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## Four Income Hotspots For a Prosperous New Year

-- By Andy Obermueller

While most economists agree that the United States will rise out of its recession in the second half of 2009, many of the world's countries aren't in recession at all. In fact, there are quite a few places where things are outright booming. Not only did these countries fare better economically in 2008, they're going to post strong growth in 2009 and through 2010 as well. What's more, stocks in these countries are cheap and, best of all, each of these countries sports a higher-than-average dividend.

You can have it all; you just need to know where to look to find it. In today's issue, we'll visit four countries with robust growth, low valuations and above-average dividends -- think of it as the trifecta for 2009. (See Below)

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### Four Income Hotspots For a Prosperous New Year

Investing in companies that do business in soft economies is like buying a house in a bad neighborhood. The chances that a company will do well move in tandem with its access to customers, capital and opportunity. That's found in vibrant economies, not in stagnant ones. All other things being equal, it's better to invest in companies that operate in countries where prosperous people want to live, work and shop -- just like what you'd look for in a good neighborhood.

That being said, you want to make sure you don't pay too much for the house. A real estate agent will check prices in the area to get a sense of what a property is worth. Well, investors can do the same thing in the stock market. You can ascertain valuation by looking at the earnings multiple of any country's benchmark average and comparing it to historical averages. A dollar of net earnings from a U.S. company, for instance, currently costs \$16.60, as indicated by the S&P's average P/E of 16.6. The average P/E on Russia's MICEX is 3.2; a dollar of earnings from a Russian company costs \$3.20. Which

### Income Notes

Standard & Poor's cut GE's outlook to "negative" last month because of concerns about GE Capital's "future performance and funding." Both companies have the top "AAA" rating.

GE may have to choose between its "AAA" credit rating or its dividend, said Nicholas Heymann, an analyst with Sterne Agee & Leach. GE chief Jeff Immelt has said the company is committed to its dividend. Shares currently yield 7.4%

-- From *Bloomberg* reports

With the economic outlook unsettled, some are remaining on the conservative side. Among them: Harris Investment Group's James Cox, who points to high-dividend-paying stocks such as large pharmaceutical companies. Pfizer, for instance, has an indicated dividend yield of 7.2%. Bank stocks are even more generous, with Citigroup and Bank of America offering dividend yields of 9.5% and 9.0%, respectively.

"It's going to be the year of yield," Cox said.

-- *The Wall Street Journal*

is a better deal? Well, the S&P may be close to being fairly valued, based on its history. The MICEX, on the other hand, is drastically undervalued compared to its historical valuation, which suggests far greater upside.

Now, if you were looking at investing in a rental property, you might not really care where it is as long as you earned a strong return. That's a smart way to look at dividends, too. If a company has a strong business and a solid financial footing, who cares if it's in Timbuktu -- especially if it's paying 8%... 10%... or more? Some of the highest dividends in the world can be found in smaller countries tucked away on the far side of the world.

So let's take a look at four locations that offer all three of the characteristics we discussed above: low valuations and strong yields in growing economies.

#### Czech Republic



This Eastern European nation of 10 million people is one of the most stable and prosperous in Europe. It posted +4.2% growth in 2008 and is expected to see +3.0% growth this year and +3.4% next year. Czech stocks are trading at 6.9 times earnings, -55.2% below their typical valuation of 15.4. The average dividend yield on the Prague Exchange is a robust 6.6%, miles above the S&P 500, which yields 3.0%. After only 10 years, Czech stocks will have earned \$13,775 more than U.S. stocks for every \$25,000 invested, just in dividends alone.

#### Taiwan



This tiny nation continues to benefit from its proximity to China, one of the most booming economies in the world. Its market lost -42.9% in 2008 as the world sold equities and trampled on Asian issues they thought would be adversely affected by the downturn. Still, Taiwan, with its strong export economy, posted enviable +4.0% growth in 2008 and is on track to grow an average +3.5% in 2009 and 2010.

Taiwan's stocks are a steal on a valuation basis. They're selling for a mere 9.6 times earnings, way beneath the five-year average of 16.7 for the benchmark TaieX. And the average dividend yield for the index is a whopping 8.1%, so you're making good money while you wait to capture huge capital gains.

#### South Africa



South Africa is part of the world that is most often overlooked by investors. Many are familiar with Asia because of the rise of China or with South America because of the emergence of Brazil. But Africa is still largely unknown to investors.

That's too bad. South Africa will likely replicate its '08 growth of +3.4% this year and see a +5.3% expansion in 2010. Its average dividend is a respectable 4.4%, and stocks are roughly -32% off their historical valuation of 12.6 times earnings. South Africa is thought of as an emerging market, but with mature banking, energy and legal systems, as well as modern infrastructure, South Africa doesn't seem like a third-world country. Its returns for the foreseeable future will be the envy of most countries in the "developed" world.

#### Chile



The biggest vote of confidence for this country has come from Wal-Mart (NYSE: WMT), which recently announced plans to spend \$2.8 billion to acquire the thin country's largest grocery store chain. Wal-Mart doesn't do anything that doesn't make the company money. And its due diligence evidently turned up what we found:

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December 24, 2008

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By Nick Lanyi  
December 3, 2008

In tough times, investors look for safety. And nowhere is this easier to find than with preferred stocks.

Namely, Chile is a South American gem that posted +3.9% growth in '08 and will see +2.8% growth this year and +3.8% growth next. There is not a single country in Western Europe that will even come close to that. What's more, Chilean equities are trading for 12.5 times earnings, a fire sale given the nation's average of 20 times earnings. One of the best ways to invest in Chile is in its largest bank, Banco Chile. It's not only yielding more than 12%, but its shares trade on the New York Stock Exchange -- you can buy them under the ticker BCH today, without opening a special international trading account!

As always, many happy returns!



-- Andy Obermueller  
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