



Carla Pasternak's

Dividend Opportunities

STREETAUTHORITY

About Us

DividendOpportunities.com

Issue Archives

Premium Content

Research Reports

Subscribe

Wednesday, October 8, 2008

[Printer-Friendly](#) | [PDF Version](#) | [Whitelist Us](#) | [Trouble viewing images?](#)

Warren Buffett is Buying Preferreds with Double-Digit Yields... Why Aren't You?

-- By Amy Calistri

Legendary investor Warren Buffett has been on a buying spree. While most investors have been sidelined by uncertainty, Buffett poured \$8 billion into new investments over the last few weeks alone.

But Buffett isn't just buying anything. In fact, his latest investments are quite different from the rest of his bellwether holdings. While the vast majority of Berkshire Hathaway's portfolio is made up of common stocks, almost all of his recent purchases have been *preferred stocks* with double-digit yields.

There are a number of compelling reasons why this little-known asset class is at a historically attractive buy point -- including their higher yields, safer income streams, and price stability. Obviously, these reasons aren't lost on Buffett. And while we don't claim to outperform one of the richest men in the world, we've found an investment-grade preferred stock that sports a 10.1% dividend -- an even higher yield than what the Oracle of Omaha recently locked into. (*Full Story Below*)

Also in Today's Issue...

Collect \$2,500 - \$10,000 Every Month with These Stocks

Amy Calistri, editor of *The Daily Paycheck*, has a high goal -- \$10,000 a month in income for herself and anyone who invests along with her. How is she going to get there? By focusing on high-quality "power payer" stocks that are quickly growing their dividends to pay you 26.3% or more. She has three of these picks right now to get you started.

[Click here to get these power payer picks now.](#)

How to (legally) pay ZERO taxes on your Social Security Income

New University study shows how to possibly eliminate all of the taxes you would normally have to pay on Social Security income you receive.

[Full report explains the full details...](#)

Warren Buffett is Buying Preferreds with Double-Digit Yields... Why Aren't You?

Normally, Warren Buffett likes to buy a solid common stock at a good value. He's a pretty patient investor and is willing to wait while his undervalued investment appreciates to its potential. And for Buffett, that patience has paid off. Since he started investing in 1964, he's had an astonishing total return of +400,863% -- head and shoulders above the

Income Notes

According to statistics from the Federal Reserve, on September 30, 1981, the yield on the 10-Year Treasury Note was 15.84%. Exactly 27 years later, on September 30, 2008, the 10-Year Treasury Note yield was 3.85%.

-- GDO Research Staff

On Tuesday, the Reserve Bank of Australia cut its official interest by 1.0% -- the largest rate cut it has made since May 1992. The Australian central bank rate is now 6.0%.

-- GDO Research Staff

One Stock a Month is All You'll Ever Need

For the entire 2009 calendar year 100% of Amy Calistri's *Stock of the Month* picks have been winners. ALL of her picks are up -- as much as +58.4% in just a few months. And her subscribers are making money hand over fist alongside her. One has made \$10,272... another is up \$46,002.

[Click here to get her latest pick.](#)

Recent Articles

[Discover This 12.2% Yield 'Hidden' Among One of the World's](#)

comparatively meager +6,840% returns delivered by the S&P 500.

But Warren Buffett has also seen a fair share of bear markets in his time. And he knows just how much of a drag an economic slowdown -- or a recession -- can have on common stock prices.

With such experience, Buffett has learned one of the best places to shelter a portfolio during these rocky times -- preferred shares.

Bear Market	S&P 500 Performance
02/66 - 10/66	-22.2%
11/68 - 05/70	-36.1%
01/73 - 10/74	-48.2%
11/80 - 08/82	-27.1%
08/87 - 12/87	-33.5%
03/00 - 10/02	-49.1%

What Buffett Sees in Preferreds

There are three key advantages that preferred shares have over common shares -- advantages that become even more important in times like these. They offer investors...

- 1.) A higher level of protection
- 2.) Significantly much higher yields
- 3.) Greater price stability

While preferred shares are bought and sold on all the major exchanges, just like common shares, they come with better guarantees. For instance, dividends paid on common stock are not guaranteed and can fluctuate from quarter to quarter. In fact, just yesterday Bank of America (NYSE: BAC) announced it would cut its common share dividend by -50%! This is one of the largest institutions in the country, and not that long ago, its dividend was thought to be rock-solid.

By contrast, preferred shareholders are almost always guaranteed a fixed dividend paid on a regular basis. Also, in the event of bankruptcy or other corporate restructuring -- something investors have to think a little more about these days -- preferred shareholders are repaid before common stock owners.

These factors make preferreds act a little more like bonds than stocks, and as such, they don't have the same volatility as common shares. So while you might give up a little price appreciation in bull markets, you definitely don't see the same downward pressure in challenging markets.

But as we'll see, what shareholders might give up in potential appreciation is more than compensated for during this historic opportunity in the sector. And that was a trade-off Warren Buffett was happy to make when he bought \$5 billion of Goldman Sachs (NYSE: GS) preferreds and \$3 billion of General Electric (NYSE: GE) preferreds -- with both investments carrying a yield of 10%.

Historically Higher Yields for Preferred Shares

[Fastest-Growing Markets](#)

By Nick Lanyi
September 3, 2008

Don't overlook the world's fifth-largest country. Brazil's has been home to fast economic growth -- and a telecommunications stock with a 12.2% yield.

[Read On...](#)

[Escape the Financial Turmoil](#)

By Andy Obermueller
September 24, 2008

As the financial crisis ripples across the developed world, future growth -- and double-digit income -- will come from some of the world's smaller countries,

[Read On...](#)

[Adding Margin of Safety to Your Portfolio](#)

By Andy Obermueller
October 1, 2008

While the domestic market was busy collapsing this year, one of our favorite international picks was hard at work -- and earning a +22.6% return!

[Read On...](#)

As you can see in the chart, the average yield for stocks in the S&P 500 is currently a miserly 2.8%. A six-month CD is only a slight improvement with a 3.2% yield. A 10-year "AAA"-rated corporate bond will let you capture a yield of 4.9%. Preferred stocks, on the other hand, are currently averaging a 9.0% yield, per the PreferredsOnline Index.

And of course the best news is that 9.0% is only the *average* yield. There are dozens of high-quality preferred stocks paying yields above 10% right now.

But don't make the mistake of thinking higher preferred yields are

the result of distressed share prices. Instead, a series rate cuts by the U.S. Federal Reserve has been ratcheting down interest rates, driving the yields down on everything from Treasuries to money market accounts. And uncertainty in the market overall has caused an investor "flight to quality," which has also put additional downward pressure on government-issued securities. The effects have been dramatic. A 3-month Treasury bill that yielded 3.2% at the beginning of the year is now yielding 0.5% -- which almost equates to stuffing your money under your mattress.

Meanwhile, hurt by the credit mess, cash-strapped banks sought to shore up their balance sheets by issuing billions of dollars in new preferreds. As the supply of preferred stocks started to rise, two things happened. New issuers realized they had to raise their offering yield to attract buyers, and the share prices of existing preferreds dropped until their yields were competitive with those of newly issued preferreds.

There's Never Been a Better Time for Safer Income

Not only do preferreds pay higher yields than stocks, but their payouts are more secure than common dividends. Preferred shareholders have a claim to a company's assets ahead of common shareholders -- that's why they're called "preferred." In other words, if a company runs into trouble, it must service the preferred shareholders before it can even think about paying a dime to common stock investors.

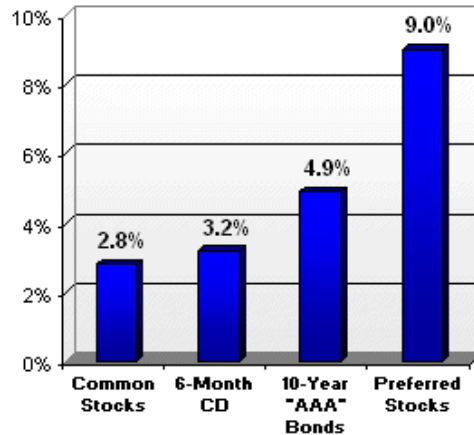
While a preferred stock can still default on its payments, ratings company Standard and Poor's classifies this as an "extremely rare" occurrence. Principal Global Investors estimated the historical default rate for investment-grade preferred stocks was less than 0.2%.

And unlike common dividends, preferred payouts are predictable -- they don't go up and down with a company's earnings. In fact, a number of banks like National City (NYSE: NCC) and Citigroup (NYSE: C) have cut their common share dividends in reaction to the credit crisis - while continuing to pay their preferred dividends at their issued yield like clockwork.

Preferred Shares Are Less Volatile

And after the last few months of whiplash-producing market swings, investors will enjoy the lower volatility of these holdings. In the last month, we've seen more than our fair share of swings to the downside -- including a historic drop of 777 points on the Dow. But while the S&P 500 lost -20.4% in the last 30 days, many investment-grade preferred stocks significantly

Preferreds Have Highest Average Yields



We're Finding Stocks Paying \$26,500 a Year in Dividends

Now is a great time to invest. Every dollar we're investing is giving us two, three, four even five times as much income as it did just a year ago -- it's as if a giant "multiply your money" certificate has dropped into our laps.

[Click here to learn more.](#)

Reader Favorites

[Escape the U.S. Financial Turmoil](#)

By Andy Obermueller

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

By Andy Obermueller

Special Offers

[The Next Way the Government Will Make Investors Rich](#)

The StreetAuthority Investor Update is a free weekly newsletter designed to help you track down the market's most profitable stocks, funds, and ETFs. Sign up today and you'll also receive a free in-depth research report -- *The Next Way the Government Will Make Investors Rich*.

outperformed that mark. Consider that J.P. Morgan's 8 5/8 Preferred (NYSE: JPM-PI) lost only -1.3% over the last month, and that's before adding in the dividend.

Moreover, while they make for a particularly timely investment now, preferred stocks are also a great way to diversify your portfolio to ensure regular dividend payments. After all, many of these securities pay monthly dividends. This is particularly important for retired investors, many of whom depend on their portfolios to pay their regular bills.

A Better Yield Than Buffett's

This once-in-a-generation chance to pick up preferred shares is one of the factors that Carla Pasternak, editor of [High-Yield Investing](#), considered when she chose a preferred stock for her latest "Income Security of the Month." With a solid 10.1% yield, this preferred stock has made reliable distributions since its IPO in December 1992. In total, investors who bought when the preferred issue went public have enjoyed over 180 consecutive payments -- come rain or shine.

And considering the challenges of the past year, this preferred stock has held up very well. During that time, it has registered a total return of +8.5% versus the S&P 500's loss of -26% -- outperforming the broader index by 36.5 percentage points! But that's nothing new, as this preferred stock has outperformed the S&P by nearly 25 percentage points over the last five years.

Carla has put together a comprehensive analysis of this exceptional preferred stock opportunity. In her profile, she spells out in detail how the safety of its government-backed holdings and legally obligated monthly dividend payments are especially attractive given the current conditions in the markets. And of course, with its solid 10.1% yield this idea is right on par with the yields generated by Warren Buffett's headline-making deals. To read Carla's report, [please visit this link](#).

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



-- Amy Calistri
Investment Strategist
Global Dividend Opportunities
GlobalDividends.com
839-K Quince Orchard Blvd.
Gaithersburg, MD 20878-1614

P.S. -- Don't miss a single issue! Add our address, Editors@GlobalDividends.com, to your Address Book or Safe List. For instructions, [go here](#).

[Home](#) | [Issue Archives](#) | [About Us](#) | [Meet the Staff](#) | [Subscribe](#)
[Premium Content](#) | [Research Reports](#) | [Media Coverage](#) | [Testimonials](#)

We sincerely hope that you benefit from your subscription to this newsletter, and we're willing to do whatever it takes to keep you as a satisfied customer. However, if at any time you wish to discontinue your complimentary subscription, you can do so by simply [visiting this link](#) and confirming your request, or by calling (301) 216-2005.

Please note that StreetAuthority, LLC is not a registered investment firm or broker/dealer. Readers are advised that the material contained herein should be used solely for informational purposes. StreetAuthority does not purport to tell or suggest which investment securities members or readers should buy or sell for themselves. Site users should always conduct their own research and due diligence and obtain professional advice before making any investment decision. StreetAuthority will not be liable for any loss or damage caused by a reader's reliance on information obtained in this newsletter or on our web site. Our readers are solely

responsible for their own investment decisions.

The information contained herein does not constitute a representation by the publisher or a solicitation for the purchase or sale of securities. Our opinions and analyses are based on sources believed to be reliable and are written in good faith, but no representation or warranty, expressed or implied, is made as to their accuracy or completeness. All information contained in this report should be independently verified with the companies mentioned. The editor and publisher are not responsible for errors or omissions. StreetAuthority receives no compensation of any kind from any companies that may be mentioned in our newsletters or on our web site. Any opinions expressed are subject to change without notice. Owners, employees and writers may hold positions in the securities discussed in this report or on our web site.

**(C) Copyright 2001-2010. StreetAuthority LLC All Rights Reserved.
Unauthorized Reproduction or Distribution is Strictly Prohibited.**