Taking Stock: AT&T the right call for your IRA

by Malcolm_Berko

Dear Mr. Berko: For several months I've been agonizing over whether to buy 75 shares of AT&T for my IRA. I guess I need guidance. Please tell me your thoughts on this stock and help me make a decision. I know you recommended the stock last year at $28 but its 10 points higher now and I can't decide if the price is too high or if it can move higher. My next question concerns the $6.50 FCC Authorized Charge for Network Access. I've been paying this fee for years now and it never goes away and is 25 percent of my monthly bill. When will this tax go away? How does this tax affect AT&T's profits? And if the charge goes away, will the stock of AT&T and other telephone companies decline in value?

T.S.: Boca Raton, Fla.

Dear T.S.: I really like AT&T (T-$40) and believe it has excellent appeal as both a short-term and long-term investment. AT&T, with a generous $1.42 dividend that is almost certain to be raised next year, might be a superb choice for investors who are seeking shelter from the current market volatility. AT&T is the largest land line phone company in the U.S. as well as the largest wireless (Cingular) company with deepest spectrum portfolio of any carrier in the nation's largest markets.

Of course, Cingular's recent agreement with Apple and its revolutionary iPhone gives T an impressive edge in its brutal battle with Verizon over market share. And T's $85 billion purchase of Bell South will add about $45 billion to revenues as well as impressive synergies that could exceed $5 billion annually by the end of the decade.

Management expects net profit margins, which will be 13.5 percent this year, to increase by 40 percent to an impressive 19 percent in the coming four to five years. This 19 percent net profit margin is enormously impressive. For example, Verizon's net profit margin is expected to be 8.6 percent in the same time. No other phone company comes close to this brutal efficiency.

In the next four years Wall Street analysts believe T's earnings will grow by 50 percent to $3.90 and T's dividend will grow by 40 percent to $1.85. I could wax eloquently and tell you that T's Internet service is the largest in the U.S., that one-third of T's 50 million residential customers subscribe to this service, that T's directory publishing business generates enormous cash flow and is conservatively valued at $20 billion.

I can also tell you that T's network upgrade plans and its good relationships with residential and business customers enable it to offer better service and more options without the need for expensive capital. What's more, T is gaining significant advantages in the huge broadband market that had traditionally been dominated by Comcast and Time Warner. But I'm not going to dwell on those impressive advantages. Rather I'm going to suggest that you stop dillydalling and shilly-shalling and buy 75 shares of T for your IRA right now.

I believe that AT&T should be a core issue in every serious, long-term growth portfolio. Its dandy dividend yields a swell 3.8 percent and in the next four to five years AT&T could trade in the high $60s to low $70s.

Several years ago I wrote the Federal Communications Commission to inquire about the monthly $6.50 Authorized Charge for Network Access. I got some answers but they were pure palaver and didn't make a whit of sense to me. Because I own AT&T, I decided to write several folks at T's corporate headquarters in San Antonio, including the CEO, and the CFO. My last letter was dated May 2007, but the good folks there probably receive so much mail that they haven't had time to respond to my inquiry.

The FCC Authorized Charge for Network Access allows T to "recover costs associated with connecting to a telecommunications service provider's interstate network." Well, cheeze and crackers got all muddy - at $6.50 a month per land-line times 50 million land-lines the surcharge totals a whopping $325 million each month. That comes to nearly $4 billion a year which is 25 percent of T's expected Net Profit for 2007, which "ain't chopped liver."

Certainly this tariff, during the last 5 years, would have allowed T to recover its costs. But nobody at T has responded. Perhaps you ought to write your congressman, whose vote may have been encouraged by T's lobbyists. By the way, I heard that the FCC Access Charge will increase by 3 percent later this year. Isn't that a poke in the eye?

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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