Taking Stock: Actually, crime does pay â€¦ and handsomely

by Malcolm_Berko

Dear Mr. Berko: Several years ago, you recommended Wackenhut Corp., which changed its name to GEO. I bought 75 shares around Thanksgiving of 2005 at $21. As you know it's now over $50 and I need to know if you think the stock has stopped its revenue and income growth and if I should finally take my profits. If you think I should sell, please tell me why and what stock would you recommend with the money I get if I sell.

E.P.

Fort Walton Beach, Fla.

Dear E.P.: GEO Group Inc. (GEO-$27.77), which recently split 2-for-1, posted $861 million in 2006 revenues and you now own 150 shares. GEO's revenues derive from managing 62 maximum-, medium- and minimum-security prisons, jails, immigration detention centers plus criminal rehabilitation and treatment facilities. GEO provides parenting skills, educational access, anger management classes, job training, counseling, substance abuse assistance, life skill courses and transitional planning for inmates. GEO designs and builds new prisons and also re-designs older, out of date prison facilities. GEO provides guards, food, entertainment, clothing, medical care and other services necessary to maintain a prison population. And last year GEO had net income of $31 million detaining (primarily) 54,000 male inmates in the U.S., Australia, the United Kingdom and South Africa.

Formerly known as Wackenhut Corp., GEO is home ported in the unlikely city of Boca Raton, Fla. Meanwhile, I haven't an inkling why the name was changed to GEO unless they are the first letters of George Edward and Oscar!

During the last decade, GEO's revenues grew 450 percent, net income increased 300 percent, book value has more than tripled, per share cash flow grew nearly sixfold and per share net income increased over fivefold while GEO's share price has tripled. Not too shabby! Last year GEO earned $1.70 per share, this year the suits on the Street expect GEO to earn $2.07 and in 2008 those same suits believe GEO will post earnings of $2.59 with revenues of $1.2 billion. There are four "strong buys" on GEO shares plus an "overweight" recommendation by Lehman Brothers. The consensus among the SOTS is that GEO shares could double in

price over the coming four to six years.

GEO is the biggest and best in the business and is able to house perverts, mobsters, felons, thugs and plug-uglies cheaper than the states and counties. Because GEO is proof positive that crime does pay, it's also reasonable to assume that crime will stay because there's an enormous vested interest in this wonderful and profitable growth industry. GEO employs 10,400 people who make a good living housing society's underworld. My daughter, a criminal attorney, and her husband, who is a judge, earn a great living because crime is a superb growth industry.

Imagine the tens and tens of thousands of people who would be unemployed if crime were to disappear; Drug Enforcement Administration and FBI folks, parole officers, deputy sheriffs, cops, corrections officers, judges and lawyers would be out of work and searching the classifieds for job. Property and casualty companies would lose billions of dollars in premium income and companies that make riot guns, handcuffs, Mace, bulletproof vests, helmets and other law enforcement equipment might go bankrupt. In fact, "some knowledgeable folks" really believe that criminal activity is covertly encouraged by a cabal of cops, DEA people, lawyers and others whose incomes are made possible by criminal activity.

Yes, crime is a marvelous growth industry and contributes enormously to our gross domestic product. These "knowledgeable folks" suggest that crime accounts for nearly 17 percent of our GDP and that our economy would be severely crippled if crime were to fall by just 50 percent. So it's safe to say that crime benefits a huge segment of the U.S. population.

Because it pays, crime is here to stay and prosper. So hold on to your GEO. Many of the suits believe that the coming decade, crime will be just as prosperous for GEO as was the last decade.

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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