

# Nation's debt clouds rosy prognosis for '88

Now that the dust has settled over the stock market, my crystal ball is clear: The prognosis for 1988 is good, but only if the stubborn people in Washington get scared into doing things they should have done years ago.

Contrary to the commonly held belief, the cause for the recent catastrophe in the financial markets are to be found in the events over at least half dozen years.

The proof for this point of view was articulated by Gerald Corrigan, president of the Federal Reserve Bank of New York:

In the late 1970s, general government budget deficits in the United States consumed some 10 percent of our net private domestic savings. By 1986, these deficits were consum-

ing almost two-thirds of net private domestic savings, with the federal deficit eating up an astonishing 90 percent of net private savings.

As recently as 1981, the United States was the world's largest net creditor nation. We are now its largest net debtor, and sometime in 1988 our net external indebtedness will cross the \$500 billion mark. Looked at another way, by the end of 1988 our net external debt will exceed the accumulated public debt of the United States from its inception through 1974.

Since 1983, corporate America has retired \$270 billion in equity while over the same interval corporate debt has increased by more than \$600 billion.

Now that the long-range problems



## finances and you

**Sid Mittra**

are identified, what can we hope for? Quite a lot, if our government adopts the following prescriptions:

- The government should eliminate — or sharply reduce — the domestic savings gap (around \$100 billion), which is the difference between our net domestic savings and the claims on these savings stemming from the financing of private in-

vestment and government deficits. This gap can be reduced in three ways:

1. By reducing private investment, which is almost impossible to achieve.
2. By increasing net domestic savings, which is almost impossible to achieve.
3. By cutting the federal budget deficit.

Fortunately, a bipartisan willingness has already emerged, and President Reagan must make it work.

Americans must be motivated to say hello to the lean years in which sacrifice, hard work and frugality will be the new ethic as living standards decline.

The Reagan administration must succeed in establishing a more open international trading policy under which other countries would open their markets to imports from the United States.

This is a tall order. However, if the government shows the resolve to meet the challenge — and I believe that it will — then we can look forward to a prosperous year.

Next week: Investment strategies for 1988.

Seminar: "The Market Crash — Five Ways to Protect your Money;" and "How to Invest Home Equity — Safely." The seminar, sponsored by the Observer & Eccentric Newspapers and Coordinated Financial Planning, will be held 7-9:30 p.m. Tuesday, Jan. 12, at the Baldwin Library, 300 W. Merrill, Birmingham.

Admission: \$10 (tax-deductible) check payable to Oakland University should be mailed to Sid Mittra, Oakland University, Rochester, Mich. 48309. For information, call 643-8888.

Sid Mittra is a professor of management at Oakland University and president of Coordinated Financial Planning.

# Non-delivery is biggest catalog complaint, BBB says

Just as there are advantages to shopping by mail, there are also a series of disadvantages that plague this "boom" industry.

In recent years, approximately 20 percent of all complaints received by the Better Business Bureau have involved mail-order firms.

According to the BBB, consumers complain most regarding orders processed but not received; second to this are complaints made concerning poor product quality.

Anyone who is considering shopping by mail should first look before they leap (into buying). With

10 billion catalogs currently in circulation, no one can know everything about a firm before ordering goods or services from it.

Consumers Digest has compiled a Dealers Directory which lists mail and phone-order retailers it endorses. From carpenter to exercise equipment, go-to-down products to pantyhose, the directory provides complete product and service information. The Dealers Directory is available for \$1.95, plus 50 cents for postage and handling, by writing Dealers Directory, Consumers Digest, 5705 N. Lincoln Ave., Chicago, Ill. 60659.



## focus: small business

**Mary DiPaolo**

Other recommended precautions include contacting the Better Business Bureau in the area where the firm is located.

Getting in touch with the Regional Postal Inspector nearest to the firm is another option. There are five regional offices. They include

- San Bruno, Calif., (western region);
- Chicago, Ill., (central region);
- Memphis, Tenn., (southern region);
- Bala Cynwyd, Penn., (eastern region);
- and Newark, New Jersey (northeast region).

Consumers may also contact the local chamber of commerce in the

city where the firm is based.

Consumers with complaints should first contact the company in cases "innocent errors" have occurred. A letter should be written stating the nature of the problem as well as what the buyer suggests be done to remedy the situation. If the company does not respond to a complaint, there are a number of third parties that can intercede on your behalf.

These include the Direct Marketing Association, which has a Mail Order Action Line available by calling 212-689-4977. Although the DMA does not have enforcement powers, it may suggest alternative

courses of action. Other third parties include the state department of consumer affairs, credit card companies, and the Federal Trade Commission office nearest you.

Remember that if you are a first-time buyer, save that expensive purchase until after you have had experience dealing with the company.

Mary DiPaolo is the owner of MarkeTrends, a Farmington Hills-based business consulting firm. She is also producer and host of the cable television series, "Focus: The Small Business Environment."

# Caution needed in 'covered options' with blue-chips

I own quite a number of blue-chip stocks. A friend of mine has been advising me to write "covered options" on my stocks. He says I will earn a lot of premiums and not have any risk.

He says that since the big sell-off in the stock market, interest in stocks will not be very great and stock prices are unlikely to change much for several months. Therefore the risk of my stocks being taken away is very small.

What do you think of this idea?

The writing of covered options is probably the least risky form of option writing. In writing a covered option, you use the stock you own to "cover" an option that you receive a premium for selling.

For example, if you own 200 shares of a stock selling for \$50, you may sell an option to someone to buy those shares in three months for \$60.

You might receive a premium of \$250 for selling that option.

If in three months the stock goes above \$60, the option holder will take your stock and pay you \$12,000 for it. You will also have the \$250 premium. Your risk is that you will lose your position in the stock and possibly have to buy it at a higher price to retain your ownership in that stock.

WHAT YOUR friend is suggesting will happen is that the stock prices will not move very much and that you will see the option expire without being exercised. This means you keep your stock and the premium.

That is what most writers of covered options hope will happen. In actual practice, I have seen a great many people see the option exercised and their stock taken away.

I believe there may be two things wrong with your friend's reasoning



## today's investor

**Thomas E. O'Hara**

of the National Association of Investors Corp.

as to what might happen to the prices of your stocks in the months immediately ahead. You did not give me a list of your stocks, but you said they were blue chips.

Often, after a big sell-off like we had in October, the first stocks to recover are the best quality or blue-chip stocks. Your friend may be right in that public interest in stocks will be reduced for a period of time.

BUT YOUR particular stocks are likely to be the first ones to see their prices rise and, consequently, they might rise enough to see your option exercised.

There are a good number of stock market analysts who believe the October drop in prices may be like the one that occurred in 1962 and that we will see a fairly quick recovery in prices. The truth of course, as al-

ways, is that no one knows what stock prices will do.

If you sell covered options against the stock you own, you will receive the option premium. The worst that could happen is that the option would be exercised, and you would have to buy it back if you wanted to maintain your position.

As long as you understand what could happen, there is no reason why you should not experiment.

Thomas O'Hara of Bloomfield Hills welcomes your questions and comments but will answer them only through this column. Readers who send in questions on a general investment subject or on a corporation with broad investor interest and whose ques-

tions are used will receive a free one-year subscription to the investment magazine "Better Investing." For a sample copy of "Better Investing" or information about investment clubs, write Today's Investor, PO Box 220, Royal Oak, MI 48068

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## Why can't Christmas be a Jewish Holiday?

Isn't Christmas the birthday of the greatest Jew who ever lived?

Of course.

Y'shua (that's the Jewish way to say Jesus) was born in a Jewish place — Bethlehem to a Jewish mother — Miriam according to the Jewish prophets for a Jewish purpose — the salvation of the world

Maybe some don't like Christmas because of mistletoe, merchandising and media hype. Maybe others suffer from "Santa Claustrophobia." Maybe they haven't discovered Y'shua who is the reason for the season.

But some Jewish people know him and they can tell you why Y'shua makes them celebrate. Their stories are in the book *Jesus for Jews*. You can buy the hardcover edition at your local religious bookstore for \$17.95. But if you fill out the coupon below, a special inquirer's edition can be yours for just \$1 postpaid.

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