



Carla Pasternak's

# Dividend Opportunities

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## Capture 13.0% Yields From the World's Most-Hated Sector

-- By Tom Hutchinson

Right now, there are double-digit yields just ripe for the picking, and they exist in the most maligned sector of the economy. Snake-bitten investors have abandoned financials in droves, but in their wake they've ignored some enticing opportunities. *(Full Story Below)*

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### Capture 13.0% Yields From the World's Most-Hated Sector

I just found one of the safest 13.0% yields I've ever seen -- and it's in a place practically no income investor dreams of looking right now.

In addition, I've found securities few American investors even know exist that are offering incredible dividend growth potential.

Believe it or not, both of these opportunities exist in the beleaguered and hated financial sector. Investors threw out the good along with the bad and the ugly during the financial crisis. But sifting through the rubble, there's still plenty of good -- if you like double-digit yields.

You see, while failing banks have captured all the headlines, certain financials actually avoided risky derivatives and multi-billion dollar write-offs. There are also companies that have kept earnings and dividends at pre-financial crisis levels. But because of their association with a hated sector, many investors simply walked away and have ignored them since.

And while some smart investors have already come back into the sector to pick the lowest-hanging fruit (In fact, Carla has been alerting her [High-Yield Investing](#) subscribers of opportunities in financials since December), there are still areas where you can lock in mouth-watering yields.

### Income Notes

Reynolds American (NYSE: RAI) recently raised its quarterly dividend by +5.9%, from \$0.85 per share to \$0.90 per share.

You may remember RAI as a finalist for Carla's article [The Safest Dividend in the S&P](#).

-- DO Research Staff

TransDigm Group Inc. (NYSE: TDG), which makes aircraft components, said Tuesday its board of directors authorized a one-time cash dividend of \$7.65 per share of common stock.

The dividend is payable Oct. 26th to shareholders of record on Oct. 16th.

The company also said it completed its \$425 million offering of senior subordinated notes announced last month. The proceeds from the 7.75% notes due 2014 will be used to finance the one-time dividend.

TransDigm said it had \$190 million in cash as of Sept. 30th and an undrawn revolver of about \$200 million.

-- Associated Press

One Stock a Month is All You'll Ever Need

In particular, I've found the three following areas within the financial sector that are serving up juicy yields.

#### Canadian Banks

If you think big banks with high yields and strong growth prospects are a thing of the past, think again. They still exist; they're just north of the border.

The largest Canadian banks are dividend machines that have collectively grown dividends by an average of roughly +15% per year over the past five years. While current yields of up to 5% may not "wow" many income investors, prospects for dividend growth have rarely been better.

Canadian banks didn't have nearly the subprime and bad loan exposure of most large U.S. banks. And unlike most of their G7 counterparts, Canadian banks didn't require capital injections from the government. It shouldn't be a surprise, then, that profits are on the rise. While all of the six largest Canadian banks reported profits last quarter, four of the six reported higher profits than a year ago and three reported all-time record profits.

These banks are poised to continue gaining business and prime assets at the expense of their struggling stateside counterparts. For example, as investment firms struggle and Goldman Sachs and Morgan Stanley succumb to stricter regulations as traditional banks, lucrative underwriting and merger and acquisition business is opening up for some Canadian banks like never before. In addition, a strong Canadian dollar puts these banks in an ideal position to acquire prime U.S. banks and assets at compelling values.

This growth will likely lead to higher future dividends. Investing in select Canadian banks now is an ideal way to grab a piece of solid and growing payments.

#### Mortgage REITS

I mentioned earlier that I found one of the safest 13.0% yields I've ever seen.

This yield comes from a type of security that's scared most investors away -- mortgage REITS. These companies invest exclusively in mortgage-backed securities.

But aren't mortgages what got us into this mess?

Maybe so, but contrary to popular perception, business has never been better for well-positioned mortgage REITS. The government has stepped in to bolster Fannie Mae and Freddie Mac, making the mortgage-backed securities held by many mortgage REITs as safe as Treasuries.

The REITs simply borrow at short-term interest rates and invest in longer-term, higher-yielding mortgages, thus making money on the spread. With low rates on short-term borrowing, spreads are historically high.

That's allowed REITs like Annaly Capital (NYSE: NLY), which yields 13.0%, to make high, safe payments to investors.

#### Preferred Stock and Exchange-traded Bonds

Carla mentioned the virtues of investing in exchange-traded bonds and preferred securities just a [couple of weeks ago](#), and she was spot on.

These securities are a dream for investing in financials. They pay regular and predictable income on a consistent basis. The beauty of these securities is that payments don't fluctuate with the underlying company's earnings. Market fluctuations and economic cycles are only a concern as to whether the underlying company can continue to make payments.

Preferred stocks and exchange-traded bonds of most financial institutions have managed to continue to make regular payments throughout the financial crisis. For instance, while Wells Fargo has to cut its dividend by more than -85%

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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Few companies have been consistently buying back shares and increasing dividends year after year. Here are two that not only do this, but also yield 6% or more.

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during the crisis, its 8.625% Trust Preferreds (NYSE: WCO) kept right on paying investors. At the height of the crisis, these securities were paying yields as high as 15% as investors fled anything related to financials. Today they still yield over 8%.

It just goes to show some of the opportunities awaiting investors in the most-hated sector of the market.

Good Investing!



Tom Hutchison  
*Carla Pasternak's Dividend Opportunities*

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