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## We've Found a Historic Buying Opportunity -- and 20%-Plus Yields

-- By Amy Calistri

Has every ship run aground? Have all the oceans frozen over? You might think so if you've tracked the -75% tumble of the Baltic Dry Index (BDI) over the last month. The BDI tracks the shipping prices of dry goods -- everything from corn to cement. And unless the world suddenly stops eating and building, the odds are this index is ripe for a rebound.

In the meantime, dividend-rich shipping stocks have plummeted along with the index, presenting an unprecedented opportunity for income investors to lock in yields as high as 28.0% while they wait for a bounce. (*Full Story Below*)

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## We've Found a Historic Buying Opportunity -- and 20% -Plus Yields

Legendary investor Warren Buffett has always said, "Be fearful when others are greedy, and be greedy when others are fearful." And when we look back on 2008, we may possibly conclude it was one of the most fearful times of our generation.

However, I also believe a number of investors, like Buffett, will look back upon this time as an opportunity to make a fortune. Fear has caused everyone -- from investors to consumers to businesses -- to put the brakes on their spending, leading to nothing short of panic in many markets. Nowhere is this more obvious than with the Baltic Dry Index -- which has fallen -89% from its peak just five months ago.

The Baltic Dry Index isn't a regular stock index like the S&P 500 or the Nasdaq. It's actually a composite survey of daily shipping prices around the

## Income Notes

Investors' "flight to safety" has started to ebb, allowing the yield of the 3-Month U.S. Treasury Bill to rise to 1.02% -- up from 0.12% just last week.

-- GDO Research Staff

The average yield on the S&P 500 has now reached 3.2% -- it's highest level since 1991. One year ago, the average yield sat below 2.0%

-- GDO Research Staff

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

*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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world. And although it doesn't track underlying stocks like most market indices, its movement does affect almost every shipping company's share price since it is viewed as a proxy for the overall supply and demand of shipping capacity. And as the BDI has fallen, it has taken the share prices of many shipping companies along for the ride -- providing new investors a chance to capture some of the most appealing yields (up to 28%) we've ever seen.

### The BDI's Bubble Trouble

In May 2008, the Baltic Dry Index was riding high. Commodity prices were still on their meteoric climb and commodity buyers were insensitive to shipping costs. Fearing tighter port security, Chinese companies had doubled up on their industrial shipments in the months ahead of the Beijing Olympics, pushing shipping prices even higher. And the U.S. subprime crisis appeared to be contained at its borders -- meaning the rest of the world's trade went on unhampered. On May 20th, shipping spot prices hit an all-time, bubbly high.

No one, not even the shipping companies, believed the May highs were sustainable. But few anticipated the perfect storm of downward pressure shipping prices would face over the next few months. How bad has it been? Rates for Capesize ships -- so named because initially their large size prevented them from using the Suez Canal, forcing them to sail around either Cape Horn or the Cape of Good Hope -- that were priced at \$230,000 a day in late May have fallen to almost \$20,000 a day. The Panamax class ship rates have seen a similar trend, tumbling from daily rate quotes of \$90,000 per day to around \$12,800.

The decline of the S&P 500 looks like a mere bunny slope when compared to the Baltic Dry Index's plummet. The BDI has fallen more than -75% in less than a month and a total of -89% since its high on May 20th.

Even Iceland's stock market has done better -- and according to the Associated Press, Iceland "is on the brink of becoming the first national bankruptcy of the global financial meltdown." So unless you think that global shipping is simply about to stop, this looks like a chance to position yourself for a rebound.

Clearly, there are a number of valid reasons why the Baltic Dry Index should be off its highs. In addition to being grossly overheated just a few months ago, the U.S. subprime mortgage problem blossomed into a full blown financial crisis and has undoubtedly weighed on economies outside the U.S. When world economies slow down, the demand for shipping also slows. And the speculative bubble in the commodities market has burst, making commodities buyers more price-sensitive when it comes to shipping.

But instead of adjusting to a new shipping world order, the index has failed to find a floor. Jacob Fentz, Classic Maritime Inc. president noted that the BDI is "overshooting big time on the downside just like it did on the upside." But the good news for investors is that there is ample evidence the index's current inability to find the brakes stems from temporary problems, with near-term solutions.

### Short-Term Problems with Near-Term Solutions

By Amy Calistri  
October 8, 2008

Legendary investor Warren Buffett has been on a buying spree -- pouring billions into preferred stocks. Learn why they are one of the best places to shelter a portfolio during these rocky times.

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

By Andy Obermueller  
October 1, 2008

You don't have to worry about major U.S. market swings -- unless you want to. Investing in international companies that pay rich, double-digit dividends is a strong defense against domestic market upheaval, whether it comes from Wall Street or Washington.

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### [The One Sure Way to Find a Healthy Company in an Unsafe Market](#)

By Andy Obermueller  
October 15, 2008

Rich dividends and strong capital appreciation potential are making foreign markets more attractive than ever in light of the U.S. financial mess.

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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-

**The Baltic Dry Index Bubble Bursts**



Why do we believe there is an eventual rebound in the future for the Baltic Dry Index? Many of the short-term pressures weighing on shipping prices are already showing signs of letting up:

■ **Easing Credit Worries:** The worldwide credit crisis that has made it harder for small companies and consumers to borrow money has also made it harder for dry bulk buyers to get their cargos loaded onto ships. Traditionally, all a buyer had to do was show a letter of credit from a bank. But as banks became undercapitalized, many letters of credit were harder to come by. Commodities began to pile up at the ports. "There's all kinds of stuff stacked up on docks right now that can't be shipped because people can't get letters of credit," said Bill Gary, president of Commodity Information Systems in Oklahoma City. "The problem is not demand, and it's not supply because we have plenty of supply. It's finding anyone who can come up with the credit to buy."

But the credit freeze has finally begun to thaw. This week, bank-to-bank lending rates -- which skyrocketed as credit worries simmered -- have fallen to their lowest levels in more than a month. Governments around the globe have put up literally hundreds of billions of dollars to back the world's banking system and letters of credit appear to be navigating their way through the system again.

■ **Stabilizing Demand:** In an effort to reduce pollution, China shut down hundreds of construction sites, coal-fired power plants, cement factories and chemical manufacturers a month before the Olympics and throughout the games. While this was only a temporary measure, the drop-off in shipping demand made an already nervous sector panic. But the temporary fits and starts from the Beijing Olympics are behind us. The Olympic cutbacks were not a real measure of demand any more than the pre-Olympic build up was, and these anomalies are now being seen for what they were.

■ **Short-Term Feuds and Still-Strong Growth:** There is currently a tiff between China's steel companies and Brazilian iron ore suppliers, which has resulted in at least a month with limited shipments of ore between the two countries. Geographically, Brazil and China are about as far apart as two countries can be. The loss of this long, lucrative raw material trade route is wreaking havoc on the BDI.

China is an important market for shippers, and many were already worried about a slowing Chinese economy. And while there are some signs of this happening, it has still turned in a +9.9% growth rate for the first nine months of 2008 -- considered a breakneck speed for most economies. China will still need ore to build out that growth and Brazil will eventually sell it -- and ships will move it.

Lock In a 28.0% Yield on the Fear and Gain on the Reality

"Dry bulk levels may be close to their 'logical bottom'" -- so read the recent headline from Lloyd's List, a respected maritime news outlet. As many of the temporary pressures on the Baltic Dry Index are already starting to ease, it's hard not to believe the BDI has overshot its floor and will soon find a more rational level -- certainly off its unrealistic highs, but also above its equally unrealistic lows.

And before normalcy returns to the BDI, investors still have a chance to play on shipping's worst fears. While you can't trade the index itself, almost every shipping stock was pummeled by the fall, and most will follow it up on the rebound.

With many shipping stocks trading near their 52-week lows, their yields are at unprecedented highs. Investors not only have the opportunity to lock in these 20%-plus yields, they have the added potential for share price gains once a bit of sanity returns to this sector.

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.

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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*.

Shipping stocks have always been known for their generous yields. To some extent, that's a reflection of the underlying risk and volatility of the sector. Shipping companies know they have to compensate even aggressive investors for the bumpy ride. Conceivably, companies could cut their dividends in the future. But they understand there is probably more risk in reducing their dividend -- and potentially alienating investors -- than the risk associated with making high dividend payments. And perhaps more to the point, new investors have an added level of safety as the downside price risk is far lower than it's ever been.

Nick Lanyi, editor of [High-Yield International](#), recently made this same time-sensitive observation -- giving his subscribers the opportunity to lock in on these historic shipping sector yields. Nick currently holds two shipping companies in his "Ultra High-Yield" Portfolio; one with a current yield of 28.0% and another yielding 22.5%. Before the historic drop in the BDI, yields for these companies were 8.5% and 14.0%, respectively -- attractive, but nowhere near as mouth-watering as they are today.

Not only have the yields increased dramatically, both these companies have a history of strong cash flows and are trading at P/E valuations in the single digits. If you'd like to learn the names of these stocks and learn more about how Nick's timely analysis can help you find the best high-yield opportunities around the globe, [please visit this link](#).

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



-- Amy Calistri  
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