CRASH PROFITS: MAKE MONEY WHEN STOCKS SINK *AND* SOAR

MARTIN D. WEISS, PH.D.

WILEY

CONTENTS

INTRODUCTION

Millions of investors are now living in fear of the future, and perhaps you're one of them.

I, too, see very tough times ahead for the economy. But unlike most investors, fear is the farthest thing from my mind.

Indeed, my father, Irving Weiss, began preparing me for times like these 50 years ago. While other kids and their fathers were playing checkers, Dad and I were playing a stock market game. If I wanted to be the buyer, he'd play the seller, or vice versa. It was his way of teaching me the lessons he learned from the Great Stock Market Crash of 1929.

Dad was one of the great mavericks of Wall Street. He stood virtually alone as a man who correctly anticipated the Crash of '29, who safeguarded his family's money when stock prices plummeted, and who actually *used* the crash to reap large profits.

Dad Borrowed $500 from His Mother and Turned It into $100,000 during the Worst Market Decline in History

He taught me why every major bubble in stock prices must inevitably end in an equally spectacular bust . . . how stock crashes unfold and impact the average citizen . . . how to prepare for market crashes and their aftermath . . . and how to find safety and build true wealth even in the worst of times. I want to share these valuable lessons with you too.

Dad told me that he conquered the Crash of ’29 not just once but twice: While stocks were plunging in the early 1930s, he made his first fortune. And when stocks hit bottom, he made a second fortune—buying the shares of America’s greatest companies near their lowest prices of the entire century.

He started in 1924, when he went to work as a typist on Wall Street at the “ripe old age” of 16. By 1928, he had risen to the position of customer’s man—a broker.

At the time, stock fever was running high on Wall Street. Investors were throwing every penny they could into the market and then borrowing every last dollar to buy even more stocks. But Dad didn’t buy into the mania. He could see that business was bad and growing worse across America. He could also see that British and other European markets were plunging. And he knew too many investors were up to their eyeballs in debt.

So when the Great Crash came in October of 1929, he advised his parents to keep their money strictly in safe investments, with nothing invested in the stock market at all. While millions lost everything in the Great Crash, they didn’t lose one red cent.

That was the first critical event of his investing lifetime.

The second came when he met George Kato, a Japanese exchange student and analyst who was in close touch with the most astute speculators of the day. George soon became Dad’s mentor, teaching him how to short the stock market to actually profit from a crash.

So, in April 1930, with stocks in a temporary rally and Wall Street wags pronouncing the bear market officially over, Dad borrowed $500 from his mother and used what he had learned from George Kato to short the stocks he thought were the most likely to fall.

The Great Crash of 1929 had been only a dress rehearsal for the real event. The longer, deeper decline began in 1930 and lasted for nearly three long years.

Dad told me that by the time the market hit bottom, he had transformed his mother’s $500 into more than $100,000—$1.3 million in today’s dollars! But he also confessed that he had suffered serious losses whenever the market did not go his way. “I sweated bullets,” he often said, “and sometimes it got ugly.”

Then, in the days before Franklin Delano Roosevelt’s (FDR’s) inauguration, Dad tracked statistics from the Federal Reserve that showed exactly how much cash Americans were pulling out of the U.S. banks. They were withdrawing money in huge amounts, and he concluded that a national banking holiday was imminent.

Most people assumed that a banking panic and shutdown would be one of the worst things that could ever happen. They saw it as a sign of an even deeper crash—a time to run for the hills. But Dad felt that it was precisely the opposite. He believed that the looming bank holiday would mark the end of the entire stock market decline.

By March 3, 1932, he was ready to make his move.

FDR would be inaugurated the next day, and Dad assumed that the new president would have no choice but to close the banks and take all the needed steps to revive the markets. No matter what, Dad knew that at those incredibly low prices major blue-chip stocks would sell for bargain-basement prices.

So, as Dad tells the story, "We went straight to our firm's main offices downtown. We didn't stop at the midtown branch. We wanted to get our orders in to the man who talked directly to the floor traders. We bought everything we could lay our hands on. We bought GM, AT&T, GE, and Sears for pennies on the dollar, right near the big bottom."

The rest is history. As soon as he took office, FDR closed all the banks just as Dad expected. Plus, he shut down the stock market, which Dad did *not* expect. Nevertheless, investor sentiment began to change. Confidence in the banking system recovered. Well-heeled investors made plans to start buying stocks again.

When the stock market was finally reopened, prices soared. The recovery was underway, and Dad was in the catbird seat. "I only wish I had held on for decades to come," he said. "Instead, I took a nice profit and ran too soon."

That was 70 years ago! Now, I have dedicated my life to sharing these experiences—both good and bad—with average investors, including what I learned from my father and what I have learned from my own 30 years of analyzing companies and markets.

I have told investors not to expect to transform $500 into $100,000, and you shouldn't count on that much either. However, you certainly have the potential to turn your financial future around, recoup money that you have lost, and build a very comfortable nest egg for yourself and your family.

For the near term, I expect severe troubles. Fundamentally, however, I am an optimist. I am confident in our know-how, our technology, and our long-term recovery powers.

I see a much better tomorrow once the dust of the current crisis settles. Stock market crashes—even economic depressions—are *not* the end of the world. Our country has been through much worse before, and we survived. We will survive this time too. Even better, if we do the right thing, we can use the interlude as an opportunity to correct many of the economic and social ills that plague us.

For you, there are two opportunities: You can make money on the way down and still more on the way back up. Even if you take advantage of just one of these opportunities, and even if you start with a small amount of money, you can be very successful. The more successful you are, the more empowered you will be to invest in the best-managed, most sound, and most profitable enterprises when they need your support the most.

I have written this book to help you maximize your chances of success. The first half of the book is about the current crisis—how we got into this mess in the first place, what dangers are still lurking behind the scenes, and what you can do about it right now. The second half is about worst-case scenarios for the future and my advice regarding the wisest steps to take before, during, and after the crisis. Although I paint a dire picture, always remember that it is never too late—for you as an individual and for the country as a whole—to take protective action. And even in the darkest of times, there will still be abundant hope for a better tomorrow.

Bear in mind that my worst-case scenario is not written in stone. It is designed strictly as a warning of what *could* happen if our leaders continue their present course. It's also my way of alerting you to the outstanding opportunities that an adverse market environment can offer you.

Some of the events ahead are beyond the power of any one individual or group to control. But never underestimate your own ability to change your future.

Palm Beach Gardens, Florida
December 6, 2002