

Taking Stock: Here's 8 issues with great potential

by *Malcolm_Berko*

Dear Mr. Berko: I have \$61,000 to invest and would like to buy a portfolio of six preferred stocks with yields of 8 percent to 10 percent but no banks, please. I know there's lots of high-yielding junk, but I want the best quality you can come up with. And if they all fall to the Devil I won't blame you for the possible losses. But I think the economy will begin to recover by the end of the 2009 and that these issues could move up very nicely. So please give me your best shot. B.H., Port Charlotte, Fla.

Dear B.H.: That's a good plan but I don't agree with you about the economy. I think interest rates are very likely to move much higher in the coming 18 months. Meanwhile, some sections of the economy may begin to recover late this year but most sectors will be stuck in the muck until late 2010. However, the following six issues are among the best of the worst. And while two issues pay less than 10 percent, the combined yield of all six exceeds 10 percent. So here they are and I wish us both extraordinary luck.

Prudential Financial Inc. (PRU-\$19.43) with \$600 billion in assets provides life insurance, annuity products, retirement services, mutual funds and real estate services to 50 million individual, institutional and international accounts. In 2008, PRU had \$25 billion in revenues and earned \$3.45 a share. In 2009, Value Line expects earnings to come in at \$5.45 a share. So consider the Prudential Financial 9 percent notes due in 2068 (PHR-\$14.06) that pay a \$2.25 annual dividend and yield 16 percent. These notes have a \$25 par value and were rated A-minus by Moody's in January.

Torchmark Corp. (TMK-24.43) in 2008 recorded \$3.5 billion in revenues providing life insurance, and supplemental health coverage primarily to middle-income Americans via its Liberty National, Globe Life, United American, American Income and United Investors subsidiaries. In 2008, TMK earned \$5.85 a share and Wall Street expects earnings of \$6.30 in 2009. So consider owning the Torchmark 7.10 percent capital trust 111 preferred (TMK/A-\$19.10) paying a \$1.75 dividend yielding 9.3 percent. TMK/A has a par value of \$25 and was rated BBB-plus by Moody's in February.

MetLife Inc. (MET-\$21.62) is the largest life insurance company in the U.S., with \$3.5 trillion of insurance in force. Total gross income in 2008 was \$53 billion from 13 million U.S. households plus operations in 35 countries. In 2008, MET earned \$3.75 a share and the consensus of five analysts on the Street expects 2009 earnings of \$3.71 a share. So look at the MetLife 6.50 percent non-cumulative preferred B shares (MET-B-\$16) paying a \$1.625 dividend that yields 10 percent. MET-B has a \$25 par value and in January Moody's rated this preferred BBB.

Unum Group (UNM-\$13.02) is a leading provider of group and individual disability insurance in the U.S. and the U.K., and is a major provider of employee benefits, including group life and long-term care insurance. In 2008, UNM earned \$2.50 a share and the consensus of 13 Wall Street insurance analysts is UNM will earn \$2.63 this year on \$10.7 billion dollars of total income. So consider the 7.5 percent Unum Group corporate-hacked trust certificates (KVN-\$14.10) that pay a \$1.875 annual dividend and yield 13.3 percent. KVN has a \$25 par value and Moody's rated this preferred issue BBB in February.

Reinsurance Group Of America (RGA-\$27.32) is a holding company engaged primarily in life reinsurance in North America. RGA also provides reinsurance of nontraditional businesses such as asset-intensive products and financial reinsurance. Gross revenues in 2008 were \$6.5 billion and RGA earned \$6.20. Charles Schwab expects RGA to earn \$6.07 in 2009 while Value Line suggests earnings of \$6.65. So look at the RGA 5.75 percent Capital Trust maturing in March 2051 (RGA-A-\$37.16) paying \$2.88 and yielding 7.8 percent. The par value is \$50 and it was recently rated AA by Moody's. While the yield is less than 10 percent, I decided to include RGA because each preferred share carries a warrant to purchase 1.25 shares of RGA common stock at \$50 a share.

Finally General Electric Co. (GE-\$10.78) is a \$185 billion diversified technology, media and financial service company. In 2008, GE earned \$1.25 a share and the Street's consensus of 15 analysts suggests 2009 earnings will come in at \$1.29 on zero increase in revenues. So I'm comfortable owning the General Electric Capitol Corp. 6.625 percent public income notes (GE-A-\$20) that pay an annual dividend of \$1.66 and yield 8.3 percent. This issue has a \$25 par value and Moody's recently downgraded it to A.

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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