



Carla Pasternak's

# Dividend Opportunities

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Wednesday, August 8, 2009

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## Tell Uncle Sam You Won't Be Paying Taxes This Year

-- By Carla Pasternak

There are such things as tax-free investments. Municipal bonds help build roads, bridges and schools... and you don't have to pay federal taxes on your income from them.

But many investors shun bonds -- they think they're too hard to buy and sell. I'll show you how you can lock in tax-advantaged yields approaching 10%... and buy or sell "muni" bonds just like a stock. Plus, you'll learn how to get our list of 44 intriguing muni funds that will help you say goodbye to the taxman. *(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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There's a reason penny stocks have been Wall Street's favorite hidden investment for years now: they give the best shot at winning it big.

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### Tell Uncle Sam You Won't Be Paying Taxes This Year

If you're looking for income sheltered from Uncle Sam, look no further than the opportunity in municipal bonds.

Earlier this year, panic-stricken municipal bond investors were fleeing for the exits. The muni market was roiled by fears that issuers would default and bond insurers couldn't make good on their guarantees. Bond prices plunged. Yields, which move inversely to prices, were the highest relative to comparable Treasuries in half a century.

Now the fears appear to have been largely overblown, and what seemed like a crisis was really an opportunity (as I told *High-Yield Investing* readers back in March). The pendulum has swung in the other direction as value-seeking investors move back into the market -- but bargains still abound.

For example, Western Asset Municipal High Income Fund (NYSE: MHF) reached almost \$8.50 a share in 2008. Then last September it began a steep plunge, hitting a low of \$5.12 a share on October 10th. Back then, it was yielding an unprecedented 8.7%. Today, the yield has come down, but it's still a solid

### Income Notes

1,235

Number of exchange-traded income securities available on the U.S. markets. These special securities are actually bonds -- but they trade on the NYSE and Nasdaq just like common stocks, giving income investors the best of both worlds.

-- IU Research Staff

\$1.3 Billion

The amount of dividends Berkshire Hathaway is expected to earn this year based on its holdings as of March 31st.

-- Examiner.com

### Breaking News

[Is Your Favorite Stock About to Cut Its Dividend?](#)

367 companies have cut or suspended dividends this year alone. Here's the best way to avoid these losers. Plus we'll give the names of two stable dividend payers you can depend on, including one with a sky-high 16.2% dividend yield.

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6.0%.

That may not sound like much, but the income can be tax-free. Municipal bonds are issued by state and local governments for things like building schools and repairing bridges. The federal government doesn't tax the income earned from munis as an incentive to invest.

So really that 6.0% yield turns into a taxable-equivalent yield of 9.2% if you're in the highest tax bracket. In addition, there is the potential for capital appreciation. As you can see in my chart, the spread between munis and comparable Treasuries has narrowed (indicating the fear of default has lessened) -- yet MHF is still well below the highs it saw back in 2008.

But many investors are scared away from investing in bonds -- they seem archaic, and a lot of folks aren't sure how to trade them.

To battle this, you might look toward closed-end funds focused on muni bonds. These muni funds are as simple to buy and sell as a stock, and you can access them through any full-service or discount brokerage account. The funds offer access to a professionally selected basket of bonds and, unlike an individual bond which pays interest twice a year, many CEFs pay their tax-advantaged distributions every single month.

But not every fund will cut the mustard. There are a few things you should know before diving into just any muni fund...

#### How to Pick the Safest Muni Funds

If safety is your top priority, you want a fund focused on general obligation bonds. These bonds are backed by the tax revenues of the state, city, or school district that issues them. If needed, the issuer can raise taxes to repay the principal and interest. In contrast, revenue bonds and industrial development bonds are backed by the revenue streams of a specific project or facility, which tend to be less secure.

Pre-refunded municipal bonds can also offer a greater degree of security. These are previously issued munis which are secured by an escrow fund. Escrow funds using U.S. Treasuries or State and Local Government Series (SLGS) to make bond payments are generally the most secure.

#### Leverage -- a Double-Edged Sword

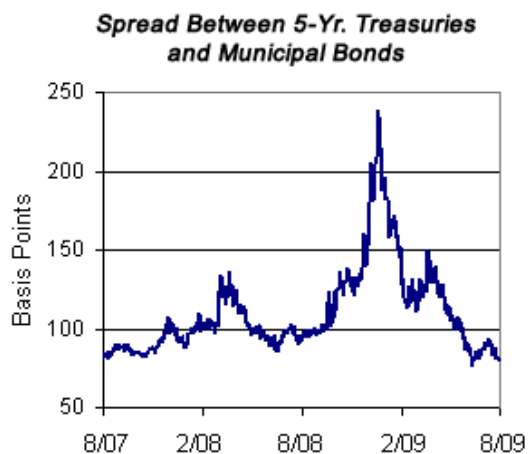
Most closed-end muni funds use leverage to juice yields. They borrow money by issuing floating-rate preferred shares or investing in tender-option bonds and use these short-term loans to buy longer term, higher-yielding munis. Some investors love this because it means they can earn even higher yields.

The problem with preferred shares is that regulations require an asset coverage of 200% -- assets have to cover the value of preferred shares issued by 2-1. If that level isn't maintained, the fund can be forced to cut or suspend its distribution to preserve cash.

Most funds are careful to watch this line, but in the market turmoil between October and March, falling asset values forced some funds to cut their payments.

#### How to Stop Interest Rate Risk in its Tracks

Investors should also check into a bond fund's "duration." Simply put, a bond's duration refers to the number of years it takes for you to get back your original



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The average American earns almost nothing -- just 0.64% -- on his or her checking account. Stop throwing your money away and start earning nearly 5%. Here's how.

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#### [Why Utilities Are Set to Repeat History](#)

Utility stocks offer predictable cash flows and hefty dividend yields. And if you get the timing right, they can deliver huge capital gains. The last time utilities were at today's levels, they surged +145%.

[Read On...](#)

capital through both interest payments and the return of principal at maturity. A short duration of say, two years, means you will get back your capital in about two years, either from high interest payments or a short maturity date.

Duration also measures a bond's interest rate risk. A bond or bond portfolio with a 10-year duration has a greater chance of suffering from rising interest rates. If rates rise, the bond price will fall to match the prevailing yield of new bond issues. Longer-duration bonds generally offer higher yields to compensate investors for the greater potential risk.

If you're interested in tax-free municipal bond funds, my research staff has put together an exciting list of muni funds for new [High-Yield Investing](#) subscribers. They found a total of 44 muni funds yielding more than 6% that also trade below the value of their assets. Their top find pays 10.9%, for a taxable-equivalent yield of 16.8%. [Subscribe today](#) and you'll receive this exclusive list.

Good Investing!



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