Taking Stock: A strategy for the long haul

by Malcolm_Berko

Dear Mr. Berko: My wife and I are 65 and 67 respectively. We sold our small business in the high-tax state of California for $525,000 two years ago and invested $135,000 of that money in dividend stocks, put the remaining in money market then moved to be with our children. We have just enough income from our Individual Retirement Accounts, Social Security, plus a duplex in Bethlehem, Pa., and won't (for three to five years) need to use sales proceeds of our business to help with living costs. We want to put the remaining $390,000 in stocks but we get confused listening to the financial TV shows plus Bloomberg, CNBC and FOX. Our stockbroker here is very bullish but I expect this of a stockbroker because that's how they sell things. He wants us to invest $250,000 in four mutual funds and $140,000 in 15 of his firms recommended stocks. He thinks these 15 stocks can double in the next 18 months.

B.R.

Bethlehem, Pa.

Dear B.R.: Classical scholars dispute whether the Greek physician Hippocrates or the Roman physician Galen should be credited with the phrase, "First do no harm." Though that maxim was intended to speak to doctors, it should also apply to stockbrokers and financial advisers. Investing, like medicine is equal parts science and guesswork.

You can go bonkers listening to the financial news commentators on Bloomberg, Fox News or CNBC and for the most part, their take isn't worth a bucket of night soil! They obsess gravely about the short-term effects of housing, unemployment, oil prices, interest rates, gross domestic product and inflation rather than the more important long-term consequences of the future. But you need to understand the future because that's where most of us intend to spend the rest of our lives.

Most of the media (print media, too) have a short-term orientation and lack the skill sets to convert today's news to tomorrow's reality. If you act on the advice of those boneheads you could fail; so perhaps "do no harm" should equally apply to the media, too.

Now, I don't know if the market will end the next two years lower than it is today or higher than it is today. Some of the suits on Wall Street believe the correction has another 1,000 points to 1,500 to go. Other equally knowledgeable suits suggest that the recent market behavior was an anomaly and the Dow will continue upward. But I've always had a long-term fix on the market and believe that the Dow Jones Averages will be trading at 24,000 in 10 to a dozen years. Though, at your age and stage, long-term may be a year or three and you can't take the risks.

Free advice is worth what it costs you. The advice I'm giving you is good, old-fashioned common sense gained from 45 years of managing money for investors. There are few of us old-timers around with that kind of solid, hands-on experience.

The mutual funds recommended by your broker really suck, but that's what his firm tells him to sell! How sad for his clients. And burn those stock recommendations, too. None of those issues pays dividends and I believe his firm's research is compromised by the investment banking business they expect to get. While some of those picks could be on the mark, I trust that broker's opinions about as much as a fat chicken would trust a butcher in a fresh-meat market.

Now I'm going to recommend that you only invest $130,000 of that $390,000 today with $70,000 in no-load funds and $60,000 in common stocks.

I want you to purchase $20,000 in Fidelity Balanced Fund (FBALX-$20.46) that has three-, five- and 10-year returns in excess of 10.5 percent. I want you to purchase $15,000 of Fidelity Contra Fund (FCNTX-$67.60) with three-, five- and 10-year returns in excess of 11 percent. Then $20,000 of T. Rowe Price Equity Income Fund (PRFDX-$30.53) with three-, five- and 10-year returns of 10 percent. Finally, $15,000 of American Centuries Utility Fund (BULIX-$18.26) that has three-, five- and 10-year returns of 9.6 percent. Reinvest all dividends and capital gains until you need the income.

Then purchase the following dividend growth issues. Buy 400 shares of Pfizer (PFE-$26.78), yielding 4.4 percent; 200 shares of Bank of America Corp. (BAC-$51.82), yielding 4.4 percent; 400 shares of Reaves Utility (UTG-$25.71), yielding 5 percent; 250 shares of American Capital Strategies Ltd. (ACAS-$47.29), a business development company yielding 7.9 percent; 250 shares of Washington Mutual Inc. (WM-$42.17), yielding 5.1 percent; and 200 shares of Buckeye Partners LP (BPL-$52.01), with a 6.1 percent yield. Reinvest all the dividends until you need the income.

I suspect that the market could take a few more dips this year and next. Therefore, I recommend that you place open stop orders to buy 400 shares of Pfizer at $21, 200 shares of Bank of America at $47, 400 shares of Reeves at $19, 250 shares of Washington Mutual at $42, 200 shares of Buckeye at $41 and 250 shares of Allied at $31. When those orders begin to execute, purchase $70,000 as before in Fidelity Balanced and Contra, T. Rowe Price and American Centuries. Meanwhile, keep the remaining $130,000 in a money market account. You might need that cash to contribute to next year's political campaigns.

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