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The Special Asset Class Legally Obligated to Pay Yields of 8%, 9%, 10%... And Even Higher

-- By Andy Obermueller

For a company to have a dependable dividend, it needs a dependable revenue stream. That can be difficult to find in a recession, when consumers pare back their spending to the bare essentials.

But there are many sectors that are largely recession-proof, and of these, one particular asset class has a long history of rising distributions, double-digit yields and strong outperformance -- thanks to its legal obligation to shower investors with cash. In an increasingly dangerous and volatile stock market where there seems to be no safe haven, these shares can offer shelter in the storm -- all while generating stellar returns. *(Full Story Below)*

Also in Today's Issue. . .

Double-Digit Income and Returns up to +62.3%

Carla Pasternak's *High-Yield Investing* subscribers are having their cake and eating it to. Over the last few months they have been treated to returns of up to 62.3%... all while raking in dividends of 10% and more! It's not too late to join in. Carla's picks are still paying up to 19.6% over the next 12 months.

[Go here to get these double-digit yielders now.](#)

You Could Get +278.5% Income with These Free Tips

StreetAuthority editor Amy Calistri is so full of ideas, we've just added another way for her to share them with you: "Amy's Notes." Her recent note covers a stock that could give you +278.5% more income. Get this pick free and make sure you don't miss out on any others.

[Click here to get this pick now.](#)

The Special Asset Class Legally Obligated to Pay Yields of 8%, 9%, 10%... And Even Higher

What does a company do -- and can the country operate without it?

That's a critical question for investors to ask these days, as many experts predict consumers will pare discretionary spending as the world faces a potentially lengthy downturn.

Businesses that do well in any economic climate are known as "defensive" plays, and they're back in vogue. Growth-oriented investing isn't dead, but many investors are looking for a less-aggressive strategy, one that focuses on asset protection and income generation.

After all, no one needs a Harley, but people will always need medicine and

Income Notes

The average dividend yield on dividend-paying S&P 500 stocks is now 3.4%, though that figure was as high as 4% a few weeks ago as share prices crumbled. At the end of October 2007 that average dividend yield was 2.02%. The change largely reflects the fact that stock prices have been so depressed.

-- *The Wall Street Journal*

The current rate on a one-year CD is 3.50%, which equates to a negative return when factoring in income taxes and consumer price inflation of +4.5%.

-- Andy Obermueller

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

electric power. That's why indispensable companies -- whose products or services the nation can't do without -- are typically at the foundation of a defensive portfolio.

My favorite asset class in the defensive space provides an absolutely vital service -- something without which America would grind to a halt. The industry is known for its higher-than-average yields and has recorded steady distribution increases for not just years, but decades. And on top of all that, this asset class provides a high degree of safety. As the S&P 500 looks to post a wide loss for the year, many of the companies in this industry will show a gain -- even before their rich payouts are factored in.

I know you may be thinking that such a trifecta of positives is impossible in this market, but it's not. You might be able to find companies with more interesting products, but for sheer safety, stability and sustainable payouts, it doesn't get any better than master limited partnerships. . .

What Master Limited Partnerships Are -- And What They Do

A partnership is simply a type of legal entity. In most cases, partnership shares are owned by individuals who are engaged in the entity's business -- like a law firm. Unlike a corporation, the partnership itself doesn't pay income taxes, the partners do. A "master limited partnership" is simply a partnership that is divided into shares, called "units," which are then sold to the public. It works to the same effect as a corporation: The only real difference is taxation.

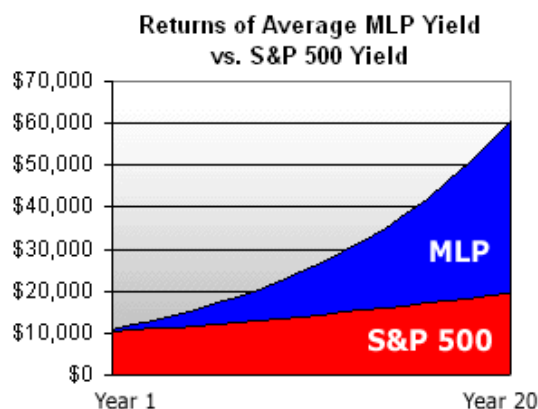
This structure has been embraced most strongly by the energy industry. Master limited partnerships, which often go by their acronym, MLPs, typically own pipelines or oil and gas wells. These entities generate cash from producing petroleum or receive fees based on the amount of product shipped through their networks. The partnership administers the business and ships the profits home to the owners.

MLPs Offer Higher-Than-Average Yields

With all that cash being generated from such an essential business, it's no wonder MLPs have extremely high yields -- yields of 8%, 10%, even 16% are not uncommon. The average yield of the Alerian MLP Index is 9.4%, roughly three times higher than the current 3.4% yield of the S&P 500.

Over time, such a high yield is a game-changer. As the chart to the right shows, a 3.4% yield barely affects the balance of a \$10,000 investment -- even over the span of 20 years, that paltry rate of return is likely to be wiped out by inflation and taxes.

For the prudent MLP investor, the picture is far different. After 20 years of reinvestment, a 9.4% dividend yield magnifies the same \$10,000 into \$60,304 -- and that's before you factor in any capital gains!



[The Income Secret That Lets You Use the Bear Market to Your Advantage](#)

By Andy Obermueller
October 29, 2008

As stock prices have fallen dramatically this year, one critical barometer of the market has been rising. Dividend yields are at historic highs -- only two stocks in the S&P 500 showed yields above 6% near the height of last year's rally; that number now stands at 48.

[Read On...](#)

[Warren Buffett is Buying Preferreds with Double-Digit Yields... Why Aren't You?](#)

By Amy Calistri
October 8, 2008

Legendary investor Warren Buffett has been on a buying spree. Buffett poured \$8 billion into new investments over the last few weeks alone. But Buffett isn't just buying anything. 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.

[Read On...](#)

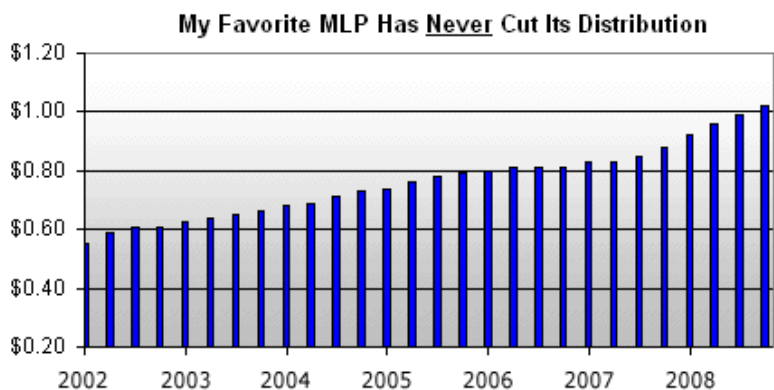
[We're Finding Stocks Paying \\$26,500 a Year in Dividends](#)

Now is a great time to invest. Every dollar we're investing is giving us two, three, four even five times as much

But that's only part of the equation. To wit: In 2007, MLPs delivered average total returns of +12.7%, handily beating the S&P 500's total return of +5.5%. And over the long run, the picture is even better -- MLPs in the Alerian MLP Index returned an astounding +17.3% per year between 1997 and 2007. (I just can't help myself here: Over 20 years, that rate of return -- that historical average return -- turns \$10,000 into \$243,200. Why not let MLPs send one of your children or grandchildren to college?)

MLPs Increase Their Payouts Over Time

Believe it or not, the MLP picture just keeps getting better for income investors. That's because MLPs have a strong track record of hiking their payouts. They can't keep the money around: They're legally obligated to pass it along to the partners. Take a look at what this has meant for one of my favorite MLPs. The chart below shows the amount of its quarterly distribution per share since 2002.



As you can see, this 7.8%-yielding MLP is totally focused on taking care of its shareholders: It has never once decreased its distribution. That's crucial -- in the current market, the most recent data from Standard & Poor's shows that 36 companies in its 500 Index have cut or suspended dividends 46 times so far in 2008 -- taking \$33.3 billion out of investors' pockets.

But MLP payments have been steady, dependable and, in many cases, even on the rise. Sure, energy prices swing, sometimes dramatically, but the nation's crude oil, gasoline and natural gas continues to move, and that is how most MLPs make their money.

Strong Performance in a Tumultuous Market

What does all that add up to? MLPs are schooling the market. The price performance of the same MLP we featured in the chart above is depicted below. This security is up some +15% on price appreciation alone, as the S&P has faltered nearly -35% since January 2007. This shows an absolutely unmistakable vote of confidence for MLPs in this market -- a crystal-clear signal that serious income investors simply cannot afford to ignore.

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.](#)

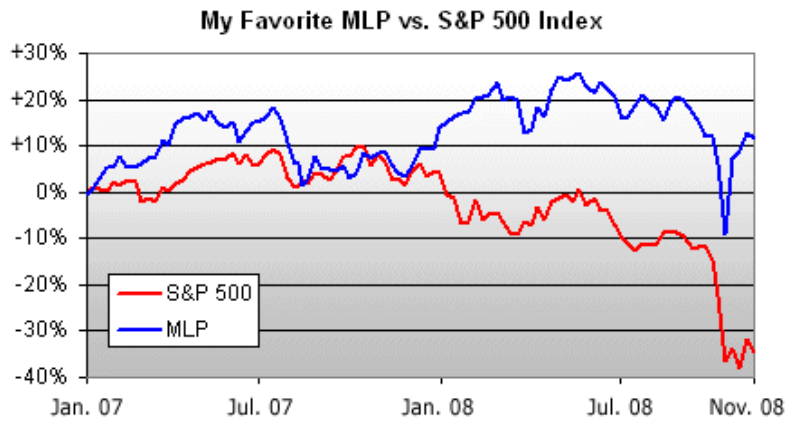
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By Andy Obermueller

[How to Add a Margin of Safety to Your Stock Portfolio in a Tumultuous Market](#)
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Now, even though my favorite MLP has seen positive price performance, some MLPs are down. That's because many own "upstream" assets, which is insider jargon for producing wells. The concern is that these entities will see less revenue because the price of oil has fallen. But in many cases, the per-barrel recovery cost is still quite low, perhaps less than \$10 a barrel for crude oil, for example. And while it's nice to be paid \$140 for something that cost you \$10, receiving \$60 or \$70 is a long way from being a losing proposition.

Still, the majority of MLPs make their money by shipping and storing oil, gasoline and natural gas. They'll continue making money as long as there is demand for energy. A pipeline is more comparable to a toll bridge than an oil company -- customers must pay to get from one side to the other. The value of the cars going over the span doesn't really matter. After all, most MLPs make money based on how much product gets moved through their system, not the actual value of that product.

And while many of these securities have fallen out of sympathy for the market, income investors should take note -- and full advantage -- of this temporary price reduction. This sale, and stable yields reaching as high as 16%, won't last long.

How to Profit From MLPs

Carla Pasternak, editor of [High-Yield Investing](#), has been an avid devotee of MLPs for years. In fact, her "Dividend Optimizer" Portfolio, available only to subscribers, even has an entire section allocated to this asset class.

Given their performance, it's obvious why Carla is so fond of these partnerships. Energy-related MLPs offer rich yields and provide shelter during market storms. Their earnings are protected by the necessity of their product. Despite all the talk about alternative energy, the United States is still dependent on fossil fuels, and moving them around the nation is a vital element of the economy that we simply cannot do without. Someone is going to make money from that, and there's no reason why one of those fat dividend checks shouldn't have your name on it.

To find out more about how Carla can show you how to use MLPs to propel the performance of your income portfolio (including the name of my favorite MLP I featured above), [visit this link](#).

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



-- Andy Obermueller
Co-Editor

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