

Taking Stock: Selling AT&T a bad call

by Malcolm_Berko

Dear Mr. Berko: I have three problems with American Telephone & Telegraph, which is my land line carrier and well as my Internet provider. As my land line carrier, I noticed a monthly charge of \$7.50 for network access charges. I've written for an explanation and they have not answered my question. I've also written three Florida legislators and they haven't responded, either. That \$7.50 is 35 percent of my \$23 land line bill. Can you explain this charge for me and two of my neighbors who also are confused about this charge? Next, when AT&T took over Bell South they told all subscribers (and I've enclosed their letter) that we could have FastAccess Digital Subscriber Line service for \$10 a month. When I called to upgrade my service, they gave me the runaround and said that I'd have to buy a satellite dish (which costs a fortune) in order to get their FastAccess service. Finally, I've owned 68 shares (with dividends reinvested), which I bought in January of 2006 at \$25.22. I'm so PO'd that I want to sell my stock. What do you think?

J.P.

Boca Raton, Fla.

Dear J.P.: You might not have noticed, but that monthly network access fee was also on your Bell South bill and at that time I think the monthly cost was \$6.50. That fee, an overly generous sop for the phone companies by Congress (which finds its way back to politicians via campaign contributions) allows AT&T to recover the dubious costs of connecting to an interstate network. AT&T has about 40 million land lines in 22 states and at \$7.50 a pop, the payola explodes to \$300 million per month. Multiply that \$300 million times 12 months and the dollar amount screams to \$3.6 billion every year (more or less) until the Second Coming! That \$3.6 billion in vigorish is a lotta loot and I suspect AT&T wants to keep it in low profile because they haven't answered my letter, either. Meanwhile, don't expect to hear from the Florida legislature, which is as corrupt as the Mafia but without its class.

I'm afraid you and others who recently asked about AT&T's "now you see it - now you don't" DSL offer have been goosed, grilled, gilled and gouged by Ma Bell. So I suggest that you pony up the bigger bucks for a dish and enjoy the faster speed. But several readers have told me that AT&T's FastAccess DSL isn't all it's reputed to be. Sometimes it's so bloody slow that you want to stick thumbtacks in your skull and scream evil thoughts. It's better than what you have but be ready for glitches, which may have you using words that were heretofore not in your vocabulary.

I understand your angst, and anger but selling AT&T Inc. (T-\$38.55) will only make you feel better for 17 seconds. And when you realize you may have to pay a capital gains tax, you'll have a nosebleed so bad that the docs will have to hang you upside down to staunch it.

AT&T's high-speed Internet service is the largest in the U.S. and over 35 percent of T's land line customers

are subscribers who tend to be loyal customers. T's advertising revenues are also growing quite nicely. T's mobile phone service is the largest in the U.S. and continues to generate impressive profits. Meanwhile, T's directory publishing business is the most profitable in the industry and could easily bring \$22 billion to \$25 billion in a private equity sale. T's cost savings with its Bell South acquisition is exceeding expectations with synergies on track to save over \$6.5 billion.

The stock may drop in price if the market continues its bearish ways but T's good revenues, good earnings and potential dividend increases are three compelling reasons to keep the stock. In the next four years the Street expects today's earnings of \$2.76 to exceed \$4, today's revenues of \$119 billion to exceed \$124 billion and today's \$1.42 dividend to exceed \$1.80. According to RBC Capital Markets as well as Merrill Lynch, those numbers may be conservative projections. However, if T makes those numbers it could trade in the mid-\$70s and that appreciation ain't bupkis. Perhaps if you round your 68 shares out to 100 shares you might feel less hostile about AT&T.

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