

Taking Stock: Don't trust in ING Prime Rate

by Malcolm_Berko

Dear Mr. Berko: I need more income because I'm retired. So I asked my broker for the name of a good closed-end income fund and he said that one of the best he could recommend was the ING Prime Rate Trust that yields 7.3 percent and sells for \$7.40 a share. I bought 1,300 shares (about \$9,600) and got my first monthly dividend of \$585 and I'm pleased. Do you think it would be a good investment to buy another 1,300 shares of the Prime Rate Fund? I don't see how I can lose if it's tied to the Prime Rate which will probably go up later this year.

P.R.

Durham, N.C.

Dear P.R.: As nicely as I tell you: "ING Prime Rate Trust (PPR-\$7.65) is a piece of scrap."

And as nicely as I can say it: "your broker qualifies for third prize on Jerry Springer's Cranial Enema Contest for Bald Men." PPR pays a 56-cent dividend that yields 7.4 percent but the prime rate, according to Federal Reserve Board Chairman Ben "Gentle Ben" Bernanke is 8.25 percent. So it beats the tarnation out of me that this PPR thing is called Prime Rate Fund. If your mushy-head broker would peruse PPR's portfolio, he might have a serious laundry problem.

PPR owns equities like AM Cosmetics, Decision One, London Clubs, New World Restaurants and other issues that may be headquartered in Lapland, Yemen or Elbonia. PPR also lends money to companies with weird names like: Semcrude, Asurion, Mega Bloks, EpcO, Coffeyville Resources, Opbiz, Spring Window Fashions, Renal Advantage, Alliance Laundry, Olgebay Norton and scores of other companies that might be home ported in Zanzibar, Lesotho, Togo or Mongolia.

However, I must say that PPR hasn't missed a dividend on its \$1 billion portfolio in 25 years. Considering the enormous annual expense ratio (2.28 percent for management and 2.66 percent for travel & entertainment), it should be a mandatory death sentence to miss a dividend. Total of all expenses charged to the fund last year was \$50 million, or \$5 for every \$100 invested. That's turnpike thievery! Now you don't get billed for those charges, rather it reduces the dividend payout you receive.

PPR collected \$129 million in investment income for 2006. The prospectus tells us from that amount, it paid \$22 million in management and administrative fees and \$25 million in other expenses related to managing and operating the fund. PPR also borrowed money (leverage) at low rates to purchase investments, paying higher rates and incurred \$16 million in interest costs. So after subtracting \$22 million and \$25 million and \$16

million in expenses, management paid \$66 million to PPR shareholders. In "Hamlet," Marcellus says, "Something is rotten in the state of Denmark." I suggest that "rotten" it's a little closer to home because the ING Prime Rate Fund is home ported in Scottsdale, Ariz.

PPR's dividend has waltzed all over the map from a high of 7.5 cents a month to less than 3.5 cents a month. The current 4.5 cents a month is 54 cents on an annual basis and provides a 7.3 percent yield. Just imagine how much higher that yield would be if ING reduced its extortionistic and exorbitant annual fees. This closed-end fund came public at \$10 a share and I don't think it ever rose above its initial offering price in the 20 years it's been public. Even though the fund trades at a 3.4 percent discount and while the 7.3 percent yield is not unattractive, I wouldn't touch this abomination with a pickle poker. If this is one of the best income funds that broker can recommend, perhaps you should take up a collection among his clients to send this idiot back to broker school. So ask the office manager for the names and addresses of his clients and send them a nicely composed solicitation letter. I'm certain your broker would be delighted with an opportunity.

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