



Carla Pasternak's

Dividend Opportunities

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The Just-Released Formula for Predicting High-Yield Winners

-- By Carla Pasternak

It's the ultimate law for income investors: Total returns are a combination of dividends paid and capital gains. Unfortunately, capital gains are largely ignored by many investors seeking a stable income stream.

But I've run across a new study that will help you find the best way to add capital gains to your returns, and in the process, help you predict future high-yield winners. *(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%!

[Go here to see for yourself.](#)

Turn a \$200 investment into \$1 Million

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.

[Click Here to get in on these Hidden Investments!](#)

The Just-Released Formula for Predicting High-Yield Winners

I doubt you've ever heard of John Wightkin.

He's the Director of Equity Research Applications of the Schwab Center for Financial Research. Sure that's a fancy title, but John is doing some very important work in the field of income investing.

In fact, John Wightkin just confirmed what I've been telling my readers for years. But he also uncovered an exciting way to add a shot of capital gains to income investing by predicting the next high-yielding winners.

The New Study that Leads to Capital Gains

John just published a study last month where he asked the question "Should income investors purchase the highest-yielding stocks they can find?" His answer was a resounding "No!"

I've been telling readers this for years -- suspiciously high yields are typically warning signs -- but John's study was second to none.

Income Notes

\$1,305

The amount Alaska is paying each of its citizens from the state's oil-wealth trust fund.

The annual payment will be less than half last year's amount, due largely to a tough year for the Alaska Permanent Fund. The fund lost -18% of its value in fiscal 2009.

-- DO 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.

[Click here to get her latest pick.](#)

Breaking News

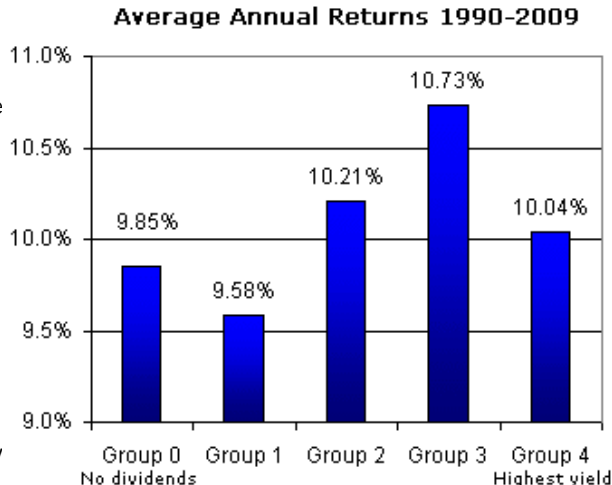
[How Buffett Loses \\$4.5 Billion a Year](#)

Buffett's focus on value has placed him among

He derived his conclusion by dividing the 1,500 largest stocks by market cap into five groups based on yield and studying these groups over a 20-year period. Group 0 paid no dividends, groups 1, 2, and 3 paid progressively higher dividends, and group 4 was composed of the highest yielders.

As you can see from the chart, Groups 2 and 3 handily beat the performance of group 4 (the highest yielders) on an annual total return basis. That's right -- stocks with lower dividends outperformed the higher yielders on a total return basis.

The reason: Group 4 stocks had twice as many dividend cuts as stocks in other groups. Instead of unusually high yields being a sign of fundamental health, it was the opposite. In many cases, a large drop in the share price had occurred and the stock had not cut its dividend -- yet.



But should you completely avoid high-yield stocks? Wightkin rightly points out it's foolish to avoid them in entirety.

The secret is to find those winners among this group -- those that pay safe high yields. These are the ones that will provide the tasty combination of income and price appreciation.

His key to identifying the best of the best: Look to the stock's price momentum over the last six months.

Momentum itself was measured by a simple formula:

$$(\text{Price Today} / \text{Price Six Months Ago}) - 1$$

If, for example, "High-Yield Darling" is trading at \$15 a share now and was \$10 six months ago, its momentum would be 50% ($(\$15 / \$10) - 1 = 0.50$ or 50%).

John's study showed that high-yield stocks in the top fifth of their peers in terms of six-month momentum returned +11.5% annually over the last 20 years. Those in the lowest fifth returned only +7% annually.

There are many possible explanations why these stocks typically outperform the market going forward. Wightkin's favored hypothesis is that investors often "under react to information about a firm's short-term prospects and often over react to information about long-term prospects -- which provides opportunities in the intermediate term."

Whatever the reason, the point is clear -- stocks that have outperformed in the past six months have a reasonable probability of continuing to outperform over the next year.

Further, stocks with the highest momentum and yields had superior fundamentals to those with lower momentum. These fundamental strengths showed up over time in providing more dividend increases and fewer dividend cuts along with more increases in analysts' earnings estimates and fewer decreases.

Despite John Wightkin's study, I'll always continue drilling down into the nuts

the richest men in the world. But his decision to ignore this pillar of value investing has Berkshire shareholders missing out on billions each year.

[Read On...](#)

[This Growing Company Yields Four Times the Competition](#)

Anheuser-Busch InBev's shares have returned to the New York Stock Exchange, but it's not the best beer play there. This brewer is a better value -- and it pays a higher dividend.

[Read On...](#)

We're Finding Stocks Paying \$26,500 a Year in Dividends

Now is a great time to invest. Every dollar we're investing is giving us two, three, four even five times as much income as it did just a year ago -- it's as if a giant "multiply your money" certificate has dropped into our laps.

[Click here to learn more.](#)

and bolts of a company's dividend before investing -- there's simply no substitute for due diligence. But using his metrics does give investors a good place to start their income search.

Good Investing!



Carla Pasternak's Dividend Opportunities

P.S. -- In my October issue of [High-Yield Investing](#) I ran a screen for high-yield stocks that were also showing strong momentum over the last six months.

Of my 10 winners, one interesting name that made the list was DTE Energy (NYSE: DTE). You may remember that DTE was a finalist for [The Safest Dividend in the S&P](#) a few weeks ago. The stock has returned +30% in the last six months and still yields 6.0%.

To see the rest of my list, including my highest-yielding momentum stock (which pays 9.2%), please [visit this link](#) to subscribe. Remember, your subscription comes with a 90-day money-back guarantee!

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