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How to Earn 8.8% From Government Bonds

-- By Amy Calistri

With the headlines about Greece, many investors are thinking twice about sovereign government debt. But as you'll see, that's exactly why I like it and why I'm using sovereign debt funds to lock in yields of 8.8%.

(Full Story Below)

Also in Today's Issue...

Collect up to 51 Dividend Checks a Month

Read Amy Calistri's 3-step guide to the "Daily Paycheck" strategy and see 8 picks to start your own daily income machine. One man is already using this strategy to collect more than \$3,000 a month.

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An +18.2% Gain in Only 13 Days

This analyst keeps picking winners. She has an 87% win rate and her latest pick made her +18.2% in just 13 days. All told, her portfolio of closed trades is up +30.3%.

Her next pick will be out soon -- [go here now to make sure you don't miss it.](#)

How to Earn 8.8% From Government Bonds

Tax time is rolling around. And it's one more time when I'm reminded about how much I pay -- and potentially still owe -- the government. So I thought this was a fitting time to turn the tables -- and get a government to pay me for awhile.

I could ask the U.S. government to pay me, but it wouldn't be that impressive a paycheck. The yield on the 10-Year U.S. Treasury note is only 3.7%. Luckily, I don't have to settle for that. After all, a lot of other countries issue debt. And because of the scary headlines about government debt, now may be a good time to jump in.

Government bonds are relatively safe compared with other types of debt. Companies and individuals can go bankrupt. But because governments have taxing authority, they can usually meet their debt obligations, come hell or high water. And no country wants to default, as it would shatter its credit rating and raise the cost of future borrowing.

That being said, some governments have defaulted. Russia defaulted on \$73 billion of debt back in 1998 -- causing the currency to plunge more than -70% and forcing the country to pay a +7.5% premium on newly issued debt. In 2001, Argentina defaulted on \$82 billion of debt, crippling its economy for years. Peru, Ecuador, Moldavia, and Uruguay are also among the handful of countries that have had issues paying back government-issued debt in the last 30 years.

Income Notes

Not sure where to park your money? High-yield debt may not be a bad place.

Over the last 10 years (1999-2009), the Merrill Lynch High Yield Master II Index -- a benchmark for sub-investment grade debt -- has returned +6.7% annually. Compare that to the S&P 500's annual return of less than +1%.

-- Research Staff

Why I Buy Every Stock This Analyst Recommends

First, every month she puts out her single best pick for today's market. Next, she keeps picking stocks that make money. (She has an 85% win rate, and July's pick shot up +18.2% in just 13 days.)

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

Breaking News

[This Micro-Cap "War" Stock Has Hike Dividends +500% and Now Pays 10.1%](#)

This unique little company pays a stable double-digit yield and trades at bargain levels. Still, few are paying attention.

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[These Two Letters](#)

Lower Default Risk

But even accounting for these well-known defaults, the sovereign debt default rate is still far below that for corporate debt. In a study conducted by Moody's, the credit-ratings agency found that the default rate on investment grade sovereign debt was just 0.667% after 10 years of issuance, compared with the corporate investment-grade default rate of 2.008%. Even speculative sovereign debt had a default rate nearly -30% lower than sub-investment grade corporate debt.

In fact, the sovereign default rate is so low, sometimes its true risk gets underestimated. Ratings agencies and debt insurers can get complacent, especially when assessing the risks of default from developed, and economically "more stable" countries. This can result in debt that isn't accurately priced for its risk. And when investors aren't being properly compensated for their risk -- that's a problem.

Greece is in hot water. The country's debt grew so large that investors began to worry about a potential government default. Other European Union members like Portugal and Spain also have monumental debt burdens.

So why is this good news for prospective sovereign debt buyers?

Safer Risk-vs.-Return Environment for Investors

It means that everyone is examining sovereign debt with a fine-toothed comb. It improves the chances that debt is being properly priced for its risk. And it means investors are being appropriately paid for their risk.

It reminds me a little of the 80's movie, *The World According to Garp*. The main character, played by Robin Williams, and his wife are shopping for a house. As they stand outside a prospective home, a small plane flies into the house. Williams immediately says, "We'll take the house. Honey, the chances of another plane hitting this house are astronomical. It's been pre-disastered. We're going to be safe here."

While sovereign debt isn't necessarily "pre-disastered" from default, the risk that it is overpriced or underinsured is lower today than before the scary headlines started hitting the newsstands.

For investors, the world of sovereign debt was all but closed just a few years ago. However, thanks to the proliferation of exchange-traded and closed-end funds, buying into the sovereign debt of everywhere from Thailand to Turkey is now as simple as buying a few shares on the NYSE.

And the yields are downright mouth-watering. In the March issue of my [Daily Paycheck](#) newsletter, I took the opportunity to add two new funds to my portfolio that are focused on sovereign debt. Among the picks -- a closed-end fund yielding 8.8%. This yield is high for a sovereign debt fund, but it's not unheard of.

An added bonus? Most of the funds investing in sovereign debt pay income monthly -- a nice treat for us income investors.

Good Investing!



[Could be the Secret to High Yields](#)

Wait until you see how a small change in the way "pink sheet" stocks are listed opens up a fertile hunting ground for income investors. I've even flagged one intriguing pick that comes thanks to the recent change.

[Read On...](#)



Amy Calistri
Chief Investment Strategist -- [The Daily Paycheck](#)

P.S. -- I mentioned above a closed-end fund yielding 8.8%. I added 250 shares of this pick to my *Daily Paycheck* portfolio on Monday afternoon. I invite you to learn more about subscribing by [visiting this link](#). Once a subscriber, you too can read the entire profile of this high-yield pick in my March issue.

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