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## High Yields from the Land of the New Gold Rush

-- By Nick Lanyi

South Africa, the world's largest producer of gold and platinum, has delivered gains of +310% over the past few years, and it's up +11.8% already in 2008. But huge capital gains are just a small part of the story. To curb inflation, the government is pushing interest rates to some of the highest levels in the world, making this country especially fertile ground for high income investors. *(Full Story Below)*

Also in Today's Issue...

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High Yields from the Land of the New Gold Rush

When it comes to commodities, South Africa is in a class by itself.

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[Foreign Bank Bargains: Scoring High Yields with Twice the Gains](#)

By Nick Lanyi  
May 21, 2008

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%.

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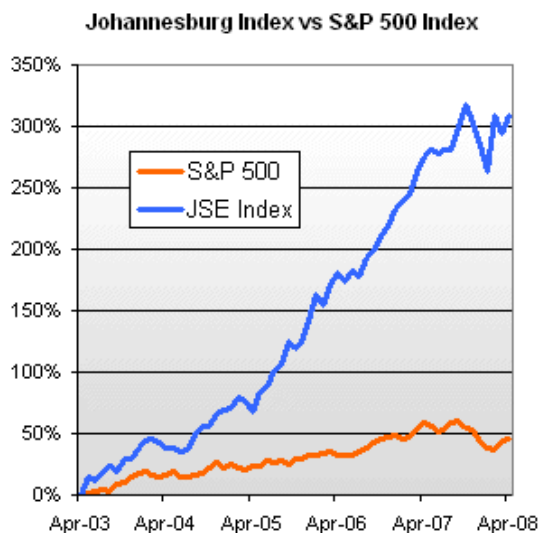
South Africa's economy -- the largest in the fast-developing continent -- is driven by its valuable mining and energy sectors, which account for about 40% of its stock market capitalization. South Africa is the world's largest producer of gold and platinum and one of the top producers of coal and diamonds. It's also rich in copper, iron ore and uranium, among other metals experiencing rising demand. Specifically, gold and coal prices have soared worldwide over the last few years (although gold has pulled back lately), boosting South Africa's trade surplus.

The country also has a solid manufacturing sector, specializing in metal-heavy products such as railway cars. South Africa also is a net exporter of agricultural products. Over the past decade, the nation has benefited from the dismantling of trade barriers and from increased foreign investment, which was curtailed greatly by boycotts during the last years of the apartheid era.

#### Commodities Boom Leads to +310% Gains

Thanks to its sharply rising GDP, the South African stock market has been one of the world's most profitable of late, which has helped attract additional capital to fuel economic growth. As the chart shows, the FTSE/JSE Africa Top 40 Index is up nearly +310% over the last five years -- trouncing the S&P's performance by a 6-to-1 margin.

And thanks to rising commodity prices, South African stocks have posted gains of +11.8% so far in 2008, one of the best performances of any market in the world.



Of course, the South African picture isn't entirely rosy. The country has suffered from high unemployment and widespread poverty. It's also facing a significant electricity shortage, as for years the government discouraged private investment in new power plants. In addition, because of high inflation, South African officials are keeping interest rates fairly high at 11.5%. Although these lofty interest rates are great news for income investors, the policy is designed to rein in the economy.

But even though the country's economic growth is expected to slow, it is still projected to grow +4.5% in 2008 -- about three times faster than the U.S. economy. And considering South Africa's challenges, the nation's nearly +5% growth rate speaks volumes about the power and longevity of this boom.

Furthermore, I think gold -- driven by worldwide inflation -- is only pausing now and soon will resume its upward trend. If that happens, South African corporate earnings will keep the country's bull market moving forward.

#### Economic Powerhouse in an Emerging Region

Longer term, South Africa is the financial and industrial center of sub-Saharan Africa; while this part of the world remains trapped in poverty, it's no stretch to imagine the continent eventually following the path of other emerging markets in the post-Cold War era. Western investment in Africa is picking up steam, as are efforts to combat HIV/AIDS and other pervasive health problems. As the continent's economic growth picks up, South Africa will surely be a major beneficiary.

[Capture 10.3% Yields and +837% Capital Gains in One of the World's Fastest-Growing Economies](#)

By Nick Lanyi  
May 14, 2008

Global telecoms have delivered total returns of +125% for investors over the last five years. What's more impressive though, is the sector's recent performance, and its ability to shine in less-than-sunny markets.

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[Dividend Growth: Turbo-Charge Your Income by +448%](#)

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

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[We're Finding Stocks Paying \\$26,500 a Year in Dividends](#)

Now is a great

In short, South Africa is in the catbird seat of one of the fastest-growing segments of the world economy: mining commodities, particularly gold. In addition, it's a large developing market with established industrial and financial sectors, surrounded by smaller states likely to experience above-average economic growth in the coming years. In fact, the opportunities in South Africa today remind me of conditions in China not long ago -- on its path to become the world's best investment opportunity in recent years.

### Rebounding Currency

Note that South Africa's currency -- the rand -- has pulled back -12% versus the U.S. dollar this year, making it one of the only currencies the dollar has gained against. The main reason for this fall has been higher-than-expected inflation.

However, with interest rates so high, it's unlikely the rand will continue to fall significantly. After all, big institutional investors are pouring ever-increasing sums of money into South Africa in an effort to profit from "carry trade" investments. This strategy -- whereby foreign investors borrow money at low interest rates elsewhere and deposit them in South African bonds at high interest rates -- should be a stabilizing factor for the rand in the coming months. Thus, I expect the rand to appreciate over the next 12 to 18 months. (In fact, it has already rallied about +3% in the past two weeks).

### Capture 9.3% Dividend Yields and +314% Capital Gains

South Africa's booming commodity sector is fueling growth throughout the country. And the nation's high interest rate environment is supporting outstanding yields in some safe and stable stocks.

Just this month, I profiled one of my favorite South African stocks in the pages of my premium newsletter . . . [High-Yield International](#). You can capture a 9.3% yield with this secure investment, and while this stock is from a noted safe sector, it's no sleeper -- having delivered capital gains of +314% over the past five years. And as an added bonus, if the rand bounces back from its lows, as expected, then investors are going to reap even greater returns as their income appreciates right along with it.

If you'd like to learn the name of this stock -- 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 investing newsletter . . . *High Yield International*. [Visit this link to learn more.](#)

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



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By Andy Obermueller

[How to Add a Margin of Safety to Your Stock Portfolio in a Tumultuous Market](#)

By Andy Obermueller

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