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The One Sure Way to Find a Healthy Company in an Unsafe Market

-- By Andy Obermueller

For years, any investor who was asked which U.S. companies were the healthiest would likely point to the Dow Jones Industrial Average and blue chips like Johnson & Johnson, IBM or AT&T. But now, with the global economy soft and the financial sector in shambles, markets are experiencing unprecedented volatility. Most investors would be hesitant to hazard a guess as to where the next round of bad news will erupt. The sturdiest of the sturdy seem to have been knocked askew.

In this investing climate, there's only one sure measure of a company's health -- an increased dividend. Raising the payout to shareholders demonstrates not only that the just-ended quarter was strong -- it also shows that the outlook for the year ahead is positive. Only companies that know with certainty that they can easily generate an ample supply of cash are willing to boost their payments in the current environment. *(Full Story Below)*

Also in Today's Issue...

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The One Sure Way to Find a Healthy Company in an Unsafe Market

Amid the relentless barrage of financial news for the past two weeks -- a good portion of it less than pleasant -- you may have missed a critical bit of information from Standard & Poor's.

That's certainly understandable, as there has been a lot of important developments to keep up with. But for investors searching for companies that are not only surviving, but actually *thriving* in this perilous market, S&P's research could well be the Holy Grail.

Income Notes

In "How to Energize Your Portfolio," Dimitra DeFotis, a *Barron's* staff writer, wrote that while many master limited partnerships are down 40% in the past 12 months, yields have jumped to about 10%, making the partnerships an attractive investment.

Citigroup sees the average partnership, which invest in energy assets, producing a total return of 84% over the next year.

-- *Barron's*

As of the close on Oct. 9, the FTSE 100 index yielded an unprecedented 5.3%. This uses British numbers, but the same story applies elsewhere. The FTSE North America Large Cap Index yields 3.1%, more than double the Fed funds rate. The FTSE Eurofirst Index yields 5.7%. Now, some dividends will be cut in the banking sector. But the level of dividend cover is respectable, more than two in Britain. In other words, there are enough earnings to pay dividends twice over.

-- *The Economist*

How to Build a Safe Income Portfolio with Yields up to 12.5%

But we have to warn you, it's one of those "good news/bad news" things.

We'll start with the bad news. S&P found 138 companies weren't as strong as their executives and directors thought. Their businesses are so besieged and their financial footing is so precarious that these companies -- many of them the blue-chip firms -- were forced to slash their dividends last quarter.

In fact, dividend cuts increased +557% from last year.

To make things even more ominous: As the number of dividend cuts rose, the number of dividend increases fell. Only 346 companies boosted their payouts in the third quarter. That amounts to a -21.2% drop versus year-ago levels.

The dividend cuts totaled \$22.5 billion. That's not a mere paper loss -- that's actual dollars of income that didn't make it into investors' pockets. This collective dividend axing by U.S. companies was unprecedented. "It was the worst September for dividends since we started keeping dividend records in 1956," said Howard Silverblatt, a senior analyst at Standard & Poor's.

Every cloud, however, has a silver lining. We're reminded of the advice of the noted mathematician Carl Jacobi, who said, "Invert, always invert."

So what's on the other side of this coin? Mr. Silverblatt was quick to point it out. "Given the uncertainty of the markets and the economy, these companies [that are increasing their dividends] have to be extremely confident of their future earnings and cash flow."

In other words, if the companies cutting their dividends are weaker than even their own executives expected, then it stands to reason the companies increasing their dividends are the strongest, most stable businesses in the country. They can afford to literally give money away.

Take Magellan Midstream Partners (NYSE: MMP). It's what's known in the business as an MLP, which is shorthand for "master limited partnership." These entities typically own energy assets -- such as pipelines and storage terminals -- and they are obligated by law to forward earnings from their business to their partners (in MLP lingo, investors are known as "partners").

In August, Magellan boosted its quarterly dividend from \$0.67 to \$0.69 per share, and management said its next payment would increase yet again to \$0.7025 per share. Bloomberg forecasts a favorable horizon of continually higher payouts throughout the next several years. Magellan's increasing payments show just how confident the partnership is in its future outlook -- it's no surprise the shares are up nearly +40% during the last five days.

Wall Street Cheers Dividend Increases

This goes to show how much Wall Street likes dividend increases. When companies are able to hike their payouts in a difficult economic climate, traders really go bananas. Everyone is suddenly reminded of the underlying strength of the business and the company's ability to perform. Wells Fargo, for instance, stunned Wall Street when it raised its dividend nearly +10% in the midst of the worst financial shake-up since the Great Depression. Shares gained a remarkable +33% in a single day this July -- and have since risen even further -- even as other banks have seen their share prices plunge.

[High-Yield Investing](#) Editor Carla Pasternak didn't need to read the news from Standard & Poor's to understand that companies with increasing payments are where income investors should be focusing. She's an astute analyst and an active income investor, and she had already done the research by the time S&P issued its findings.

In the most recent issue of her newsletter, she focused solely on securities that have continually increased dividends -- even in today's tumultuous

[High-Yield Investing](#) Editor Carla Pasternak goes out of her way to bring income investors the safest and highest-paying stocks, bonds, and funds on the market. And her diligence is paying off! [All 20 of her picks are up](#) -- 14 of them with double-digit returns. Meanwhile, they're yielding up to 12.5%.

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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.

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[12.2% Yield Hidden Among the World's Fastest-Growing Markets](#)

By Nick Lanyi
September 3, 2008

The world's fifth-largest country is often overlooked or underestimated. But Brazil's white-hot economic growth has powered its stock market nearly +1,000% higher during the past five years. That expansion is expected to continue, and Brazil represents one of the most promising destinations for investors.

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market. These high-quality investment ideas have all raised their payments over the last year, but their 3-year growth is especially enticing:

Security	10/14/08 Yield	3-Yr. Div. Growth
Telecom provider	8.1%	+85.8%
Natural gas distributor	10.6%	+33.4%
Drug maker	7.5%	+19.5%
Coal/Natural gas partner	11.5%	+16.1%
Petroleum distributor	8.8%	+13.2%
Pipeline operator	9.7%	+12.7%
Theater owner	7.9%	+10.6%
Energy company	8.6%	+8.2%
Oil & gas MLP	8.0%	+6.5%
Oil & gas general partner	7.7%	+6.5%

Many of the news reports we hear these days are dire. But if you think every company is suffering and one step away from turning off the lights, remember: The securities listed above are only a fraction of the 346 that raised their dividends. And the companies behind these stocks are sending a clear message that they'll weather the storm.

In Carla's October issue, she not only provided subscribers the list above, she also dove into profiles of her two favorite securities that are consistently raising their payments. This includes one investment idea that has increased its distributions +17% a year over the past decade. Even better -- this security has already boosted its dividend +15% over the last year alone and now yields 8.0%.

If you'd like to read more about this idea, see Carla's entire list of steady dividend growers, plus receive a stream of stocks, funds, and other investments with abnormally high dividend yields each and every month -- then I'd like to extend you a personal invitation to try her premium newsletter . . . *High-Yield Investing*. [Visit this link](#) to learn more.



-- Andy Obermueller
Co-Editor
Global Dividend Opportunities
GlobalDividends.com
839-K Quince Orchard Blvd.
Gaithersburg, MD 20878-1614

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[What Warren Buffett Sees in Preferreds](#)

By Amy Calistri
October 6, 2008

When Warren Buffett can't find whole companies to buy, he likes to buy common stock in companies he perceives to be undervalued. But lately, the "Oracle of Omaha" has cut special deals with Goldman Sachs and General Electric to buy "preferred" shares. These investments, which carry a guaranteed dividend, help protect against a pronounced downturn in the equity markets.

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We're Putting \$100,000 into These Picks

We're so pleased with the performance of Amy Calistri's \$50,000 real-money Stock of the Month portfolio that we're doubling down. We're giving her a total of \$100,000 to put to work using her simple investing strategy. So far her results are astounding. 100% of her picks are up -- as much as +43.0% in just a few months.

Don't be left on the sidelines. [Go here to get Amy's strategy now.](#)

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