

Take a pass on General Motors and Ford

DEAR MR. BERKO: I'm a married 43-year-old systems engineer earning \$67,000 per year, and my spouse works for one of the large automobile dealers in Portland, Ore. His dealership and other dealerships have sold more cars this year than ever. He has \$8,000 cash in his Roth IRA, and he was advised by an automobile big shot to buy Ford stock, General Motors stock or both. He prefers Ford because seeing as it's \$14 per share, he could buy 750 shares and make \$750 if the share price were to increase by \$1. He could buy only 225 shares of GM at \$35, so he would make only \$225 if the share price were to increase by \$1. Should he buy both? Please tell us what you think. — **JD, PORTLAND, ORE.**

DEAR JD: If Ford (F-\$14) shares were to rise by \$1 in value, that would be a 7.14 percent gain. If General Motors (GM-\$35) rose by \$1, that'd be a 4 percent gain. But it's likely if F shares gained \$1, or 7.14 percent, then GM also would gain 7.14 percent, increasing the value of each share by \$2.49. I don't know what a systems engineer is, but I hope this calculation makes more sense to you than it does to your husband. Frankly, I wouldn't buy either; but if you do, you might



— MALCOLM BERKO —

have a solid loss before the year ends. Here's my thinking.

According to an auto analyst at one of the big Wall Street banks, more than \$200 billion was lent for automobiles between January 2015 and December 2015 to borrowers with credit scores of less than 660. That score is the bottom cutoff for what is considered to be "fair" credit. However, \$130 billion was lent to borrowers with credit scores below 620, and that's considered subprime — or "very risky," in everyday English. These subprime loans are at higher levels today than they were in 2006 and 2007. And this uncomfortably raises the question about the health of the nation's auto lending portfolios. It brings up nervous comparisons to the rise in subprime mortgages that fueled the Great Reces-

sion, including the banking crisis and the implosion of the real estate market.

And it's no stretch of one's imagination to realize the borrowed amount of most auto loans exceeds the value of the collateral (the car) by a significant amount. Certainly, the moment you drive that vehicle off the lot, your new car crashes in price, so the resale value is lower by 20 to 30 percent. And considering the hundreds of thousands of vehicles lined up like toy soldiers on dealership lots, never to be sold, it's a great miracle that the immediate fall in value isn't significantly more.

The production of new cars hugely exceeds demand. GM and Ford disguise this lack of demand by hiding their surplus production, using a concept known as channel stuffing. GM, whose inventory at dealer lots hit record highs, is particularly guilty and has parked tens of hundreds of thousands of unsold cars at numerous "car parks" across the channel. Millions of brand-new cars sit redundant on massive plots of land in the United Kingdom and elsewhere, waiting to rust and die. And around the world, GM, Ford, Toyota, Volkswagen, Honda, Chrysler and

Citroen continue to purchase thousands of acres of land in Spain, Russia, Germany, Italy, France and China to park their excess cars, which roll off production lines like millions of Hershey's Kisses. If you Google "where the world's unsold cars go to die," you will be gabber-flasted at the aerial photos of graveyards in Europe where these spanking-new cars wait to enter heaven. If you look closely, you'll see the same Ford model that you bought last month for \$39,500, waiting to die. The number of unsold cars continues to rise every day, and that's beginning to worry the unions. Together GM and Ford have nearly 400,000 employees, some 40 percent of whom could be furloughed and never missed.

However, I'm compelled to tell you that Credit Suisse and Morgan Stanley believe that GM shares will move higher this year, while Goldman Sachs and Stifel believe that Ford's stock is headed higher. They expect the dividends in their respective recommendations to increase nicely and believe earnings will accelerate.

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