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is



**THE
DIVIDEND
DETECTIVE**

DividendDetective.com

DIVIDEND DETECTIVE

www.dividenddetective.com

Free Lists

- 800 High-Dividend Stocks
- Real Estate Investment Trusts
- Master Limited Partnerships
- Canadian Royalty Trusts
- Closed-End Funds
- Business Development Corporations
- Monthly Dividend Payers

Free Tutorials

Everything You Need to Know About:

- Preferred Stocks
- Closed-End Funds
- Master Limited Partnerships
- Real Estate Investment Trusts
- Canadian Royalty Trusts

DIVIDEND DETECTIVE PREMIUM

\$5 first month, then \$15 per month

- Dividend Detective Highlights: the best of Dividend Detective in printable format
- Top 50: highest yielding 50 stocks
- Sample Portfolios: short lists of stocks to buy in three different categories
- Monthly Commentary: news and views about our portfolios, dividend stocks in general, and the overall market.
- Ex-Dividend Calendar: all stocks going ex-dividend within the next four weeks.
- Dividend News: breaking dividend news, continuously updated.

Followed Portfolios

(buy/sell recs on all except Monthly Dividend Payers)

Preferred Stocks • Closed-End Funds • Master Limited Partnerships • Monthly Dividend Payers • Canadian Royalty Trusts
Mfg. & Service Stocks • Insurance Stocks • Large Banks • Regional Banks • Real Estate Investment Trusts •
Utilities • Oil Stocks • Business Development Corps.

24 hr. customer service: 866-632-1593 (toll free), 661-621-9660 (direct)

Why Dividend Stocks

Annaly Capital Management



Stock Price

5/30/08: \$17.81

5/28/10: \$16.96

Price Appreciation: **-5%**

S&P 500: **-22%**

Total Return:

Price Appreciation + Dividends Received

Dividends: \$4.79/share

24-mo Return: **22%**

Dividend Basics

- U.S. Stocks: Most Pay Quarterly Dividends, some pay monthly
- Foreign Stocks: Could be quarterly, semiannual, or annual

Dividends

- Usually cash
- Sometimes stock

Dividend Yield (expected next 12 months dividends divided by share price)

- Websites Estimate Next 12-Month Dividends
 - 4 x last quarterly dividend
 - Published Yield = Est. Divs divided by Current Price
- Your Yield = 12-mo Dividends Received divided by price you paid

Real Estate Investment Trusts (REITs)

	<u>Business</u>	<u>Yld.</u>	<u>*12-Mo Return</u>	<u>*YTD Return</u>
Annaly Capital Management	Mortgage: Agency	15.5%	37%	4%
Hatteras Financial	Mortgage: Agency	17.4%	29%	7%
LTC Properties	Property: Healthcare	6.0%	18%	-9%
Medical Properties Trust	Property: Healthcare	8.3%	43%	-10%

- Invest Solely In Real Estate
 - Property REITs
 - Mortgage REITs

Property REITs

- Typical yields: 4% - 7%

Retail

Healthcare

Lodging

Industrial

Office

Mixed Industrial/Office

Residential

Specialty (self-storage, restaurants, etc.)

Mortgage REITs

- Typical yields: 9% - 16%

- Borrow at short-term rates

- Profit margin based on spread between short & long-term rates (yield curve)

Agency

- Buys U.S. Gov. insured mortgages from Fannie Mae & Freddie Mac

Non-Agency

- Buys mortgages not insured by government agencies

- Borrows at short-term rates

- Profit margin based on spread between short & long-term rates (yield curve)

* All returns as of May 31, 2010

Energy Partnerships (MLPs & LLCs)

	<u>Business</u>	<u>Yld.</u>	<u>12-Mo Return</u>	<u>YTD Return</u>
Energy Transfer Partners	Nat. Gas Pipelines	8.1%	7%	1%
Inergy	Propane Distributor	7.6%	47%	3%
NuStar Energy	Oil/Refined Product Pipelines	7.7%	9%	2%
Vanguard Natural Resources (LLC)	Oil & Natural Gas Production	9.9%	76%	5%

Master Limited Partnerships (MLP)

- Federal Corporate Income Tax Exempt
- Must Pay Out Almost All Taxable Income to Shareholders
 - Can't Fund Expansion With Earnings
 - Must raise expansion cash via borrowing or selling more stock
 - Income Tax Returns May Be More Complicated
- Master Partner Takes % of Cash Flow

Limited Liability Corps (LLC)

- No Master Partner

90% of income must be from: real estate, commodities, natural resources

- Natural Gas or Petroleum Pipelines, Exploration & Production

Growth: Acquisitions or Pipeline Expansions

- Not Corporations
 - units = shares
 - unit holders = shareholders
 - distributions = dividends

Other Non-Taxed Entities

Canadian Royalty Trusts

- Oil & Natural Gas Reserves
- Tax Law Changes
 - Convert to corporation or acquired by 1/1/11

	<u>Business</u>	<u>Yld.</u>	<u>12-Mo Return</u>	<u>YTD Return</u>
Baytex Energy Trust	Oil 78%, Nat Gas 22%	8.3%	85%	13%
Penn West Energy	Oil 58%, Nat Gas 42%	8.9%	52%	13%

U.S. Royalty Trusts

- Own oil & natural gas properties
- Depleting Assets
- Dividends vary with oil and natural gas prices

	<u>Business</u>	<u>Yld.</u>	<u>12-Mo Return</u>	<u>YTD Return</u>
Permian Basin Royalty Trust	Oil 75%, Nat Gas 25%	7.4%	55%	30%

Business Development Corporations (BDCs) & Private Equity

- Lend to and/or take equity interest in Mid-Sized Companies

	<u>Business</u>	<u>Yld.</u>	<u>12-Mo Return</u>	<u>YTD Return</u>
Ares Capital	Bus. Dev. Corp	10.1%	80%	6%
Compass Diversified	Equity Buyout Firm	9.6%	75%	10%
Triangle Capital Resources	Bus. Dev. Corp	11.3%	54%	17%

Preferred Stocks

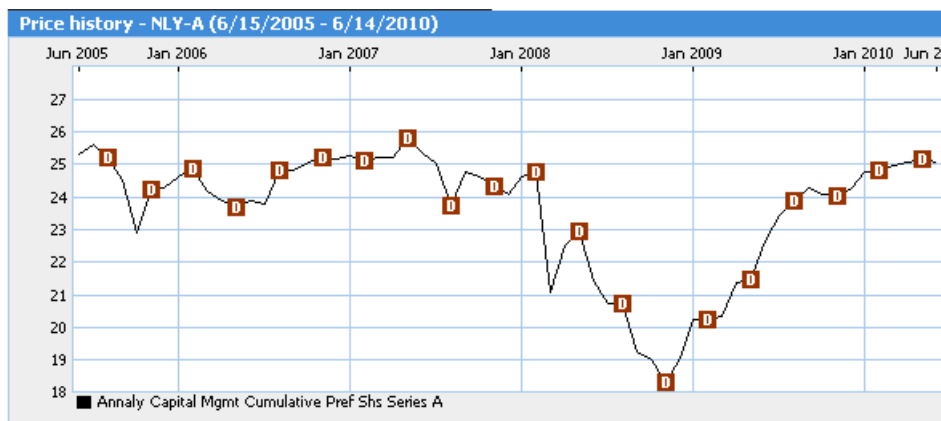
	<u>Business</u>	<u>Yld.</u>	<u>12-Mo Return</u>	<u>YTD Return</u>
Annaly Capital Management	Fed. Insured Mortgages	7.8%	25%	8%
Citigroup Capital	Global Bank	8.1%	42%	8%
Comcast	Cable TV Provider	6.8%	15%	2%
Morgan Stanley Capital Trust	Financial Services	7.6%	24%	2%
Protective Life	Insurance	7.4%	10/8/09 IPO 13%	9%
Public Storage	Storage Lockers (REIT)	6.9%	26%	8%
Royce Value	Money Manager	5.9%	16%	5%
SLM (Sallie Mae)	Student Loan Services	9.2%	37%	6%
Willis Lease Finance	Aircraft Engine Parts Leasing	8.7%	22%	5%

More Like Bonds Than Common Stocks

- Sold mostly by banks, REITs, insurance companies, and utilities to raise cash
- Buy for steady income, usually no capital appreciation
- Risk
 - Interest rate risk: Preferred prices drop when market rates rise & vice versa
 - Dividend suspension risk

Recent Events

- U.S. takeover of Fannie Mae & Freddie Mac: suspended preferred dividends
 - All preferreds sunk in 2008, but most recovered in 2009
 - Some still offering 25%+ price appreciation potential



Terminology

- Callable: issuer may redeem shares at 'call price' at any time after the 'call date.'
- Coupon Rate: yield when first issued
- Cumulative: issuer must pay any missed dividends before it 'calls' the shares and before it pays any common stock dividends.
- Market Yield: yield based on current trading price
- Non-Cumulative: issuer not obligated to pay missed dividends

Researching Preferreds

- Quantum Online (www.quantumonline.com): detailed info on every preferred
- MSN Money (moneycentral.msn.com): quotes, charts, dividend history
- Evaluate issuing company

Ticker Symbols

- MSN Money, Quantum Online & TD Ameritrade
 - Issuing firm+pref. series: e.g. Bank of America (BAC) series I: BAC-I
- Yahoo
 - Issuing firm-P + preferred series: e.g. Bank of America series I: BAC-PI
- Your Broker
 - use symbol lookup

Closed-End Funds

	<u>Business</u>	<u>Yld.</u>	<u>12-Mo Return</u>	<u>YTD Return</u>
Aberdeen Chile	Chile: Large-Cap	9.5%	19%	-5%
AllianceBernstein Income	U.S. Gov & AAA Bonds	6.1%	12%	-1%
AllianceBernstein Global High Inc.	High-Yield Corp. Debt	9.4%	35%	2%
BlackRock Energy & Resource	Energy Stocks/MLPs	7.0%	14%	-9%
Clough Global Allocation	US/Intl. Stocks	8.7%	15%	-6%
J.H. Patriot Prem. Div.	Utility Common/Preferred	8.1%	45%	6%
Kayne Anderson Energy	MLPs/Canada Trusts	8.3%	44%	-1%
Western Asset High Income	Corp. & Foreign Gov. Junk Bnd	12.1%	37%	3%

- Managed Mutual Funds
- Sells fixed number of shares at IPO
- Managers deploy funds without worrying about redemptions or new money
- Shares trade like stocks, supply vs. demand sets price
- Trades at premium or discount to NAV
- Equities and/or bonds
- Many CEFs use borrowings (leverage) to improve returns
- Must distribute 98% of earned income and realized capital gains annually

Utilities

	<u>Business</u>	<u>Yld.</u>	<u>12-Mo Return</u>	<u>YTD Return</u>
AGL Resources	Natural Gas	4.9%	23%	1%
Avista	Electricity & Natural Gas	5.2%	15%	-8%
Consolidated Edison	Electricity & Natural Gas	5.6%	25%	-3%
Dominion Resources	Electricity & Natural Gas	4.7%	33%	5%
Pepco Holdings	Electricity & Natural Gas	6.6%	28%	-5%
Southern Company	Electricity	5.5%	20%	1%
Westar Energy	Electricity & Natural Gas	5.6%	27%	1%

- No Competition
- Recession Resistant
- Profits move opposite to natural gas prices

Mfg. & Services

	<u>Business</u>	<u>Yld.</u>	<u>12-Mo Return</u>	<u>YTD Return</u>
Altria Group	Tobacco Products	6.8%	26%	5%
B&G Foods	Packaged Foods	6.4%	41%	18%
Computer Programs & Systems	Small Hospital Info. Sys.	3.3%	19%	-12%
E.I. du Pont	Chemicals	4.5%	42%	8%
Eli Lilly	Pharma	6.0%	2%	-5%
Foot Locker	Casual Shoe Retailer	4.0%	25%	23%
Genuine Parts	Auto Parts Retailer	4.0%	20%	5%
H.J. Heinz	Packaged Foods	3.8%	28%	6%
Leggett & Platt	Furniture Components	4.4%	42%	9%
McDonald's	Fast Food Restaurants	3.3%	20%	11%
Pitney Bowes	Postage Systems	6.5%	4%	-1%
Verizon Communications	Telecommunications	6.9%	1%	-13%

Analyzing Dividend Payers

Main Objectives

- Minimize Risk
- Dividend Safety

High Dividend Stocks Tend To Move With Their Industry

- Understand Industry Prospects
 - Separate Short-Term Issues From Long-Term Trends

Dividend Stability & Growth is Most Important Factor

- Check Dividend History
 - Yahoo (finance.yahoo.com)
 - Best Prospects Have Strong Historical Dividend Growth

Min Long-Term EPS Growth Forecasts: 5%

Debt Ratios Don't Apply to Many Dividend Stocks

- Banks, mortgage REITs and other financials always carry high debt. For them, borrowed money is their inventory.

Dividends Paid From Operating Cash Flow - Not Reported Earnings

- Non-cash accounting entries such as depreciation reduce earnings, but not cash flow.
- Dividends vs. earnings ratios (payout ratio) meaningless for most firms.

Finding High-Dividend Research Candidates

*Lots of errors in dividend data.
Verify everything*

FINVIZ.com

Run 6/14/10

Screening Criteria

- Dividend Yield > 4%
- Return on Equity > 0
- Avg. Daily Vol. > 40,000
- Last Price > \$5
- (Price) Performance Last Qtr. Up
- (Price) Performance Last Month Up
- EPS Growth Next Year > 5%
- Analyst Recommendation: Buy or Better

<u>Symbol</u>	<u>Company Name</u>	<u>Industry Name</u>	<u>Div. Yld</u>	<u>Rec. Price</u>
BGS	B&G Foods Inc.	Processed & Packaged Goods	6.17%	11.02
BKCC	BlackRock Kelso Capital Corporation	Credit Services	11.96%	10.70
CPL	CPFL Energia S.A.	Foreign Utilities	6.62%	64.90
CSA	Cogdell Spencer Inc.	REIT - Healthcare Facilities	5.47%	7.31
EPE	Enterprise GP Holdings L.P.	Major Integrated Oil & Gas	4.78%	45.61
FL	Foot Locker, Inc.	Apparel Stores	4.12%	14.58
KMB	Kimberly-Clark Corporation	Personal Products	4.23%	62.45
MVO	MV Oil Trust	Oil & Gas Drilling & Exploration	8.43%	26.54
NSH	NuStar GP Holdings, LLC	Oil & Gas Pipelines	6.18%	29.13
OHI	Omega Healthcare Investors Inc.	REIT - Healthcare Facilities	6.35%	20.17
OKS	ONEOK Partners, L.P.	Oil & Gas Pipelines	7.11%	62.46
PAA	Plains All American Pipeline LP	Oil & Gas Pipelines	6.41%	58.35
PSE	Pioneer Southwest Energy Partners L.P.	Oil & Gas Drilling & Exploration	8.01%	24.96
RYN	Rayonier Inc.	REIT - Diversified	4.34%	46.11
TCLP	TC Pipelines LP	Oil & Gas Pipelines	7.55%	38.68
TGP	Teekay LNG Partners LP.	Shipping	8.15%	29.43
TK	Teekay Corporation	Shipping	4.53%	27.90

