Taking Stock: Inflation lurking in the near future

by Malcolm_Berko

Dear Mr. Berko: I just moved to Boca Raton, Fla., from Bethlehem, Pa., where I also read your column. I've enclosed my account for your reference. I'm 74 and had a very substantial account with Janny Montgomery & Scott. In November 2008 I had a nervous breakdown over the stock market. I lost more than $1.7 million, and my daughter and her husband drove up to Bethlehem and very kindly made me move in with them. I've put my daughter in charge of what's left of my account, and she and I together are writing this letter to you for help. We would like your advice on what to keep and what to sell, and then how to invest the proceeds for income only. As you can see, the account value is about $453,000, and I need to get as much income from this as I can. But I do not want to take any risks and I don't want to feel that I have to check the prices every day anymore. My son-in-law, who admits he knows nothing about buying or selling stocks, will keep the books and distribute the income to me. Please help me. I don't know anybody who is knowledgeable in the market whom I trust. â€” B.W. Bethlehem, Pa., and Boca Raton, Fla.

Dear B.W.: Before I make a recommendation for you I'm compelled to give you one of my very few absolutely incontrovertible opinions. I believe, within the next 18 months to three years, rates for certificates of deposit, government bonds and corporate bonds, as well as yields for preferred stocks, municipal bonds, and money market accounts, could run up into the double digits. Certainly, the near doubling of our national debt coupled with the legacy of high government debt could mean stunted economic growth in the United States for five to seven years. Because you're 74, the only issues I'd keep in your portfolio are Centerpoint Energy Inc. (CNP-$9.28), yielding 7.4 percent; Amerigas Partners LP (APU-$26), which pays a tax deferred 8.5 percent dividend; MetLife Inc. Floating Rate Notes (MET-A-$9.12), with a $1.01 dividend that yields 10.3 percent; and AT&T Inc. (T-$22.72), which yields 6.9 percent. Dump the remaining 43 issues, which are pure trash and tripe.

The four issues you keep should outperform a probably stodgy market over the coming few years and even possibly raise their dividends. I like that MET Floating Rate Preferred, which is BBB rated. The interest rate is 4 percent (of the $25 par) or 1 percent above the three month, London Interbank Offer Rate, or LIBOR, which even is greater. So, if interest rates rise, your MET/A preferred will also increase its dividend.

First tell your daughter to move your account from Janny Montgomery to Charles Schwab. Janny is a fine firm but there's no reason in the world of the living to pay $225 to sell 1,000 shares of Macquarie Infrastructure Co. LLC at $4 or a $240 commission to sell 1,500 shares of PMI Group Inc. at $1.50, or $245 to sell 1,200 shares of Brightpoint Inc. trading at $4.85. Those three trades will cost you $710 and you've got another 40 mostly "real stinky" issues to unload. Meanwhile, Charlie will do those trades for you at just $7.50 per trade times 40. That's $300 and sure beats commission costs at Janny.

I can't figure out why a guy your age and stage owns issues like XL Capital Ltd. trading at $3, Brookdale Senior trading at $6.50, Health Management Associates Inc. at $2, eResearch Technologies Inc. trading at $4.80, Enzo Biochem Inc. at $3.20 and so many other "el dummies." You're lucky to have $453,000 left.

Now here's what you do with the remaining money right now. There's a Savings & Loan called Third Federal Savings near you advertising a five-month CD that pays 3 percent. Tell your daughter to invest $250,000 at Third Federal. In five months when the CD matures, write me again and we'll figure out where to place those funds. Invest the remaining $103,000 in a 30-year Treasury Inflation Protection Security. It currently yields about 2.1 percent, but its principal value will increase to match the rate of inflation. Your current broker should have some printed material on TIPS so your daughter can read up on them.

As interest rates move up, you will continue to invest in higher yielding CDs till rates reach a point where I'm comfortable locking in a long-term yield with U.S. Treasuries, corporate bonds, preferreds or even a few utility stocks. So for the next 20 years your portfolio will consist only of TIPS, CDs, Treasury bonds, corporate bonds, preferred stocks and a few selected equities and nothing more. It will be mighty boring, but loosing the excitement of a crazy portfolio such as yours is a much better alternative than losing your mental health.

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