Taking Stock: Interest in bank stocks is pure speculation

by Malcolm_Berko

Dear Mr. Berko: Do you think it's time to buy Citigroup, Bank of America or some of the other banks that have crashed in this economy? The government is encouraging these banks to be more aggressive in their lending to small businesses and consumers, which should increase bank profits and move the economy forward again. So I'm considering an investment of $21,000 in six different banks like Citigroup, Bank of America, Fifth Third, Synovis, Regions and Huntington Bank. And my last question: I want to invest about $10,000 in a classy New York Stock Exchange stock that you think has a good chance of going up in a down market. Could you give me your best pick for a 12-month gain? â€” W.C.: Wilmington, N.C.

Dear W.C.: Over a year ago I recommended a half a dozen bank stocks to a reader thinking their dividends were safe, that management had a good grip on operations, and because I believed their assets were solid. Well, within the following six months each of those bank stocks began to fall like tears from a tall camel's eye. Meanwhile, their dividends, balance sheets and market values evaporated into the ethers.

That was almost 15 months ago and a lot of water has passed under the bridge since. Citigroup Inc. (C-$2.38) was over $40 a share and the dividend was $1.28. Bank of America Corp. (BAC-$6.02) was a healthy $44 and the dividend was $2.56. Fifth Third Bancorp (FITB-$2.12) shares were bouncing around the low $30s and the dividend was $1.18. Synovis Financial Corp. (SNV-$2.97) was being bought and sold at $25 a share while its dividend was 46 cents. Regions Financial Corp. (RF-$4.06) was sporting a share price of $26 with a 96-cent dividend. Huntington Bancshares Inc. (HBAN-$1.55) was hopping along in the mid teens and paying dividend of 79 cents. As their balance sheets imploded, so did their dividend payouts. Five of these issues now pay a penny a quarter while Regions pays a dime.

Yep, the government is encouraging the banking system to make as many loans as possible, to make easy credit available to individuals and businesses and it is facilitating this directive by flooding the banks with cash. Frankly, I can't figure out why the government wants to encourage banks to loan money more freely. Or why the consumer needs to borrow more money. Isn't that what got all of us into big trouble in the first place?

What's more, because I believe that the consumer is unable to learn from his mistakes, I think there's a 43 percent to 68 percent degree of probability that each of those six bank stocks could double in price a year from now. If you enjoy a rank speculation, those six issues could be a wise but rank speculation. Go for it. But I think the worst may be yet to come.

In my opinion there are 176 issues listed on the New York Stock Exchange, about 10 percent of its listings, that can move higher this year even if the Dow Jones industrial averages moves lower. One of them is Mead Johnson (MJN-$27.61), which was spun off by Bristol Myers Squibb Co.

Mead manufactures, distributes and sells infant formulas as well as other nutritional products. These include specialty infant formulas, children's milks and milk modifiers, pediatric vitamins, dietary supplements for pregnant and breast-feeding mothers, as well as other products for metabolic disorders. In 2008, revenues were $2.9 billion and earned net income of $394 billion with a 14 percent profit margin. I believe MJN is an above-average long-term growth stock with low market risk.

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