



Carla Pasternak's

# Dividend Opportunities

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## Three Secrets to Earning Double-Digit Yields From Oil

-- By Tom Hutchinson

After crashing -75% last year amidst panic from the financial crisis, oil prices are back on the rise. Prices have already doubled since March. But did you know you can also earn high yields from oil? But only if you know where to look. I've found three ways you can lock in regular income of 10%... 12%... even 14% or more from oil. *(Full Story Below)*

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### Three Secrets to Earning Double-Digit Yields From Oil

Future historians may well define our current time on Earth as the "oil age."

It is estimated that the world consumes 80-85 million barrels of oil per day. And as industrialization expands across the globe on an unprecedented scale, long-term demand is on the rise.

Over the past year, however, the price of oil has fallen. The financial crisis and worldwide recession caused oil prices to plummet from a high of about \$147 per barrel last summer all the way to \$34.

But, things are changing. As panic from the financial crisis has ebbed, crude oil prices have already begun to rise, doubling to \$67 per barrel today. In fact, Goldman Sachs revised oil price forecasts from a previous \$45 per barrel in 2009 to \$85 per barrel by the end of 2009 and \$95 by the end of 2010.

But if you're an income investor, how can you turn black gold into high income? You can't do it with the major oil companies. ExxonMobil (NYSE: XOM) is only yielding about 2.3% and Chevron (NYSE: CVX) only yields about 3.8%. Instead, you need to expand your options...

I've found three areas investors can use to supercharge their income by earning double-digit yields -- all powered by black gold.

### Income Notes

\$115 Billion

Amount of Treasury notes slated for auction this week. A record \$42 billion worth of two-year notes were sold on Tuesday.

-- IU Research Staff

The U.S. has raised \$1.02 trillion in new cash this year selling Treasury securities to help finance a recovery from the recession, government data show. It may sell another \$1.1 trillion in the second half of the year, according to Barclays, as President Barack Obama borrows record amounts to stimulate the economy and service deficits.

-- Bloomberg

### Breaking News

[Get Risk-Free Returns of Up to 4.5%](#)

For investors who shun risk, there are some surprisingly good rates of return out there these days. You just have to know where to look.

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Oil Income Play #1: Canadian Trusts -- Yields of 10% or More  
Our first stop for income from oil is a land where the yields are ripe, luscious and double-digit -- and it's just north of the border. Canadian royalty trusts are oil and gas producers that typically pay sky-high distributions. They are able to pay high yields because they don't have to pay corporate income taxes if they distribute the bulk of their income to unitholders. Many of these trusts are currently paying as high as 10% to 14%. For example, Penn West (NYSE: PWE) pays an 11.5% yield.

Even though they are found in Canada, it's easy as pie for stateside investors to buy Canadian trusts. Many trade right on the NYSE. You can buy them just as easily as buying a common stock.

The distributions from the trusts typically qualify for the 15% maximum tax rate. While there is a 15% Canadian withholding tax, you can claim this as a foreign tax credit. In addition, distributions are usually paid in Canadian dollars. If the U.S. dollar falls against the Canadian dollar (which it has by more than - 15% since March), your distributions rise when converted into U.S. dollars -- boosting your income without the trust even raising its payment.

Oil Income Play #2: Master Limited Partnerships -- Steadily Rising Income

If you want to trade in a few points of income for steadily rising payments, then master limited partnerships are what you're looking for. This asset class still offers high yields, but it's famous for consistently raising payments to investors. Well-known MLP Kinder Morgan (NYSE: KMP) paid just \$0.475 per share each quarter in 2001... but now pays \$1.05 every quarter.

Most MLPs are in the energy arena. A majority make their money by owning oil and gas pipelines and processing facilities. They essentially act as toll roads -- receiving a fee based on the amount of volume shipped via their network.

MLPs allow for "pass-through" income. This means that they're not subject to corporate income taxes. The result is that more cash is available for distributions than would be available if the company had incorporated.

Most MLP distributions are comprised of about 20% net income and 80% return of capital (which is really just an allowance for depletion or depreciation). The income portion is generally taxed at your ordinary income tax rate. Return of capital distributions lead to a reduction in your cost basis, meaning you don't pay taxes on the return of capital portion until you sell the security, making MLPs ideal for long-term investors.

There is one glitch with MLPs. Individual MLPs aren't suitable for individual retirement or other tax-deferred accounts because they generate a type of income called "unrelated business taxable income" (UTBI). If your retirement account earns more than \$1,000 of this income, then you'll end up paying taxes on it. As a result, you probably want to hold MLPs in a regular brokerage account.

Oil Income Play #3: Closed-End Funds -- Professional Management  
If you're looking to earn high yields from oil and enjoy professional management, then my third find is the perfect match.

With closed-end funds focused on oil and energy, you'll own a share of a vast portfolio of stocks that would be nearly impossible to select and amass yourself. Also, funds have the resources and expertise to search every corner of the globe for the best opportunities.

Many funds even use techniques like writing call options to boost their yields for investors. It's no surprise then that I've found more than 20 funds focused on the energy sector yielding above 6%.

Taxation of funds will vary from fund to fund, depending on where its income is sourced. But in some cases funds they can actually make taxes easier. For

Leading economists say the government's huge spending and recent actions by the Federal Reserve must inevitably lead to inflation. And believe it or not, that can be a profitable opportunity.

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instance, the the Kayne Anderson Energy Total Return Fund (NYSE: KYE) invests in a basket of master limited partnerships. The fund takes care of the UTBI problem mentioned above -- and actually makes tax time smoother for investors.

Good Investing!



Tom Hutchison  
*Carla Pasternak's Dividend Opportunities*

P.S. -- My friend and colleague Carla Pasternak has an entire section of her "Dividend Optimizer" Portfolio dedicated to MLPs. To see her latest holdings you have to be a subscriber. To learn more, [visit this link](#).

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