Taking Stock: Don't panic (it's too late, anyway)

by Malcolm_Berko

Dear Mr. Berko: I'm 78 years old and have an account with one of the larger brokerage firms worth $418,000. Like most investors, I'm getting real scared of the market. This stock account, my Social Security, my debt-free home and $21,000 in savings is what's left after 49 years of marriage. The divorce also cost me $600 a month in alimony. But worst of all is that back in June my account was worth $441,000 and now I'm beginning to panic about the state of the economy and a further decline in my account and especially inflation, which will eat away my limited purchasing power. My new broker wants me to sell $100,000 of stocks and buy gold bars through a dealer that he says will give us a better price than I would have to pay at his firm. He believes that gold will double in two years. May I have your opinion on this investment and what you believe the market will do? And I also need to tell you that I'm really afraid that inflation will increase more than my portfolio income. I've enclosed my portfolio for your opinion.

S.T.

Cleveland

Dear S.T.: There are many different ways to own gold, including delivery of the gold bars, but I think you've got to be dumber than eggplant to follow your new broker's advice. Sounds like this new broker is the type of guy who would hitch his mother to a dog sled if the price was right.

Gold is not an investment; it's pure, unvarnished, unmitigated speculation. Gold bars don't pay dividends, they lack immediate liquidity, are costly to transport, to insure, to store and when you decide to sell them they have be assayed once again. However, gold producers like Newmont Mining, Barrick, AngloGold and Agnico-Eagle are a few of the larger mining companies listed on the New York Stock Exchange. They pay niggardly dividends and are liquid as water.

But I think you have to be bombed and bonkers to drop 100 grand in those and similar issues. And you gotta be mad as a March hare to purchase gold futures, gold options, rands, maple leafs, pandas or U.S. $20 gold pieces. At your age and stage, speculating with 25 percent of your portfolio in gold bars makes as much sense as sky-diving without a parachute. I think you should tell this broker that it's time for him to start taking his medications again. And I'm willing to give you a 100 percent guaranteed "maybe" that gold will not double in your lifetime or mine.

It's too late to be in a panic about the state of the economy because we are already in a recession with an added inflation kicker. Lovely!

The subprime mess, record home foreclosures, a weak dollar, high unemployment, falling home prices, record high oil prices, a growing credit crunch, rising food prices, significant credit card delinquencies, higher transportation costs, higher federal taxes thanks to the alternative minimum tax, rising medical costs, booming insurance premiums, record consumer debt, falling retail sales, increasing personal bankruptcies, accelerating fuel prices and on and on - are all telling you what the government is afraid to tell you. We are officially in a recession. And purchasing $100,000 worth of gold at today's prices won't make your retirement years any easier.

But your finely crafted portfolio will. It looks similar to a portfolio I recommended in 2003 from a Standard & Poor's list of 83 issues that have increased their dividends every year for 26 years. You also own pipeline issues plus three high-yielding convertibles that were also on my recommended list in 2003. Now your portfolio has a 6.7 percent yield, which is pretty darned good and most of those dividends will continue to increase every year. Recessions are scary and I understand your angst. Issues like Altria, Clorox, Merck, Kimberly Clark, Procter & Gamble, GE, Anheuser-Busch, Pfizer, your convertibles, the two high-yielding preferreds, Enterprise Products, Magellan, Kinder Morgan are all very nearly recession- and inflation-proof. Don't permit that new broker to put you in a panic mode. Your good issues will allow you to easily survive this current economic bump.

If, however, you feel you need to increase your income because your increasing income is not meeting increasing prices, you could consider a reverse annuity mortgage. Your home is worth $320,000, which can provide you with about $1,400 in tax-free monthly income that never has to be repaid. Check with your local bank for details.

Please address your financial questions to Malcolm Berko, P.O. Box 1416, Boca Raton, FL 33429 or e-mail him at malber@comcast.net.

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