Taking Stock: Take these two issues for the road

by Malcolm_Berko

Dear Mr. Berko: My wife and I are each 72, retired and in good health. We sold our house last year for $248,000 and we're renting from the buyer until July when we will take possession of a motor home. We intend to travel around the country for as long as we can, letting time, circumstances and necessity guide our journey. We want to invest $248,000 and are willing to take a little bit of extra risk to generate a higher income â€” like that METLIFE Adjustable Rate Preferred you wrote about in January. (Do you still like it?) First, we'd like to know what you think about the economy for the next five years. Then we'd like you to recommend some income investments for half of this $248,000. With the other half, we will purchase an immediate annuity from the insurance company you recommended, which will give us a 10.2 percent current return as long as we live. As you know, we have Social Security, two small pensions and a fair independent retirement account. It has taken a big beating, but the dividends are still safe. We are really looking forward to taking off and spending as many years on the road as we safely can. Your investment advice has helped us enormously for the past 25 years. We will read your column on the Internet as we travel and we'll send you postcards from our favorite places in appreciation for all your help since 1983. â€” W.T. & S.T.: Fort Walton Beach, Fla.

Dear W.T. & S.T.: From our correspondence over the past year I know you guys have a large group of traveling friends who meet at motor home parks around the country. I've always admired your lifestyle, your energy and your positive attitudes. Both of you give meaning to the term "golden years" and you make that gold shine.

I don't think the law of supply and demand can be suspended for any extended period of time. Oh, it can be ignored for a few months, and in extremis perhaps six or 9 months, but certainly no longer than that. When the Federal Reserve floods the economy with trillions of dollars, it's using a fire hose to fill a thimble. When the volume of money in circulation exceeds the production/utilization capacity of the economy, prices rise because there is too much money competing for fewer goods. That causes inflation â€” maybe even runaway inflation.

This unprecedented move by the Fed builds a protective moat around our economy and, some say, insulates it from what appears to be a potential global depression. So, according to an ex-board member of the Fed, there's a "15 percent probability of hyperinflation, a 40 percent probability of low double-digit inflation, a 40 percent probability of high single-digit inflation and a 5 percent probability of low single-digit inflation."

Frankly, I believe the best we can hope for is somewhere between high-single digit and low double-digit inflation. I think it's a given. Therefore, I'm uncomfortable with CD maturities longer than 12 months, 10-year government bonds paying 2.9 percent, AAA corporate bonds with 5.5 percent yields, and traditional growth and income equities with 3 percent or 4 percent dividend returns.

Yes, I still like the MetLife floating rate preferred stock, and I'm comfortable recommending its purchase. MET-A Floating Rate Preferred trades at $9.30 with a 10.96 percent return. I'm also comfortable recommending the Hong Kong Shanghi Bank Corp. floating rate preferred (HBC-A-$10.34). The minimum payment is 2.50 percent of the $25 par ($0.875) or the three-month, London Interbank Offer Rate, or LIBOR, plus 0.075 percent whichever is higher. The current yield is 9.3 percent. I would also be comfortable recommending Goldman Sachs floating rate preferred A (GS-A-$10.26). This issue pays 2.75 percent of the $25 par value ($0.9375) or 0.75 percent plus the three-month LIBOR, whichever is higher. This issue has a 9.3 percent current yield. And of course, I've spoken earlier of Treasury Inflation-Protected Securities, or TIPS, that return about 5 percent â€” assuming inflation is currently about 3.5 percent. TIPS will increase their principal value each year equal to match the increase in the consumer price index. Because they are U.S. government guaranteed bonds, there's zero risk factor. If we have just high single-digit inflation for a couple of years, TIPS could provide high single-digit or low double-digit annual returns.

Enjoy your journey and when you get to Fairbanks, Alaska, make that phone call we talked about. You and you wife will tell folks about this experience for years to come and I look forward to enjoying your postcards. Make sure to always keep four wheels on the ground.

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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