

Taking Stock: Wall Street ripe with bargains

by Malcolm_Berko

Dear Mr. Berko: Our broker thinks this stock market downturn will end by year's end. We'd like your thoughts on this before we follow his advice. Because he strongly believes this market will bottom before Christmas, he wants us to invest \$80,000 in eight different aggressive mutual funds (list enclosed) by putting \$10,000 in each. His reason for investing in those funds is because they are way down and he believes they will "double in the coming 18 months from now" as the market begins to rebound. Please give us your opinion on these funds and tell us if they will bounce back. â€” H.S., Bend, Ore.

Dear H.S.: Those are excellent mutual funds and I know the portfolio managers of two of them. However, I'm willing to wager my roll of 1909 VDB Lincoln pennies to a can of Alpo that those funds will not double in 18 months. And I'm willing to make a lesser bet that the Dow Jones industrial average will not begin its recovery by Christmas. It could level off around 6,500, but I strongly doubt the Dow will move up enough in the coming 18 months for those eight mutual funds to double or even improve in value 25 percent.

I don't know how long this downturn will last but I can tell you with nearly 101 percent certainly that the economy will not recover by year-end. In fact there's very serious concern it will be worse than the 1981-82 period, when the gross domestic product fell by 3 percent and the unemployment rate zoomed to 10.8 percent. And according to two noted and one very highly noted economist (I can't publish their names or university affiliations) we might experience a depression, which is defined as a 10 percent decline (or more) in per-person consumption. Now I know several families that have reduced their consumption by at least 10 percent (it's not very difficult for many of us to do) and I think my family has reduced its consumption by at least 10 percent, too. Such an event has occurred only twice in our country: the Great Depression, 1929-33, with a decline in personal consumption of 24 percent, and the post-World War I years, 1917-21, when personal consumption fell by 17 percent.

Considering the economic slaughter occurring in many of the European Union nations, Latin America and Mexico, Russia and India, a depression with a prolonged recovery is a fifty-fifty possibility right now. So I can't give you a hard number like "the downturn will last for 1 year and seven months or 3 years and two months."

But I can tell you that I think the 6,500 on the Dow Jones Industrial Averages may represent the bottom. And I can tell you that the stock market has been vastly oversold. And I can tell you that if you are a patient long-term investor there are wonderful companies trading at such bargain basement prices that I salivate when I see The Dow Chemical Co. (DOW) trading at \$7.80; Bank Of America Corp. (BAC) trading at \$5.96; Alcoa

Inc. (AA) trading at \$6.44; Pfizer Inc. (PFE) trading at \$12.67; General Electric Co. (GE) trading at \$9.95; American Express Co. (AXP) trading at \$12.27; Leggit & Platt Inc. (LEG) trading at \$11.77; Sprint Nextel Corp. (S) trading at \$3.01; The Progressive Corp. (PGR) trading at \$12; E.I. Dupont de Nemours & Co. (DD) trading at \$21.05; Macy's Inc. (M) trading at \$7.70; Dell Inc. (DELL) trading at \$9.02; Duke Energy Corp. (DUK) trading at \$13.36, Federal-Mogul Corp. (FDML) trading at \$5.49, Hartford Financial Services (HIG) trading at \$6.60, Sun Microsystems Inc. (JAVA) trading at \$8.96; Principal Financial Group Inc. (PFG) trading at \$8; Reliant Energy Inc. (RRI) trading at \$3; Liz Claiborne Inc. (LIZ) trading at \$2.10 and the New York Times Co. (NYT) trading at \$4.22, to name a handful.

I've been in this business as a professional since 1962 and I have never seen prices or values this low. And if you are a patient, long-term investor, I would own at least 100 shares or more of each of these issues, sit on them and let them hatch for three or four years. And I am comfortable giving you a "guaranteed maybe" that by the time the next presidential election comes around, you will be singing hallelujah in the amen corner of your church every Sunday.

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