everything Wall Street.

Now is the time to protect your wealth.

The latest plan will likely not do much of anything except buy more time to throw more money at the credit crisis. I believe **NOW** is the time for you to protect your money. What we will likely see early next week is safe haven investments such as bonds, gold and commodities selling off. Financial television will explain the reason for these investments falling is due to the market's confidence the new plan will solve the credit crisis. This will be supported by a world wide tour of Paulsen and Bernanke declaring on several news programs that the latest plan is the secret elixir to solve all our problems. The broad markets such as the Dow, Nasdaq and S&P will likely soar in response.

I absolutely agree with that obnoxious CNBC commentator Jim Cramer the rally in the broad markets should be sold by investors. The pending rally this coming week will give anyone who will listen an excellent opportunity to get out of their stocks and mutual funds. It also will likely give you a great opportunity to place your cash in safe haven investments such as short term bonds, gold, money funds and commodities in general; as they get sold off while the broad market soars.

One of the first emotional reactions most investors take is they worry they may be selling at the bottom. Investors also fear by selling they will be left out of the markets rebounding. Please think of it this way. If you sell all your broad market investments this week, you might miss out on 5 - 10% on the upside. However if you don't sell and the hastily planned US bailout package fails, your downside potential from here could be 30% or more in the coming months.

Suggested Actions to Protect Your Savings:

I am by no means an absolute authority on this subject but I do feel qualified to make some suggestions. The following list contains some ideas to protecting yourself from the potential of a serious financial meltdown. Please do not be lulled into a false sense of security that the government won't allow the US financial system to unravel before the Elections in November. It already appears by their actions they may be losing control.

- 1) Sell mutual fund holdings in anything except for commodity related or short term maturity bond funds.
- 2) Liquidate foreign mutual funds particularly those in emerging markets. Markets outside of the US tend to fall more than a falling Dow.
- 3) If you have cash in excess of \$100,000 in a FDIC insured bank, move the excess cash into a second non-related bank (see the last article in the next section).
- 4) Take 5% of your liquid assets and buy physical gold coins. I have an Appendix section in my most recent Market Updates suggesting some vendors. Gold bullion bars are not as easy to sell as coins. Silver is simply too hard to get in nearly any form unless you are willing to pay 10-50% over spot price.
- 5) Diversify your cash holdings. For example: Your retirement fund only offers a money market fund but has short term maturity bond funds or government

guaranteed mutual funds. Then, I recommend equally distribute the cash into all of these safe haven funds. As we learned last week, Money Market funds were seizing up illustrating they are not completely safe. Spreading your money across several safe haven cash investments further reduces your risk.

- 6) If your retirement plan only has a money market fund available, consider borrowing against it and placing the proceeds into safe asset classes.
- 7) Consider placing a portion of your funds into a precious metal mutual fund. Do internet searches to find the best performing funds over the last couple of years.
- 8) Avoid investing in long maturity CD's or long term bonds such as the 5, 10 or 30 year bonds. If the US has to issue waves of debt and/or print money to alleviate the credit crisis, interest rates may surge causing the face values of bonds to plunge and so with it, your money.
- 9) If you have been on the fence about refinancing, DO IT NOW. The more the US spends on bailouts the higher interest rates will rise. It's also a good time to get out of adjustable rate mortgages.
- 10) Consider buying large cap gold and silver producer stocks. They may fall less than small caps if there is a Dow meltdown and rebound more strongly than their peers.

Key Recent News Articles:

I have accumulated some important articles about the present crisis. Before each article are my comments in *italics* as an introduction of key points in the following article. What you read below may stun you that it comes from mainstream news sources.

I highlighted and underlined the most important aspect of the following article. This quote does not come from a doom naysayer nor fanatic gold bug but from a US Senator and Chairman of the Banking committee. A comment such as this would have been unheard of from anyone in US government a few months ago. Do YOU want to gamble with your life savings that the latest bailout will finally solve the financial crisis?

From the New York Times:

Congressional Leaders Stunned by Warnings

By DAVID M. HERSZENHORN

September 19, 2008

WASHINGTON — It was a room full of people who rarely hold their tongues. But as the Fed chairman, Ben S. Bernanke, laid out the potentially devastating ramifications of the financial crisis before congressional leaders on Thursday night, there was a stunned silence at first.

Mr. Bernanke and Treasury Secretary Henry M. Paulson Jr. had made an urgent and unusual evening visit to Capitol Hill, and they were gathered around a conference table in the offices of House Speaker Nancy Pelosi.

"When you listened to him describe it you gulped," said Senator Charles E. Schumer,

Democrat of New York.

As Senator Christopher J. Dodd, Democrat of Connecticut and chairman of the Banking, Housing and Urban Affairs Committee, put it Friday morning **on the ABC program "Good Morning America," the congressional leaders were told "that we're literally maybe days away from a complete meltdown of our financial system, with all the implications here at home and globally."**

Mr. Schumer added, "History was sort of hanging over it, like this was a moment."

When Mr. Schumer described the meeting as "somber," Mr. Dodd cut in. "Somber doesn't begin to justify the words," he said. "We have never heard language like this."

"What you heard last evening," he added, "is one of those rare moments, certainly rare in my experience here, is Democrats and Republicans deciding we need to work together quickly."

Although Mr. Schumer, Mr. Dodd and other participants declined to repeat precisely what they were told by Mr. Bernanke and Mr. Paulson, they said the two men described the financial system as effectively bound in a knot that was being pulled tighter and tighter by the day.

"You have the credit lines in America, which are the lifeblood of the economy, frozen," Mr. Schumer said. "That hasn't happened before. It's a brave new world. You are in uncharted territory, but the one thing you do know is you can't leave them frozen or the economy will just head south at a rapid rate."

As he spoke, Mr. Schumer swooped his hand, to make the gesture of a plummeting bird. "You know we'd be lucky ..." he said as his voice trailed off. "Well, I'll leave it at that."

As officials at the Treasury Department raced on Friday to draft legislative language for an ambitious plan for the government to buy billions of dollars of illiquid debt from ailing American financial institutions, legislators on Capitol Hill said they planned to work through the weekend reviewing the proposal and making efforts to bring a package of measures to the floor of the House and Senate by the end of next week.

Lawmakers in both parties described the meeting in Ms. Pelosi's office on Thursday night with Mr. Paulson and Mr. Bernanke as collaborative, and that they were prepared to put politics aside to address the needs of the American people.

While Democrats initially said after the meeting that they planned to use the administration's proposal of a huge rescue effort to win support for an economic stimulus package, they pulled back slightly on Friday morning, saying that their top priority was to help put together the bailout package and stabilize the economy.

But it was clear they continued to examine ways to make clear that the government was stepping up not just to help the major financial firms but also to protect the interests of American taxpayers and families by safeguarding their pensions and college savings, and by preventing any further drying up of consumer credit.

In addition to potential stimulus measures, which could include an extension of

unemployment benefits and spending on public infrastructure projects, Democrats said they intended to consider measures to help stem home foreclosures and stabilize real estate values.

Among the potential steps Congress can take include approving legislation to allow bankruptcy judges to modify the terms of primary mortgages — authority that the bankruptcy laws do not currently allow and that the banking industry has strenuously opposed.

But the Democrats said it was too soon to discuss such details, and that they were awaiting a draft of the proposal from the Treasury Department.

The implication of the following article is that the Federal Reserve's balance sheet is now exhausted in special loans in exchange for dubious value securities. The Federal Reserve cannot go broke since it is connected to the US Treasury Department. The Treasury Department can issue unlimited bonds and print infinite amount of paper. Many South American countries tried to print their way out of their debts to the ruin of their currency and hence their economies. Don't think for a minute that the United States can print its way out of this mess without serious consequences.

From Reuters:

U.S. government bailout tally tops \$900 bln

Sept 16 (Reuters) - The U.S. Federal Reserve stepped in to rescue insurance giant American International Group from bankruptcy with an \$85 billion loan on Tuesday, the latest in a series of bailouts and loans for the financial and housing sectors.

The action brings the total tab for government rescues and special loan facilities this year to more than \$900 billion.

Following are details of actions and amounts.

* \$200 billion for Fannie Mae and Freddie Mac . The Treasury will inject up to \$100 billion into each institution by purchasing preferred stock to shore up their capital as needed. The deal puts the two housing finance firms under government control.

* \$300 billion for the Federal Housing Administration to refinance failing mortgage into new, reduced-principal loans with a federal guarantee, passed as part of a broad housing rescue bill.

* \$4 billion in grants to local communities to help them buy and repair homes abandoned due to mortgage foreclosures.

* \$85 billion loan for AIG, which would give the Federal government a 79.9 percent stake and avoid a bankruptcy filing for the embattled insurer. AIG management will be

dismissed.

* At least \$87 billion in repayments to JPMorgan Chase & Co for providing financing to underpin trades with units of bankrupt investment bank Lehman Brothers . U.S. Treasury Secretary Henry Paulson said over the weekend he was adamant that public funds not be used to rescue the firm.

* \$29 billion in financing for JPMorgan Chase's government-brokered buyout of Bear Stearns & Co in March. The Fed agreed to take \$30 billion in questionable Bear assets as collateral, making JPMorgan liable for the first \$1 billion in losses, while agreeing to shoulder any further losses.

* At least \$200 billion of currently outstanding loans to banks issued through the Fed's Term Auction Facility, which was recently expanded to allow < P credits. 28-day previous the alongside days 84 of loans longer.

The following article is a nice summary of the more recent developments in the credit markets. It highlights the fact the US government is really shooting at the hip trying to make something stop the crisis. In my opinion, they are trying to buy time and kick the can to the next guy into the future. The fundamental issue is that grossly over leveraged financial firms created a worldwide, interconnected pyramid scheme that is now collapsing. Underlines in the article are my emphasis.

From the New York Times:

Hoping a Hail Mary Pass Connects

By JOE NOCERA

September 20, 2008

It was the end of the worst week for financial markets since 1929, and Treasury Secretary Henry M. Paulson Jr. looked sleep-deprived.

He had begun the week agreeing to let Lehman Brothers go bankrupt, arguing that the government had to stop putting taxpayers' money at risk. Then, midweek, he brokered a deal to rescue the American International Group with an \$85 billion loan from taxpayers — arguing that the risk to the financial system was too high to allow the world's biggest insurer to fail.

Neither move had done anything to stop the financial tsunami. So on Friday morning, just as the markets were opening, Mr. Paulson unveiled the government's latest attempt to stop the bleeding. Maybe it was because he was so tired, but there was none of the glass-half-full blather that is de rigueur for a cabinet secretary. Instead, his flat, just-the-facts-ma'am voice and weary body language conveyed an unusual sense of urgency.

The core issue, he said — the mistake that had led to all the other mistakes — was that

“lax lending practices earlier this decade led to irresponsible lending and irresponsible borrowing.” True. As for Wall Street, toxic mortgage-backed securities had become “frozen on the balance sheet of banks and financial institutions.” He added, “The inability to determine their worth has fostered uncertainty about mortgage assets and even about the financial condition of the institutions that own them.” True again.

And that really is the crux of the matter — the financial system has seized up. But so far, the government’s actions haven’t helped. Letting Lehman go bust may have sounded good at the time, but it has had disastrous consequences.

It has led to complete chaos in the multi-trillion dollar market for credit-default swaps and was a crucial reason Morgan Stanley was forced to scramble to stay alive this week. It is also why questions were raised about the viability of Goldman Sachs, a firm with a pristine balance sheet and almost none of the bad assets that are bringing down other firms.

The rescue of A.I.G. further undermined confidence because, within the space of several days, the government did a complete about-face. The bailout suggested the Treasury Department was as confused about what to do as the rest of us.

So rather than help solve the crisis, the Treasury Department has actually contributed to the biggest problem in the market right now: an utter lack of confidence.

Nobody understands who owes what to whom — or whether they have the ability to pay. Counterparties have become afraid to trade with each other. Sovereign wealth funds are no longer willing to supply badly needed capital because they no longer know what they are investing in. The crisis continues because nobody knows what anything is worth. You simply cannot have a functioning market under such circumstances.

Will this latest round of proposals end the crisis? I know the stock market reacted joyously on Friday, but I’m not hopeful. One solution being promoted by the Securities and Exchange Commission — to make life more difficult for short sellers — is a shameful sideshow. A second solution, which Mr. Paulson announced Friday morning, requires money market funds to create an insurance pool to cover themselves against losses.

That may provide comfort to investors who equate money funds with savings accounts, but it is fraught with moral hazard.

And the third solution — the big megillah — is Mr. Paulson’s plan to create a new government mechanism to buy mortgage-backed securities from big banks and investment houses. Once they are off those companies’ books, life can return to normal — or so Mr. Paulson hopes.

He acknowledged that it would likely cost taxpayers “hundreds of billions of dollars.” I think it will cost more than \$1 trillion.

It is a weird tribute to the scale of this crisis that Mr. Paulson felt he had no choice but to rush this proposal out, because as the day progressed it became increasingly clear that the Treasury Department didn’t yet know how this mechanism was going to work. It is an idea of a plan more than an actual plan. In football, they would call it a Hail Mary pass.

Sometimes, of course, a Hail Mary pass is completed for a touchdown. But most of the time they fail.

Let's take a closer look at the government's latest response.

KILL THE SHORT SELLERS It's understandable why people get upset at short sellers in tough times. As President Bush put it Friday, short sellers are "intentionally driving down particular stocks for their own personal gain." But that perception is more myth than fact, and in any case, it's not the dynamic here. Stocks are falling because companies made huge mistakes that have caused them a heap of trouble. Indeed, in July and August, short interest in financial stocks declined by 20 percent. Why did the stocks continue to go down? Because there were too many sellers and not enough buyers: it's that confidence thing again. Blaming the shorts is classic blame-the-messenger behavior.

The S.E.C. jihad against short sellers, which includes the banning of short selling on 799 stocks and forcing disclosure of large short positions, is nothing more than playing to the crowd. It is simply appalling that as one firm after another vaporizes — firms, let's remember, that the S.E.C. was supposed to be regulating — the only thing the agency can think to do is flog the shorts.

There were so many better moves it could have made. After Bear Stearns fell, it could have sent SWAT teams into all the other financial firms to assess their mortgage-backed paper. It could have then announced to the world the health of each firm, which would have helped the market regain some confidence. It could have forced firms to disclose their mortgage-backed holdings so that counterparties could evaluate them. It did none of these things.

Then again, maybe the S.E.C. is trying to cover up its own culpability in this crisis. Four years ago, the agency pushed through a rule that allowed the big investment banks to take on a great deal more debt. As a result, debt ratios rose from about 12 to 1 to more like 30 to 1. Guess what Lehman's debt ratio was when it went bust? Yep: 30 to 1.

SAVE THE MONEY MARKET FUNDS The precipitating event here was the news that the Reserve Fund, a money market fund that caters to institutions, had "broken the buck" and was paying investors 97 cents on the dollar. That is only the second time that's ever happened, and it had to scare investors, because most of us have come to think of money market funds as being the equivalent of bank savings account — perfectly safe.

In the aftermath, investors in the various Reserve money market funds pulled \$58 billion out in the space of a week, leaving the firm with only \$7.1 billion. If that same fear had spread across other money funds, it could well have led the funds to stop accepting short-term commercial paper. That would have been a disaster, because big companies rely on the commercial paper market to finance their day-to-day needs.

Under the circumstances, insuring the money market funds probably makes sense. It will calm investors and keep the commercial paper market functioning. But think about the moral hazard! It bails out poorly managed money funds — the ones most likely to break the buck — at the expense of funds that haven't taken the extra risk that causes a sudden drop in value.

And then there's this: If you have your money in a bank account, only \$100,000 is insured. But if you have it in a money market fund — which usually has a slightly higher yield precisely because it has a small element of risk — you now have unlimited insurance. It's the world turned upside down.

THE BIG MEGILLAH For the last few weeks, a growing chorus of voices has called for the establishment of a new Resolution Trust Corporation, the entity the government devised in the wake of the savings and loan crisis to take over, and eventually sell off, the assets of failed S.& L.'s. On Wednesday, that chorus got its most powerful voice, when Paul Volcker, a former Federal Reserve chairman, co-authored an op-ed article in *The Wall Street Journal*.

That crisis, however, was very different from this one. Most of the assets in the S.& L. crisis were real estate — which are always going to have value. And the government didn't have to acquire them; it simply took them over and, over time, sold them. This time, the assets are complex derivatives of uncertain value that the big firms will actually be selling to the government.

But how is the government going to assess these securities — and what price will it pay for them? In many cases, these securities aren't being sold because they are still overvalued on a firms' books. That is, their mark-to-market price is unrealistically high. Will the government buy it at the too-high price? If it does, the firms won't have to take additional write-downs — but it will constitute a huge, unjustified bailout of Wall Street. (More moral hazard.)

But what if the government drives a hard bargain, and gets the securities for what they are really worth — 20 cents on the dollar, say, instead of 50 cents? In that case, the firms would have to take yet more enormous write-offs, which would further damage their balance sheets, and they would have to raise billions more in capital. Maybe the removal of these bad assets would allow the firms to raise the capital. But maybe not — meaning one or more could conceivably have to file for bankruptcy, creating yet another spasm of financial turmoil. It's a huge roll of the dice by the government.

Finally, there is the question of how much it will ultimately cost. "Institutions so far have written down \$550 billion globally of bad debt," said Daniel Alpert, managing director of Westwood Capital. "We think that when you add up all the problems in the residential housing market still to come — further erosion of housing prices, mortgage foreclosures and so on — we are going to need another \$1 trillion of write-downs."

In other words, for all the toxic securities that Wall Street has acknowledged holding, there will be yet more mortgage-backed paper that will go bad as the housing market continues to fall. As much as we all hope the worst is over, it's probably not.

And as much as we might hope that the government finally has the answer, it probably doesn't.

The following article is a headline this weekend of the bailout of the week. I underlined one of the more disturbing aspects of the article that no one even mentions these days; the Federal budget debt. Keep in mind in the start of 2000 the debt was \$5.75 Trillion. As of yesterday, the US Federal debt was \$9.66 Trillion and this does not account for the bailouts of Fannie Mae, Freddie Mac nor the \$700 Billion the Bush administration is asking. Back in 2003 as the US was selling war with Iraq to the public, a Bush administration official suggested the Iraq war would cost \$100 Billion. Since this did not jive with the position Iraqi oil production would pay for the war, the official "resigned" in under a month. I find it highly likely this aspect of the several bailouts the US is running will likely in the Trillions.

From Bloomberg.com:

Bush asks for \$700 billion bad debt bailout

In what is being described as part of the biggest bailout package in the U.S. since the Great Depression, the White House is asking Congress to allow the government to takeover US\$700 billion in bad debts.

Amid the turmoil in the financial markets, President Bush makes a statement outside the Oval Office of the White House in Washington, Thursday, Sept. 18, 2008. (AP / Pablo Martinez Monsivais)

If Congress approves the plan, a draft of which was obtained by The Associated Press early Saturday, it would give Washington broad power to buy bad mortgages of any American financial institution in the next two years.

The Bush Administration also wants to raise the legal limit on the national debt from \$10.6 trillion to \$11.3 trillion to allow for the bailout.

"We're going to work with Congress to get a bill done quickly," U.S. President George Bush said at the White House.

"This is a big package because it was a big problem," he said, although he did not refer to details of the plan.

Bush has said that any further stress on financial markets would cause massive job losses, devastate retirement accounts, erode housing values and dry up loans for homes, cars and college tuitions.

"People are beginning to doubt our system, people were losing confidence and I understand it's important to have confidence in our financial system," he said.

The AP reported that the draft does not say what the government would get in return from companies seeking help.

On Friday, U.S. Treasury Secretary Henry Paulson said he would work through the weekend with congressional leaders to finalize a financial plan that would help an ailing economy hit hard by the American mortgage crisis.

The following article was found by reader A. Hoffman. This is a good read about information concerning FDIC and SPIC. Keep in mind that FDIC has approximately \$37 Billion left to cover over \$4 Trillion in deposits. SPIC is a bit of a joke since the last time I heard their reserves were under \$3 Billion covering Trillions of securities.

Is My Money Really Safe?

by Joan Goldwasser, Kimberly Lankford and Pat Mertz Esswein

Thursday, September 18, 2008

We have frank answers to your tough questions about banks, brokers and mortgage middlemen.

When IndyMac bank failed this summer, the lines of nervous account holders trying to withdraw their money made headlines everywhere. But that was an anomaly.

The Federal Deposit Insurance Corp. has taken over ten other banks this year without incident. If you are worried about the safety of your money -- in banks or brokerages, such as Lehman Brothers, which filed for bankruptcy September 14 -- or money you've paid your mortgage servicer for taxes or insurance, here are answers to your pressing questions.

Your Banker

Should I worry about the safety of my bank accounts? In most instances, your money is insured by the FDIC, which is backed by the full faith and credit of the U.S. government, up to a limit of \$100,000 at each bank. Add up all the accounts in your name at a bank, including checking, savings and money-market accounts as well as certificates of deposit. If your funds total more than \$100,000, move the excess to another bank.

My spouse and I have a joint checking account, and each of us has individual savings accounts at the same bank. How much insurance does each of us have? Each co-owner of a joint account has \$100,000 in insurance, and your individual accounts are each insured for \$100,000, for a total of \$400,000 in this example. If you want to shelter more cash, you can open revocable-trust or payable-on-death (POD) accounts for your

spouse, children, grandchildren or siblings. Each beneficiary's account is insured up to \$100,000. Or you can just move the excess cash to another bank.

My retirement-savings accounts are with my bank. What is the maximum coverage for them? Certain types of retirement accounts are covered by FDIC insurance, including IRAs, Roth IRAs, SEP IRAs and Keogh plans. All deposits in these types of accounts are added together and insured up to \$250,000 per person. If you have both a regular and a Roth IRA, the assets would be added together and insured up to \$250,000.

I bank at a credit union. Is my money insured? Yes. The National Credit Union Share Insurance Fund (NCUSIF), which was established by Congress and is backed by the U.S. government, insures individual accounts up to \$100,000. As with FDIC insurance, a two-person joint account is insured up to \$200,000.

Are my credit-union retirement accounts insured? Yes, the NCUSIF covers retirement accounts, too. The funds in traditional and Roth IRAs are added together and insured up to \$250,000; Keogh accounts are insured separately up to \$250,000. If you have both IRAs and a Keogh at your credit union, you can have a total of \$500,000 in insured retirement assets.

I have a bank money-market account. Are those funds insured? Yes, but your money-market deposit account is lumped with all other accounts bearing your name, and together they are insured up to \$100,000. Money that you keep in a money-market mutual fund is not insured. Unlike most mutual funds, however, the share price does not fluctuate -- it usually remains a constant \$1. However, the Reserve Primary Fund, which holds securities issued by bankrupt Lehman Brothers, announced September 16 that its share price fell below \$1.

If the FDIC takes over my bank, as it recently did with IndyMac Bank, how long will it take for me to have access to my money? IndyMac's depositors had continuous access to their funds through ATM and debit cards. After federal regulators seized the bank on a Friday, some customers did not have online or phone access for a weekend, but everyone had full access to all their insured money by Monday morning.

If the FDIC takes over my bank, will I lose all my uninsured funds? No. IndyMac account holders had access to 50% of their uninsured funds immediately. When Mutual of Omaha Bank took over First National Bank of Nevada and First Heritage Bank of Newport Beach, Cal., in July, depositors had immediate access to both insured and uninsured funds.

How can I check to see if all my money is insured? Both the FDIC's Web site and the National Credit Union Administration's site have a calculator that allows you to plug in all your accounts and the amounts deposited so you can find out whether any of your money is uninsured. Go to www.fdic.gov and click on the Electronic Deposit Insurance Estimator (EDIE), or go to www.ncua.gov and use its Share Insurance Estimator Report.

Your Broker

What happens to my brokerage account if my firm goes bankrupt? Brokerage firms must follow strict rules about segregating customers' investments from the firm's money, so your accounts should remain intact even if the brokerage goes under and another firm takes over its business. For example, stocks, bonds and mutual funds are physically held by an independent depository, not the brokerage firm.

What if the firm misappropriated my assets? You have another layer of protection in case the firm hasn't followed all of the rules: The Securities Investor Protection Corp. covers stocks, bonds and other assets held at a brokerage firm that goes bust, and nearly every brokerage firm registered with the Securities and Exchange Commission must be a member. "We get involved only when a firm has used up its capital and has misappropriated customers' securities," says Stephen Harbeck, president and chief executive of SIPC.

If a brokerage firm fails, SIPC first tries to transfer the investors' securities to another firm. If that doesn't work, it then attempts to rebuild the investors' portfolios, even buying new stocks or bonds to make up for any missing shares. If the investments aren't available, SIPC will give you cash based on their value when the brokerage failed.

How much does SIPC cover? SIPC first returns your share of the broker's remaining assets, then uses its own funds (up to \$500,000 per account, including a \$100,000 limit on cash) to buy the same shares that you originally owned.

What happens if I have more than \$500,000 at that brokerage firm? The \$500,000 limit applies only to the maximum amount of its own money SIPC will spend to make up for any missing securities, not the total amount of money you can get back. If the customers' assets remain largely intact at the brokerage firm, then you can get back a lot more than that SIPC limit, which is a key difference between how SIPC protects brokerage customers and how the FDIC covers bank depositors.

In the 38-year history of SIPC, only 349 people have not received the full value of their accounts from their share of the firm's assets plus SIPC coverage -- and most of those instances occurred three decades ago or more.

If an investor's losses exceed SIPC's limits, the difference is usually covered by the broker's supplemental insurance -- often provided by Lloyd's of London or a new firm called Capco, the Customer Asset Protection Co. Capco provides coverage above SIPC limits to 15 major brokerage firms, including Goldman Sachs, Morgan Stanley, Raymond James and Wa-chovia Securities.

Do I have access to my money after SIPC takes over? That's the most common problem. It tends to take from one week to two or three months to regain control of your account while SIPC sorts everything out. It can take even longer if the brokerage firm

kept shoddy records or was involved in fraud. SIPC does not protect against market losses while your account is in limbo.

For more information about how SIPC works, and to make sure your brokerage firm is a member, go to the [SIPC Web site](#).

Your Lender

What if my mortgage lender or servicer goes belly up? The problem is the lender's, not yours. Continue paying your mortgage as before. During the bankruptcy process, your lender will transfer your loan file to a new owner or servicer, and both parties will notify you by letter. If you mistakenly send your payment to the old lender's address, you won't owe a late fee if you're within the federally mandated 60-day grace period after the transfer.

But what happens to my escrowed funds for taxes and insurance? The money belongs to you, held in trust, so it won't become part of the lender's bankruptcy assets. The new servicer will take over making tax and insurance payments from the account. As a backstop, review your monthly mortgage statement and the escrow account analysis that you should receive from the new servicer within 45 days of the transfer. If anything seems awry, call your lender or servicer, the property-tax office or your insurance company.

Final Thoughts:

This past week has revealed for all to see some serious cracks in the financial system's foundations. The US government, in my opinion, is in a panic and has no plan to solve the present financial crisis. So far, the remedies are for the US to back stop everything including money market funds. The Federal Reserve's balance sheet is about used up. Now their options are either to borrow heavily or print currency because there is no plan to pay for the announced bailout measures. The US government and Wall Street have squandered the most precious asset this country has: faith in the American financial system.

I believe now is the time for you to protect your wealth. Don't procrastinate and think that this is something that can wait. In this digital age if wide spread fear takes hold, your investments may get decimated virtually overnight.

With Regards,
Toby