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Wednesday, July 2, 2008



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Immortal Flowers, Eternal Income Streams

-- By Nick Lanyi

The bloom is off the rose for many developed market economies, but such is not the case for South Korea.

The KOSPI, South Korea's stock market index, has put out total returns of +211.3% since 2003, for annualized returns of +23.1%. Even with that appreciation, the South Korean market is still one of the biggest bargains on the planet, selling stocks at a 40% discount to those you'd find here at home. And better yet, there are solid double-digit yields to be had for income-focused investors.

In many respects, the South Korean market is yet to bloom.

(Full Story Below)

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Immortal Flowers, Eternal Income Streams

Here at StreetAuthority, I know we're prone to couching every conceivable topic in financial terms. But when I say South Korea is about to bloom, I'm being perfectly literal.

Every year from July to October, Korea's national flower, the mugunghwa, graces this lush, verdant country -- it's really something to see: They're *everywhere*. *Mugung* means "immortal" in Korean; *hwa* means "flower." This tenacious bloom is said to symbolize the perseverance and immortality of the Korean people.

Gardeners in the United States know this plant as the common hibiscus -- you might have some in your yard. It is far more likely, however, that you have dozens of products inside your house that were at least partly made in Korea. Your flat-screen TV, for example, or stainless-steel refrigerator. Many of the iPod's 500 components, including the screen, come from Korea, as does

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By Nick Lanyi
June 25, 2008

A billion dollars may not be what it used to be, but it's still a serious pile of cash. So why are more and more of the world's most eye-popping fortunes being made in foreign countries? Because that's where the growth is, and yields of up to 19.5%.

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By Carla Pasternak
June 18, 2008

the memory in just about every electronic device you use. These "Western" products are largely dependent on the high-quality manufacturers in this Eastern country, who are also serious players in telecom, automobile production, chemicals and shipbuilding.

It wasn't always like this in South Korea, a peninsula the size of Indiana situated between the Yellow Sea and the Sea of Japan. The country didn't gain its independence until after World War II. And even after North was separated from South at the 38th Parallel after the Korean War, the country languished under military rule for three decades. It only came under civilian control in 1992, and things started to change -- quickly.

Four decades ago, South Korea's per-capita GDP was on par with the poorest African and Asian countries. These highly educated and hard-working people wanted more, so they rolled up their sleeves. In 2004, South Korea's economy hit a trillion dollars, and its per-capita GDP has risen to equal Greece and Spain. It's an amazing story of resilience and determination. The *mugunghwa* has been emblematic of these Korean attributes since the country's culture emerged in the 7th century.

How to Buy Stocks at a 40% Discount

One of the unique facets of the Korean culture is the way Koreans stage meals, serving all courses at the same time. This profusion of greens, spicy meats and the pungent spiced cabbage called *kim chi* blankets the Korean table and symbolizes harmony and plenty. It's another case where an element of the country's fascinating traditions translates into the financial realm as well.

Here are some of the tastiest plates on the investment table:

- The market's cheap: The main South Korean stock index, the KOSPI, trades at 13.1 times earnings. That means you pay \$13.10 for every dollar of earnings. To buy that from the S&P costs \$21.30. In fact, it's been more than 20 years since the S&P has traded below 14 times earnings. Buying a stock in Korea is like finding a 40% price rollback on something you've always wanted. These stocks are a bargain.

- The economy's strong: Inflation is moderate, unemployment is low and the country enjoys an export surplus -- something the United States hasn't witnessed since Richard Nixon was in office. Growth in 2007 was +5.0% versus +2.2% stateside. The IMF predicts real U.S. GDP to rise an anemic +0.5% in 2008 and +0.6% in 2009. The Korean picture is far rosier: +4.2% growth is foreseen for 2008 and +4.4% in 2009. That's far above expectations for the world's advanced economies.

- The problems have been resolved: The 1997-98 Asian financial crisis exposed weaknesses in South Korea's business practices, including high debt/equity ratios, vast foreign borrowing and a less-than-disciplined financial sector. These have been addressed, and the country's financial system has bounced back stronger than ever.

- Its position is good: Korea is located centrally within Northeast Asia, a region with a population of 1.5 billion with a combined GDP of \$7.5 trillion, 22% of the world's total. South Korea is a portal to massive markets in China and Japan. Plus, Korea's position is more than geographic: Its reputation is good and its manufacturers' relationships are strong.

While banks like Citigroup, National City and Washington Mutual are cutting their dividends in the wake of the credit crunch, there's one bank out there continuing to pump out dividends like clockwork at a rate of 14.2%.

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[Double-Digit Yields
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By Nick Lanyi
June 11, 2008

If you're investing exclusively in the U.S. markets, then you're missing out on 74% of the world's economic activity. More importantly, you're also missing out on the highest-yielding securities on the planet. New Zealand companies pay an average of 8.3%.

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[How to Hide From the
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By Carla Pasternak

Special Offers

■ The leader's sharp: President Lee Myung Bak is the nation's first president who has a corporate background. This matters because Korean companies have massive amounts of cash. Persuading his former peers to dip into their collective cash hoard -- which Goldman Sachs estimates is equal to 31% of South Korea's GDP -- could have a far greater and faster effect than even the most prescient monetary policy. Lee ran on a platform of boosting growth to +7% a year and upping per-capita GDP from \$24,800 to \$40,000.

Korea is situated well geographically and is home to some of the most respected industrial enterprises in the world. Its rebuilt financial system is strong and stable, its economy is humming and its market is cheap. These trends are all favorable, and they've been sustained for a long time. To wit: The KOSPI gained +211% since 2003. And even South Korea's pesky northern neighbor is even behaving agreeably these days.

What more could you ask for?

To put it bluntly: Cash.

No *problemo*, as they say in Seoul. I've found some high-yielding gems in this little juggernaut of a country. Let's take a look ...

11.5% Yields and Amazing Distributions

Finding these opportunities wasn't easy, if you'll pardon me for saying so. That's because Korean companies aren't ATMs, they're vaults. Most are run by executives who weathered Asia's financial meltdown a decade ago, and they'd rather have lots of cash in the till, as I mentioned above, than give it to shareholders. Another reason for low yields is Korea's tech focus: Tech companies generally don't pay out much because of the huge capital requirements of staying competitive in an industry that changes by the nanosecond.

All that being said, double-digit yield enthusiasts will be interested in an Asia/Pacific fund I added to my [High-Yield International](#) portfolio earlier this year. This exchange-traded fund provides easy access to Far Eastern markets and carries an impressive 11.5% dividend yield. And for a strictly Korea-focused fund, I found one that has thrown off \$17.41 in the past year - - and the fund is currently trading below \$25! These funds are the sort of opportunities [High-Yield International](#) scours the world for.

If you'd like to find out the names of these funds, and discover other excellent income opportunities in markets all over the globe, then I'd like to invite you to become a subscriber of this premium newsletter. [Visit this link to learn more.](#)

Today we visited Korea to survey the swaying mugunghwas and indulge at tables laden with exotic fare. We left with a few great souvenirs -- truly remarkable investments in an often-overlooked market. Tomorrow could find us in Nigeria, New Zealand, the Netherlands or Nepal. I'd hate for you to miss it. I hope you'll join me on the next voyage...

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



Nick Lanyi

-- Nick Lanyi

Co-Editor

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839-K Quince Orchard Blvd.
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