



Carla Pasternak's

# Dividend Opportunities

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## How to Capture a 10.3% Yield Backed by the Federal Government

-- By Nick Lanyi

In today's *Global Dividend Opportunities*, we're going to look at a security that has stood the test of time as a safe haven for investors looking to shelter assets -- preferred stocks. In fact, they tend to be far more resilient than common stocks in a bear market, and, as a bonus, many of these securities carry rich double-digit dividend yields.

I'll also tell you about one preferred in particular that is yielding 10.3%... has a "AAA"-rated portfolio backed by the federal government... and has even outperformed the S&P 500 by +44.2 percentage points over the last year. *(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.](#)

## How to Capture a 10.3% Yield Backed by the Federal Government

Investors looking for solid gains have been wringing their hands since the subprime crisis hit last summer and dragged us into what some are calling the worst downturn since the Great Depression. We haven't seen this much volatility in the equity markets for almost 75 years. In October, the total day-to-day point movement on the Dow was 7,818, more than four times what was seen in 2007 and more than 10 times 2006. The S&P 500 is down roughly -42% for the year. The prospects for a speedy economic recovery are nonexistent.

Paradoxically, income investors do have something to celebrate lately. The virtual meltdown in the credit markets has resulted in a surprising silver lining; yields on safe, investment-grade preferred stocks have been on the rise. Preferred stocks have always offered better yield opportunities than other asset classes -- but the gap has become even wider, thanks to the credit crunch.

## Income Notes

Moody's Investors Service affirmed its top "Aaa" rating on General Electric after GE said it will take more steps to bolster GE Capital. Moody's gave GE and GE Capital a stable outlook, meaning a rating change is not expected.

GE will maintain its annual dividend of \$1.24 per share through 2009. Based on Monday's closing price for GE's common stock of \$15.50 a share, its shares yield 8%, the fourth richest in the Dow Jones Industrial Average and about 2 percentage points higher than the yield on GE's 10-year bonds.

-- Reuters

Though GE reaffirmed its dividend, not all companies are following suit. Citigroup, Genworth Financial and The New York Times Co. are leading 91 companies listed on the biggest U.S. exchanges in reducing or suspending payouts to shareholders this month, the most since May 1958, when 113 companies slashed dividends, according to Standard & Poor's. The reductions in November exceeded the 81 dividend cuts in October and 60 in September.

-- Bloomberg

The average yield for stocks in the S&P 500 is 3.5%, a rate of return that is purely a function of unfavorable mathematics after the U.S. benchmark has plummeted more than -40%.

A six-month CD is only going to net you 2.9%. The average bond yield, as measured by the Lehman Aggregate Bond Index, is still only 5.2%.

But the 12-month yield on preferreds, as measured by the payout on the PreferredsOnline Index, is 10.0%. And dozens of high-quality preferred stocks are paying higher-than-average yields right now.

### Too Much of a Good Thing

Hurt by the credit mess, cash-strapped banks are shoring up their balance sheets by issuing billions of dollars in new preferreds. One of the biggest buyers of these ultra-safe securities has been none other than Warren Buffett, who bought \$5 billion worth of preferred stock carrying a 10% yield from both Goldman Sachs (NYSE: GS) and General Electric (NYSE: GE). Many other companies are offering similar issues.

The increased supply of new preferred stock flooding the market is sending share prices lower. And since share prices and yields move in opposite directions, the supply surge is also lifting yields to historically high levels. That's great news for income investors at a time when great financial news is at low tide, especially as the Fed keeps pushing yields down on everything from Treasuries to money-market accounts.

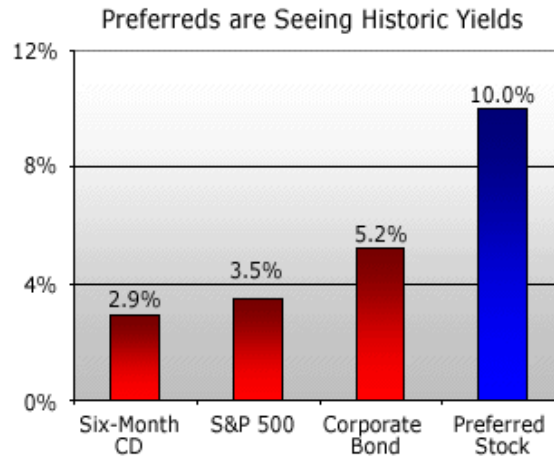
### Preferred Income is Safer

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 pay preferred dividends before common-stock dividends.

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%.

Unlike common dividends, preferred payouts are predictable -- they don't go up and down with a company's earnings. The most recent data from Standard & Poor's, in fact, shows that November was the worst month since May 1958 for dividend cuts. (See "Income Notes" at the top right of this page.)

And after the last few months of whiplash-producing market swings, investors will enjoy the low volatility of these holdings. Preferred stocks are also a great way to diversify your portfolio to ensure regular, timely dividend payments. This is particularly important for retired investors, many of whom depend on their portfolios to pay their monthly bills.



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### 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.](#)

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### Recent Articles

[The "Oddball" Security From Canada Yielding 18%](#)  
By Carla Pasternak  
November 26, 2008

It was greeted as "an oddball security from Canada" when it debuted in December 2003. But investors should be warming up to this special type of security in difficult times. After all, they pay more than four times the average yield delivered by the S&P 500 Index -- while offering the safety of a bond with the upside of an equity.

[Read On...](#)

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[The Special Asset Class Legally Obligated to Pay Yields of 10%... And Even Higher](#)

By Andy Obermueller  
November 12, 2008

One particular asset class has a long history of rising distributions, double-digit yields and strong outperformance

## This Opportunity Will Not Last

Today's unprecedented gap between preferred yields and the yields offered by other investment-grade securities is currently being driven by a temporary supply increase. As more and more investors gobble up the latest preferred offerings, this gap will start to narrow. It's time to lock in these outsized yields.

In the current issue of [High-Yield Investing](#), my colleague Carla Pasternak updated her subscribers on a preferred issue she has held in her "10%-Plus" Portfolio since late 2005. This company's business model is sheer genius: It uses ultra low-cost, short-term loans to buy *government-secured* mortgage-backed securities. In other words, it borrows at a very low rate, collects a relatively high rate and pockets the spread. Simple, but elegant -- and the preferred shares pay a rich 10.3% 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 +6.5% - - outperforming the broader index by 44.2 percentage points! But that's nothing new, as this preferred stock has outperformed the S&P by nearly 50 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. To read Carla's report, [please visit this link](#).

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



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-- thanks to its legal obligation to shower investors with cash. These shares can offer shelter in the storm -- all while generating stellar returns.

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

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