

Taking Stock: Broker not to blame for bad stock picks

by Malcolm_Berko

Dear Mr. Berko: I responded to a newspaper ad headlined "LOST MORE THAN \$100,000 in Fannie Mae and Freddy Mac Preferred ..." Well, I have. I have lost \$132,000 in Fannie and Freddie plus preferreds of Bank of America, Merrill Lynch, Citicorp and Lehman Brothers. I bought these securities for income in early 2008 on my broker's advice and, as you know, they collapsed. Well, I think I made a mistake because the attorney who interviewed me and to whom we gave \$5,000 for expenses is a real sleazeball. I felt unclean and uncomfortable when I left his office. I know he won't give me my money back. So I'm thinking about using another lawyer. What I want to know before I contact another lawyer is, do you think there is a good case for recovery of funds from my broker because of the investments she recommended? One last question. We own 500 shares of Pharmaceutical Product Development at \$38.70 and its now \$22. Should we sell it, buy 500 more shares, or hold it? G.R. â€” Boca Raton, Fla.

Dear G.R.: Before I answer your Pharmaceutical Product Inc. (PPDI-\$26.42) question, will I need a "comfort letter" from that lawyer if my advice is wrong?

PPDI offers discovery and development services and products for pharmaceutical companies, using innovative technologies to assist the pharmaceutical company to maximize its returns on their research and development costs. Since 1998, PPDI has had very impressive growth in revenues, earnings, cash flow, book value, assets and stock price. That impressive growth is expected to continue into 2009 and 2010. In fact, PPDI is rated "outperform" by Piper Jaffray, Robert Baird, Reuters, Standard & Poor's and several others who follow it. Even Morningstar thinks PPDI should be bought at this level and believes it has the potential to more than triple in the coming few years while Value Line also believes PPDI should trade at the \$62-\$66 by 2012. Apparently PPDI's stock price was infected by the hubris of the last few years and has now returned to reality. Earnings in 2010 are expected to be \$1.90 to \$2 a share on revenues of \$1.6 billion. Now I'm not going to recommend that you buy the stock, but suffice it to say that I believe the consensus hits the bull's-eye.

I've seen those "let's sue" advertisements in papers across the country. I have a philosophy: never ask a painter if your house needs painting, never ask a lawyer if you should sue a defendant and never do business with a lawyer who advertises for business in newspapers, radio or TV. This country has too many lawyers falling over each other for too little business. I think we should close every law school for 25 years and triple the number of medical schools. I know the lawyer of whom you speak. He makes my teeth itch and I think camels would sooner learn to speak Latin before you get your \$5,000 back.

Forget about suing your broker or her firm because she recommended Fannie Mae, Freddie Mac, Lehman Brothers, Merrill Lynch, Citicorp and Bank of America preferred stocks. That lawyer knows your chances of winning the Irish Sweepstake are better than his chances of collecting a dime from your broker or brokerage.

When your broker recommended those preferreds in early 2008, they had some of the highest rating by Standard & Poor's and Moody's. These investment services formed the tribunal of opinion for the entire brokerage industry. Their ratings were sacrosanct, undisputable, enormously respected and the standard bearer

for the world investment community. Probably the only rating service that might have disagreed with that famous duo would be Weiss Rating Services of West Palm Beach, Fla., a smart group of professionals whose commonsense, out-of-the-box analysis, has been a thorn in the butt for the rating industry.

Considering your positions in Fannie and Freddie, your chances are even more remote because U.S. Rep. Barney Frank, D-Mass., the chairman of the House Finance Committee, publically told the world a couple weeks before the collapse of Freddie and Fannie that both were solid as gold. And if you can't trust a congressman's words, whom can you trust? Your real targets are the members of the board of directors of Merrill, Citigroup, Lehman, etc. You elected these elegant, eastern establishment, bluebloods to police the companies on whose boards they serve. They have a fiduciary responsibility to every shareholder and they violated that oath. They all have director's liability insurance, which is where this "sleazeball" attorney to whom you gave \$5,000 should begin.

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