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Foreign Bank Bargains: Scoring High Yields with Twice the Gains

-- By Nick Lanyi

When a normally high-yielding sector like the banking industry gets hammered, it creates an opportunity to pick through the debris and find quality gems yielding as much as 8.4%. *(Full Story Below)*

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Foreign Bank Bargains: Scoring High Yields with Twice the Gains

Bank stocks are reviled today... That's why I'm interested in them.

There's nothing I like better than locking in an amazing yield at a bargain price. And when a normally high-yielding sector like the banking industry gets hammered, it creates an opportunity to pick through the debris and find quality high-yielding gems.

No doubt, the industry is troubled -- and investors are understandably wary. The financial-services sector is enduring its worst turmoil since the U.S. savings & loan industry nearly collapsed roughly 20 years ago. Ignited by last summer's meltdown of the U.S. subprime mortgage industry, the credit crisis has spread to lenders of all kinds, and almost every major banking company has been forced to write down billions in assets backed by subprime mortgages.

With this in mind, why would anyone want to invest in banking stocks in today's market?

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By Nick Lanyi
May 14, 2008

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By Nick Lanyi
May 7, 2008

Current yields are a great place to start looking for solid income opportunities, but if you want to turbo-charge

Simple: because some high-quality banks are worth the risk, and their current share prices reflect an unlikely worst-case scenario. Investors sold off the sector like the plague -- even the banks with limited exposure to the credit crisis saw their share prices tumble.

And as the sector heads down the road to recovery, many banks are posting some very high dividend yields -- which means we'll get paid handsomely as conditions improve.

And conditions will improve. Because a highly functional banking system is the backbone to a functioning economy, the banking industry will get all the help it needs to recover. And to a great extent, that's already happening.

In recent months, the Federal Reserve has cut interest rates a number of times, pumping liquidity into the credit system. The Fed has also taken other steps to ensure that banks have ample access to inexpensive credit -- including creating a so-called "temporary auction facility" to make it easier for banks to borrow money quickly if necessary.

To maintain adequate financial strength, most major banks have also received bailout cash infusions from private equity firms and investors -- many of them in cash-rich Asia and the Middle East -- who have assumed substantial ownership stakes in the companies. Over the next year, I expect more such transactions. While some Americans may balk at seeing pieces of iconic American financial firms sold off to foreign investors, these cash transfusions will guarantee that the large banks make it through the current crisis intact.

Foreign Banks: Bargains That Outperform

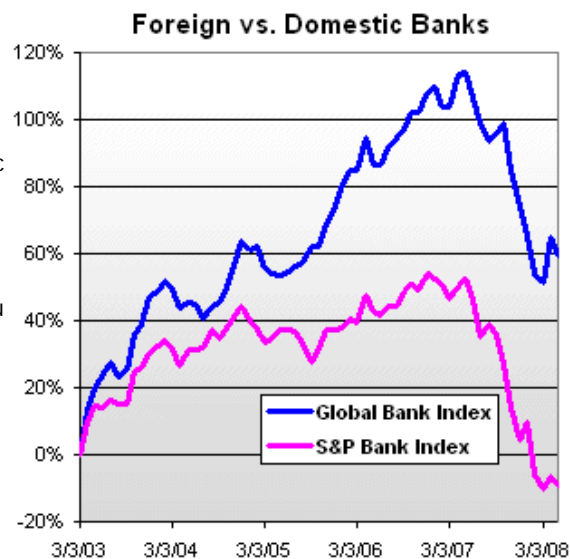
The best place to search for high-yielding bargains is in the global banking sector.

While foreign and domestic banks were equally punished in the recent downturn, foreign banks stocks have consistently outperformed domestic bank stocks. As you can see in my chart, during the four years prior to the credit crisis, global banks outperformed U.S. banks by a better than 2-to-1 margin.

The economy is another reason to scavenge among foreign bank stocks. The U.S. economy is weakening, and I don't expect the situation to improve much in the near future. In fact, the International Monetary Fund (IMF) has estimated that 176 countries will post stronger economic growth than the U.S. this year. This will make foreign banks a safer bet, since growth in their retail banking and commercial loan businesses will help offset any credit weakness elsewhere.

Another great reason to invest in foreign bank stocks -- your returns can get a boost from the declining value of the U.S. dollar. Over the last few years, the dollar has been in an absolute free-fall against many of the world's currencies. But the dollar's decline had one group of Americans celebrating -- savvy investors in foreign stocks.

Say you invested 10,000 euros (\$8,300) in a European stock in 2002. Even if its share price went nowhere, thanks to a falling dollar you could sell your shares, and those same 10,000 euros would now be worth \$15,700. That's an +89% gain from the currency fluctuation alone -- with no share price



your income you need to find an investment that delivers strong annual dividend growth year-in and year-out.

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[Capture 20%-Plus Yields by Investing in the "Other Side" of the Construction Business](#)

By Nick Lanyi
April 30, 2008

The building and construction boom is in full swing, and investors should sit up and take notice. But I'm not talking about housing, nor am I solely referring to the U.S. market. Instead, I'm talking about the expanding infrastructure construction industry.

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appreciation. Of course, if the foreign stock had also appreciated -- like I believe foreign bank stocks could do from here -- that would make the gains even more dramatic.

And, of course, the #1 reason for investing in foreign banks -- to capture the enormous dividend yields they're dishing out right now.

In recent issues of my premium newsletter... [High-Yield International](#), I've profiled a number of my favorite foreign banks stocks, including a bellwether London-based bank that has emerged from the credit crisis fairly unscathed. It currently pays a solid 8.4% yield -- but has also boosted its dividend by an average of +17% a year for the past six years. And with exposure to some of the world's fastest-growing emerging markets, I expect this well-run bank to deliver strong capital gains on top of its above-average yield. And for the strong of heart, I've also highlighted one of the largest, and hardest hit, banks in the world -- a stock I expect to deliver +30% total returns in the coming year.

If you'd like to learn the names of these companies -- plus receive a steady stream of foreign stocks, funds and other investing ideas with abnormally high dividend yields each and every month -- then I'd like to extend you a personal invitation to try my premium international investing newsletter . . . [High-Yield International](#). [Visit this link to learn more.](#)

Thanks for joining me on my search for today's highest-yielding securities!



Nick Lanyi

-- Nick Lanyi

Co-Editor

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