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As Markets Rebound, It's Time to Revisit this Highly Profitable Dividend Strategy

-- By Carla Pasternak

The S&P 500 is currently up over +39% from its lowest point this year. Firms are starting to show signs of recovery from a prolonged market downturn. These rebounding markets present a unique opportunity to revisit a tried and true strategy to generate income.

Today we'll examine what this strategy is all about, and why it becomes even more effective as the markets improve. *(Full Story Below)*

Also in Today's Issue...

Capture 14% Yields and Total Returns up to +185.6%

On the last trading day of 2009, 94% of the picks in this high-yielding portfolio were up. Most of them have returned more than +10%, and several have returned +100% or more. But the best part is that these picks carry stable yields of up to 14.3%!

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As Markets Rebound, It's Time to Revisit this Highly Profitable Dividend Strategy

The dividend capture strategy is a unique approach to the market, but it shares one thing in common with any successful investing idea, it has immense profit possibility. In each issue of [High-Yield Investing](#), we include a "Dividend Capture Dates" section. The strategy is pretty simple: You buy a dividend-paying stock right before it's about to go ex-dividend, hold it at least 61 days so the income qualifies for the lowest possible dividend tax rate, and then sell it and use the money to buy another stock that's about to go ex-dividend.

With the right timing, you can grab huge special payouts when a company puts in a strong performance or is restructuring. There's one problem, though. Once the stock goes ex-dividend, the share price typically drops by at least the amount of the dividend. Some stocks fall even more after offering large payouts, and there are no guarantees they will recover. When that happens, you could end up losing more from the lower share price than you made in the dividend.

Income Notes

U.S. 10-Year Treasury Bonds have raced to a yield of 3.7% over the past two weeks after hitting a recent low of 3.1% on May 13th. This surge marks a continued increase since an all-time low of 2.07% on December 18th of 2008.

-- GDO Research Staff

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.

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[There's Still Time to Make This Double Play and Lock in a 11.9% Yield](#)

By Amy Calistri
May 26, 2009

Both foreign currency valuations and metals prices are coming off their lows. Investors exploiting either trend are starting to see

For example, The Korea Fund (NYSE: KF), a large investor in public equity markets in Korea went ex-dividend on December 29th of 2008 for \$90.30. Following the critical date of the ex-dividend, shareholders responded by plunging the stock from \$117.99 to \$32.02. After that, the fund never regained its lost ground.

As you can see, I think it's vitally important to consider the risks of the dividend capture -- risks of the share price falling below your original investment capital, of the dividend being cut or suspended even after it was declared. Or even the most severe, risk of the company going bankrupt.

While there is no surefire way to mitigate the entire risk of the dividend capture, you can alleviate some of the downward pressure of the approach by rotating in and out of stocks. You can pair two stocks that pay quarterly dividends at different intervals and hold onto each for the minimum required 61 days to get the reduced dividend tax rate. By doing so, squeezing out two extra payments per year with the same investment capital.

Let's say "Stock A" and "Stock B" each sell for \$100 per share and pay a 12% dividend yield (each delivers a total annual payment of \$12 per share). That equates to a dividend payment of \$3 per share each quarter. By rotating in and out of the two stocks, you can capture six tax-advantaged quarterly dividends each year, or \$18 per share. In other words, you can boost your yield from 12% to 18% by rotating in and out of these two stocks.

Here's an example of how it might work. Say you buy "Stock A" before it goes ex-dividend at the end of December and sell it at the end of February. You pocket \$3 per share from "Stock A." You then use the money you get from selling "Stock A" to buy "Stock B" before it goes ex-dividend at the beginning of March and sell it at the end of April. You pocket \$3 per share from "Stock B."

You rotate in and out of these two stocks six times, buying one just before it goes ex-dividend, holding it for the minimum required 61 days, selling it after you've pocketed the dividend, and using the funds to buy back the other one, as shown in the table below

Purchase Date	Sell Date	Dividend
Dec. 31	Feb. 28	
Buy A	Sell A	\$3
Mar. 1	Apr. 30	
Buy B	Sell B	\$3
May 1	Jun. 30	
Buy A	Sell A	\$3
Jul. 1	Aug. 31	
Buy B	Sell B	\$3
Sep. 1	Oct. 31	
Buy A	Sell A	\$3
Nov. 1	Dec. 31	
Buy B	Sell B	\$3
	Total	\$18

While this strategy can boost already impressive yields, it's not risk-free. Funds using this approach have been badly beaten up in the market downturn. But, now that the market seems to want to rally, this may be an opportune time to consider a dividend capture strategy.

above-average gains. But investors shouldn't settle for just double-digit appreciation. After all, there are investments that are capturing both these trends -- and paying double-digit yields to boot.

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-- Carla Pasternak
Editor, GlobalDividends.com

P.S. Want to learn more about the dividend capture strategy? Then, receive more information from Carla's *High-Yield Investing* newsletter by [following this link](#).

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