Double-Digit Income In A Single-Digit World

A special report by
The Yield Shark Research Team
You’ll learn...

✔️ Our core methodology for selecting the very best income investments

It’s simply not enough today to dive into the income arena and buy the highest-paying investments you can find. Most are fraught with hidden risks and dangers.

So to understand how to truly and dramatically boost your investment income, you absolutely must look at your investments in a new light, fully understanding the new risks as well as the opportunities.

For instance, can a company continue to pay out handsome dividends if another credit squeeze hits the economy?

Or, how might a change in the value of the dollar impact the purchasing power of your investment income stream?

What’s the best way to reinvest your dividends or royalties? In the same company? Or laddered into other investments? What is the proper diversification when it comes to income investing?

My team will explain all their core methods and concepts in this report, and they’ll do it in a way that will forever change how you look at income investments.

Plus, you’ll learn ...

✔️ How we select the very best dividend-paying mutual funds and exchange-traded funds (ETFs) to boost yields

You’ll also learn how to uncover — and avoid — the hidden fees that may exist. Which dividend-paying mutual funds you shouldn’t touch with a 10-foot pole... and why dividend-paying ETFs — so popular these days — may end up being a raw deal for investors.

With this knowledge, you won’t be caught flat-footed with your income investments. Instead, you’ll learn how to reap the rewards of being a well-informed investor and boosting your income.

And, you’ll learn...
How to use the many different high-paying undiscovered bond investments the pros use

Including select convertible bonds... select foreign bonds... and even how to buy high-paying closed-end mutual funds that are trading at steep discounts to their net asset value.

You’ll also learn about...

The details of sector-specific, income-boosting investments

Especially natural-resource investments in the energy sector... in Master Limited Partnerships... in Royalty Trusts... in timber, coal, natural gas, shipping and transportation, and more — all areas my research team is actively monitoring.

And much, much more, including information you should know about the tax issues involved in building an efficient income portfolio

Knowing the basic tax consequences of income investing is an absolute must. Not only could it save you thousands of dollars with your accountant, it could help you avoid unnecessary penalties and taxes.
The Mauldin Solution: Double-Digit Income in a Single-Digit World

Welcome to our guide to the Mauldin way of investing for income. This guide will outline the new-era strategies for generating investment income, given the new realities of a very different and very indebted world.

What this report will show you is how to generate higher yields in this low-interest world.

It’s simply not enough today to just dive into the income arena and buy the highest-paying investments you can find. Most are fraught with hidden risks and dangers.

So to fully understand how to truly and dramatically boost your investment income, you absolutely must look at your investments in a new light, fully understanding the new risks as well as the new opportunities.

Introduction

There are really two challenges that all of us will face as we transition from employment to retirement: longer life expectancies and lower investment yields.

Improved healthcare and nutrition have dramatically boosted life expectancies for both men and women. We will all enjoy a longer, healthier life that means more time to enjoy retirement and to spend with friends/family, but it also means that whatever money we’ve accumulated will have to work harder, as well as longer.

Today, a 65-year-old man can expect to live until age 82, almost four years longer than 25 years ago.

The life expectancy for a 65-year-old woman is also up, from 82 years in the early 1980s to 85 today.

The financial crisis and ensuing stock market crash destroyed $7 trillion in wealth; and even after a decent rebound, many nest eggs are still worth far less than they were just a few years ago.
Meanwhile, interest rates remain at historical lows, sinking to their lowest level in more than 300 years. These low yields have made it increasingly difficult to earn a decent level of income from money markets, CDs, and bonds.

And don’t forget about inflation. Prices for daily necessities are higher than they were just a few years ago and constantly erode the purchasing power of your savings.

The steady increase in life expectancy is definitely something to celebrate, but it also means we’ll need even bigger nest eggs.

The way we see it, your comfort in retirement has never been more threatened than it is today. I don’t care if you’re 20 or 70.

So there are only two choices:

#1. Spend your retirement as a Walmart greeter (if you’re lucky enough to get a job!).

The Danger of Inflation: Declining purchasing power

The steady increase in life expectancy is definitely something to celebrate, but it also means we’ll need even bigger nest eggs.
#2. Arm yourself with the latest information and take action immediately.

Clearly, you’re opting for #2. Great! This report will give you everything you need to enjoy the comfortable retirement lifestyle you deserve.

Reviving the Art of Building an Income Portfolio

Building an income-generating portfolio is a long-lost practice. Income investing was very popular before the great bull market of the 1990s spoiled investors into believing that it was easy to make money in the stock market. Income investing became too boring and too unproductive for regular investors.

Income investing originally became popular as a way to generate income for widows to live comfortably after their husbands died.

Before the 1960s, it was a given that women were incapable of working and supporting themselves. And up until the 1980s, you would often hear income portfolios referred to as a “widow’s portfolio.”

Community banks all around the US had trust departments with bank officials whose job it was to take the life insurance money a widow received following her husband’s death and put together a collection of stocks, bonds, and other assets that would generate enough monthly income for her to pay the bills, keep the house, and raise the children. Her goal, in other words, was not to get rich but to do everything possible to maintain a certain level of income that must be kept safe.

Maybe you remember people referring to AT&T as a “widow’s stock.”

While income and dividends lost their popularity with retail investors, wealth management firms around the world are still quietly investing for income.

The goal of this report is to give you a better understanding of income investing, which types of assets might be considered, and the most common dangers that can derail an otherwise successful income-investing portfolio.

The art of successful income investing is putting together a collection of assets such as dividend-paying stocks, bonds, mutual funds, ETFs, and real estate that can generate the highest possible annual income at the lowest possible risk.
Your investment timeframe. Usually, the longer your investment timeframe, the more aggressive you can be with your investments – although this depends on your tolerance for risk. If your time frame is less than five years, investing in shares may not be the best option, as shares can be volatile over shorter time periods.

It’s important to be aware of the impact inflation can have on the buying power of your capital and income payments. Including growth assets in your portfolio can help offset the impact of inflation.

Your risk tolerance. Understanding your attitude to risk and return is arguably your most important consideration when planning your investment strategy. You might be attracted to the prospect of great performance, but how much risk are you willing to take to achieve it? If, like many income-focused investors, your investment profile is conservative, make sure you choose your investments to match.

Even in an environment of near-zero interest rates and global uncertainty, there are many ways an investor can generate a healthy income while managing risk.

The purpose of this report is to outline the various options available to investors who are looking to generate a regular stream of income over the medium to long term.

What Are the Main Ways to Generate Income in Retirement?

Bonds (Fixed Income): Your choices when it comes to bonds are vast. You can own government bonds, agency bonds, municipal bonds, savings bonds, and more. Whether you buy corporate or municipal bonds depends on your personal taxable equivalent yield. You shouldn’t buy bonds with maturities of longer than 5-8 years, because you face duration risk, which means the bonds can fluctuate wildly, like stocks, in response to changes in the Federal Reserve-controlled interest rates.

Bonds are often considered the cornerstone of income investing, because they generally fluctuate much less than stocks. With a bond, you are lending money to the company or government that issues it. With a stock, you own a piece of a business. The potential profits from bonds are much more limited, but in the event of bankruptcy, you have a better chance of recouping your investment.
That’s not to say bonds are without risk. In fact, bonds have a unique set of risks for income investors. Here’s what you should be looking for in putting together an income-investing portfolio with bonds:

- Your choices should include bonds such as municipal bonds that offer tax advantages. An even better choice may be bond funds.
- One of the biggest risks is bond duration. You usually shouldn’t buy bonds that mature in more than 5-8 years, because they can lose a lot of value if interest rates move sharply.
- You should also consider foreign bonds, because they can offer higher yields as well as a currency boost if the US dollar continues to fall.

**Dividend-Paying Stocks:** Interestingly, income and capital growth don’t need to be mutually exclusive. Some Interestingly, income and capital growth don’t need to be mutually exclusive. Some stocks can provide a tax-effective income in the form of dividends. The good thing about these assets is that they can also provide growth over time, so your savings can keep ahead of inflation.

The important thing about dividend investing is that it can deliver capital growth as well as income. Companies with steadily growing dividend streams should see their share prices rise, because higher dividends put upward pressure on the shares to perform. We fundamentally believe that dividends and share prices go hand in hand.

This includes both common and preferred stocks. These companies mail checks for a portion of the profit to shareholders, based on the number of shares they own. You want to choose companies that have safe dividend payout ratios, meaning they only distribute 40%
to 50% of annual profit, reinvesting the rest back into the business to keep it growing. In today’s market, a dividend yield of 4% to 6% is generally considered good.

Income stocks are often found in solid industries with established companies that generate good cash flow. Such companies have little need to reinvest their profits to help grow the business or fund research and development of new products and are therefore able to pay sizeable dividends back to their investors. Examples of traditional income-generating companies include utilities such as oil and gas, and telephone providers.

Our Rules of Thumb for Income Investing

1. **Sustainable long-term dividend growth.** Investing in businesses whose growth potential is not reflected in the valuation of their shares not only reduces the risk of losing money, it increases the upside opportunity.

2. **Inflation matters.** Always bear in mind the detrimental effect of inflation. Corporate and government bonds offer higher yields than cash, but returns can be eroded by inflation. Investment in property or equities provides a vehicle to help achieve an income that rises to keep pace with inflation.

3. **Patience is a virtue.** Investing for income is all about the compounding of returns for the long term. As a general rule, those businesses best placed to offer this demonstrate consistent returns on invested capital and visible earnings streams.

4. **Reliability is the key.** Select sectors of the equity market that do not depend on strong economic growth to deliver attractive returns.

5. **High and growing free cash flow.** Look for companies with money left over after all capital expenditures, as this is the stream out of which rising dividends are paid. The larger the free cash flow relative to the dividend payout, the better.

6. **Dividend growth.** In the short term, share prices are buffeted by all sorts of influences, but over longer time periods, fundamentals have the opportunity to shine through. Dividend growth is the key determinant of long-term share-price movements – the rest is sentiment.

7. **Cautious approach.** Profits and dividends of utility companies are at the whim of the regulator. Be cautious of companies that pay a high dividend because they have gone ex-growth – such a position is not usually sustainable indefinitely.

8. **Investment diversification.** The first rule of investment is, spread risk. Reducing risk is particularly important for income seekers who cannot afford to lose capital.
9. **Tax efficiency.** Increase your net income by using an IRA, where income is free of taxation, thereby potentially improving the amount of income you actually receive. IRAs are also free from capital gains tax, allowing you to switch funds or cash in without a tax charge.

*Note: everyone’s tax issue is different, so please check with your tax advisor for additional information.*

**Going Global for Dividends:** In order to gain the greatest benefit from dividend investing, we believe that investors should adopt a global approach.

The US market has 92 “dividend high achievers,” which are companies that have increased their dividends for 25 or more consecutive years. This list includes well-known names such as Coca-Cola, Walmart, and Procter & Gamble. In Europe, too, there are plenty of firms, such as Nestlé and Telefónica.

International Dividend Achievers is an elite group of stocks that are (a) incorporated outside the United States; (b) trade on the NYSE, NASDAQ, or AMEX; (c) have an average daily cash volume of at least $500,000; and (d) have increased their annual regular dividend payments for the last five or more consecutive years.

<table>
<thead>
<tr>
<th>Consumer Discretionary (8.23%)</th>
<th>% of Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRI THOMSON REUTERS CORP</td>
<td>2.27%</td>
</tr>
<tr>
<td>SJR SHAW COMMUNICATIONS INC CL B</td>
<td>2.27%</td>
</tr>
<tr>
<td>PSO PEARSON PLC ADR</td>
<td>1.83%</td>
</tr>
<tr>
<td>WPPGY WPP PLC-SPONSORED ADR</td>
<td>1.06%</td>
</tr>
<tr>
<td>THI TIM HORTONS INC</td>
<td>0.80%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consumer Staples (11.74%)</th>
<th>% of Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>BTI BRITISH AMERN TOB PLC ADR</td>
<td>1.99%</td>
</tr>
<tr>
<td>UL UNILEVER PLC ADR</td>
<td>1.91%</td>
</tr>
<tr>
<td>UN UNILEVER NV - NY REG SHARES</td>
<td>1.82%</td>
</tr>
<tr>
<td>DEO DIAGEO PLC ADR</td>
<td>1.41%</td>
</tr>
<tr>
<td>DEG DELHAIZE LE LION ADR</td>
<td>1.34%</td>
</tr>
<tr>
<td>ABV/C COMPANHIA DE BEBIDAS-CM ADR</td>
<td>1.31%</td>
</tr>
<tr>
<td>KOF COCA-COLA FEMSA SAB DE CV ADR</td>
<td>1.27%</td>
</tr>
<tr>
<td>BG BUNGE LIMITED</td>
<td>0.68%</td>
</tr>
</tbody>
</table>
### Energy (15.79%)

<table>
<thead>
<tr>
<th>Code</th>
<th>Company Name</th>
<th>% of Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>TGP</td>
<td>TEEKAY LNG PARTNERS LP</td>
<td>3.34%</td>
</tr>
<tr>
<td>TRP</td>
<td>TRANSCANADA CORP</td>
<td>2.01%</td>
</tr>
<tr>
<td>STO</td>
<td>STATOILHYDRO ASA ADR</td>
<td>1.94%</td>
</tr>
<tr>
<td>ENB</td>
<td>ENBRIDGE INC</td>
<td>1.50%</td>
</tr>
<tr>
<td>CEO</td>
<td>CNOOC LTD- ADR</td>
<td>1.39%</td>
</tr>
<tr>
<td>LKOD</td>
<td>LUKOIL OIL CO SPONS ADR</td>
<td>1.31%</td>
</tr>
<tr>
<td>TLM</td>
<td>TALISMAN ENERGY INC</td>
<td>0.99%</td>
</tr>
<tr>
<td>CCJ</td>
<td>CAMECO CORP</td>
<td>0.89%</td>
</tr>
<tr>
<td>NE</td>
<td>NOBLE CORP</td>
<td>0.72%</td>
</tr>
<tr>
<td>SU</td>
<td>SUNCOR ENERGY INC</td>
<td>0.64%</td>
</tr>
<tr>
<td>CNQ</td>
<td>CANADIAN NATURAL RESOURCES</td>
<td>0.57%</td>
</tr>
<tr>
<td>IMO</td>
<td>IMPERIAL OIL LTD</td>
<td>0.51%</td>
</tr>
</tbody>
</table>

### Financials (17.35%)

<table>
<thead>
<tr>
<th>Code</th>
<th>Company Name</th>
<th>% of Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCA</td>
<td>CORPBANCA SA ADR</td>
<td>3.49%</td>
</tr>
<tr>
<td>PRE</td>
<td>PARTNERRE LTD</td>
<td>2.07%</td>
</tr>
<tr>
<td>PUK</td>
<td>PRUDENTIAL PLC ADR</td>
<td>1.62%</td>
</tr>
<tr>
<td>HDB</td>
<td>HDFC BANK LTD ADR</td>
<td>1.59%</td>
</tr>
<tr>
<td>AXS</td>
<td>AXIS CAPITAL HOLDINGS LTD</td>
<td>1.47%</td>
</tr>
<tr>
<td>ACE</td>
<td>ACE LTD</td>
<td>1.30%</td>
</tr>
<tr>
<td>ALTE</td>
<td>ALTERRA CAPITAL HOLDINGS LTD</td>
<td>1.25%</td>
</tr>
<tr>
<td>AWH</td>
<td>ALLIED WORLD ASSURANCE CO</td>
<td>1.25%</td>
</tr>
<tr>
<td>BSAC</td>
<td>BANCO SANTANDER CHILE ADR</td>
<td>1.20%</td>
</tr>
<tr>
<td>SBID</td>
<td>STATE BANK OF INDIA GDR</td>
<td>0.79%</td>
</tr>
<tr>
<td>RNR</td>
<td>RENAISSANCERE HOLDINGS LTD</td>
<td>0.74%</td>
</tr>
<tr>
<td>UTBKQ.I</td>
<td>AXIS BANK LTD - GDR REG S</td>
<td>0.56%</td>
</tr>
</tbody>
</table>
## Health Care (12.17%)

<table>
<thead>
<tr>
<th>Code</th>
<th>Company Name</th>
<th>% of Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>AZN</td>
<td>ASTRazeneca PLC ADR</td>
<td>3.02%</td>
</tr>
<tr>
<td>GSK</td>
<td>GlaxoSmithKline PLC-SPON ADR</td>
<td>2.72%</td>
</tr>
<tr>
<td>NVS</td>
<td>Novartis ADR</td>
<td>2.28%</td>
</tr>
<tr>
<td>SNY</td>
<td>Sanofi</td>
<td>1.68%</td>
</tr>
<tr>
<td>SNX</td>
<td>Smith &amp; NePheW PLC ADR</td>
<td>0.85%</td>
</tr>
<tr>
<td>TEVA</td>
<td>Teva Pharmaceutical INDS LTD ADR</td>
<td>0.77%</td>
</tr>
<tr>
<td>NVO</td>
<td>Novo-Nordisk A-S ADR</td>
<td>0.64%</td>
</tr>
<tr>
<td>SHPGY</td>
<td>Shire PLC-ADR</td>
<td>0.23%</td>
</tr>
</tbody>
</table>

## Industrials (3.86%)

<table>
<thead>
<tr>
<th>Code</th>
<th>Company Name</th>
<th>% of Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBE</td>
<td>Cooper Industries PLC-CL A</td>
<td>1.14%</td>
</tr>
<tr>
<td>CNI</td>
<td>Canadian Natl Railway Co</td>
<td>0.99%</td>
</tr>
<tr>
<td>RBA</td>
<td>Ritchie Bros Auctioneers</td>
<td>0.96%</td>
</tr>
<tr>
<td>CP</td>
<td>Canadian Pacific Railway Ltd</td>
<td>0.78%</td>
</tr>
</tbody>
</table>

## Information Technology (3.32%)

<table>
<thead>
<tr>
<th>Code</th>
<th>Company Name</th>
<th>% of Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAJ</td>
<td>Canon Inc-SP ADR</td>
<td>1.46%</td>
</tr>
<tr>
<td>ACN</td>
<td>Accenture PLC - CL A</td>
<td>1.01%</td>
</tr>
<tr>
<td>INFY</td>
<td>Infosys Ltd ADR</td>
<td>0.63%</td>
</tr>
<tr>
<td>ARMH</td>
<td>ARM Holdings PLC ADR</td>
<td>0.23%</td>
</tr>
</tbody>
</table>

## Materials (7.16%)

<table>
<thead>
<tr>
<th>Code</th>
<th>Company Name</th>
<th>% of Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>VALE</td>
<td>Vale SA-SP ADR</td>
<td>2.89%</td>
</tr>
<tr>
<td>BBL</td>
<td>BHP Billiton PLC-ADR</td>
<td>1.72%</td>
</tr>
<tr>
<td>BHP</td>
<td>BHP Ltd-ADR</td>
<td>1.42%</td>
</tr>
<tr>
<td>SYT</td>
<td>Syngenta AG-ADR</td>
<td>1.14%</td>
</tr>
</tbody>
</table>
Foreign-market dividend stocks share many qualities with their US counterparts. For the vast majority, dividends – not capital gains – provide the lion’s share of returns. In fact, more than 80% of European returns from 1970-2010 came from a combination of yield and real dividend growth, according to global investment firm BlackRock.

In general, foreign stocks deliver significantly higher dividend yields than their counterparts in the US, in part because many foreign companies have a more traditional approach: their earnings belong to shareholders and must be returned as rising dividend payouts.

What’s more, even in high-growth regions like Asia, about 60% of returns over the past 30 years have come from dividends and dividend growth. And with US investors now barreling into domestic dividend stocks, international stocks offer another benefit: they are cheaper and less competitive.

But you should know that there are some significant differences between US and international dividend stocks. The first is that most foreign companies pay out dividends as a fixed percentage of earnings each year. That means dividends are more likely to be cut in response to short-term fluctuations in profits, whereas US companies are more reluctant to cut dividends if the company has a bad year.

Many international companies also pay dividends only once or twice a year – far less than the monthly or quarterly dividends that Americans have grown accustomed to.

Most importantly, lots of foreign countries impose a withholding tax before sending you the dividend. Fortunately, most have treaties with the US, which allow you to claim a credit on the tax withheld, but only if you hold these stocks in a taxable account.
Important Considerations for Foreign Dividends

1. Irregularity of Dividends: Though foreign dividends are higher, they are less regular in timing and amount. Foreign dividend payouts may occur just once or twice a year. Typically, while US dividends are a fixed dollar amount per share, foreign dividends are a percentage of the company’s earnings. Companies pay out what they can afford to, not what Wall Street expects them to, and, typically, foreign companies dish out more over the long haul.

2. Dividend Taxation: Taxation on foreign dividends is all over the map. Some countries, such as Argentina, India, Hong Kong, Singapore, the UK, and the UAE do not tax dividends. Other countries tax dividends at rates all over the board. Here are some examples: Switzerland (35%), Australia (30%), Germany (26.4%), Italy (27%), France (25%), Spain (19%), Brazil (15%), Canada (15%), and China (10%).

3. Tax Credits: Thankfully, the US has mutual tax treaties with most foreign countries. These treaties permit US investors to receive a credit for taxes that are paid to foreign governments on dividends. This means that you get to recover whatever taxes a foreign country charges you, essentially making foreign taxation a non-event.

HINT: You don’t get to recover these foreign taxes if the foreign stock is held in a tax-free account like an IRA or 401(k). Keep your foreign dividend payers in a taxable investment account rather than in a tax-exempt account.

We recommend that you consult with your tax advisor to make sure you get this credit.

4. Currency Risk: Foreign companies pay dividends in their local currencies. Depending on the prevailing exchange rates, your returns could be affected positively or negatively. There are other ways to invest in foreign dividend payers without buying individual stocks.

American Depository Receipts (ADRs): There are close to 1,000 foreign companies listed on the New York Stock Exchange and NASDAQ. A large number of them pay dividends, so a good starting point for dividend-paying international stocks could be found right in your own backyard.

HINT: Take a look at the International Dividend Achievers Index. To become eligible for inclusion, a company must be incorporated outside of the United States. The company must have an American Depository Receipt, Global Depository Receipt, or common stock trading on the NYSE, NASDAQ, or London Stock Exchange.

Companies must have paid increasing regular annual dividends for five or more consecutive years.
Click here to see the full list of the 72 stocks that made the cut.

**Exchange-Traded Funds (ETFs):** You could buy foreign dividend payers with a foreign dividend-focused ETF, such as the Dow Jones STOXX European Select Dividend Fund, which yields 5.9%; the Dow Jones International Select Dividend Index Fund, which yields 4.6%; or the Wisdom Tree Europe Small Cap Dividend Fund, which yields 4.2%.

**Mutual Funds:** There are a number of mutual funds focused on foreign stocks that pay high dividends. This may be a great option if you don’t have the interest or time to research individual companies or ETFs.

**Putting It All Together - What We Are Looking For**

What criteria do we use to build a portfolio of solid, high-dividend stocks with strong prospects for capital appreciation?

- **Macro picture.** While it is a subjective call, we want to invest in companies that have the big-picture macroeconomic wind at their backs and have long-term sustainable business models that can thrive in the current economic environment.
- **Competitive advantage.** Does the company have a competitive advantage within its own industry? Investing in industry leaders is generally more productive than investing in the laggards.
- **Management.** The company’s management should have a track record of returning value to shareholders.
- **Growth strategy.** What is the company’s growth strategy? Is it a viable growth strategy, given our forward view of the economy and markets?
- **A dividend payout ratio of 80% or less, with the rest going back into the company’s business for future growth.** If a business pays out too much of its profit, it can hurt the firm’s competitive position.
- **A dividend yield of at least 3%.** That means if a company has a $10 stock price, it pays annual cash dividends of at least $0.30 a year per share.
- **The company should have generated positive cash flow in at least the last year.** Income investing is about protecting your money, not hitting the ball out of the park with risky stock picks.
Don’t Forget to Pay Uncle Santos –
Tax Treatment of Foreign Dividends/Interest

Often, when you receive dividends from a foreign company, taxes will be automatically taken out of your payment. Since you already paid taxes on those dividends to the foreign government, the IRS will not make you pay them again. In fact, they’ll give you a tax credit against your US tax obligations.

So if you earned $1,000 in foreign dividends and paid $250 in taxes to Brazil, for example, you would be entitled to a $250 tax credit on your US taxes. However, you can only claim the credit if you hold the foreign stocks in a taxable account.

Of course, when it comes to taxes, be sure to consult a professional tax advisor with any questions.

A high return on equity, or ROE. A company that earns high returns on equity is usually a better-than-average business, which means that the dividend checks will keep flowing into our mailboxes.

Hey! What about real estate?

No discussion of income would be complete without some mention of real estate.

Some investors are more comfortable with real-estate ownership because it naturally protects you against high inflation. Many income-investing portfolios have a heavy real-estate component, because its tangible nature lets those living on income investments drive by the property, see that it still exists, and reassure themselves that even if the market has fallen, they still own the deed.

Psychologically, real-estate investing gives investors peace of mind that they cannot get from stocks and bonds.

Plus, real estate can be a great investment for those who want to generate regular income.

The two most popular ways to own income-producing real estate are to either own rental property outright or invest through REITs. Both have their advantages and disadvantages, but they can each have a place in a well-built investment portfolio.
If Real Estate Offers Higher Returns for Income Investing, Why Not Just Put 100% in Property?

This question is often asked, because rental-income payments can be substantially higher than income from stocks or bonds. We think a 100% real estate approach is a mistake.

1. Real estate is not guaranteed to go up. Just ask anybody that has bought real estate in hard-hit markets like Nevada, California, or Florida.

2. Real estate requires more work than stocks and bonds, due to lawsuits, maintenance, taxes, insurance, and more.

3. On an inflation-adjusted basis, the long-term growth in stock values has outperformed real estate.

What percentages of your income-investing portfolio should be allocated to stocks, bonds, and real estate? The answer comes down to your personal choices, preferences, risk tolerance, and whether you can tolerate a lot of volatility.

Our Three Roads to Income Independence: High-Income, Foreign Income, and Best of Both Worlds

No two investors are alike, even income investors. That is why we will recommend three types of income investments in this service: Aggressive High-Income, International Income, and Best of Both Worlds.

**Aggressive High-Income Portfolio:** Everybody could use more income, and nobody can live on the paltry sub-1% yields that Treasury bills, money markets, and CDs pay today.

We’ve turned over thousands of investment rocks to uncover a small handful of reliable and often unknown income gems that pay out a handsome, steady stream of double-digit income on either a monthly or quarterly basis.

Capital appreciation is a secondary goal of this strategy, but it’s ideal for investors who seek high current income and/or use investment income to supplement their retirement needs.

**International-Income Portfolio:** If you want higher yields, you have to look overseas. Foreign stocks have a stronger culture of dividends than US stocks and pay out, on average, 50% more than US stocks do. Because overseas markets are, for the most part, smaller than US markets, foreign companies need to pay higher dividends in order to attract capital.
Plus, foreign stocks pay dividends in their own currencies, which can make them more valuable to US shareholders, depending on the currency. Not only will you get paid handsomely, you’ll have the bonus kicker of currency appreciation if the US dollar falls.

**Best-of-Both-Worlds Portfolio:** The goal of this income-plus strategy is to allow your portfolio to grow in value while delivering a moderate amount of income. The income will primarily come from dividends and payments from specialty funds, ETFs, convertible securities, and special situations.

Dividends don’t receive a lot of media attention because, well, they are boring. Good things do, however, come in small checks; and dividends deserve more of your attention, because they provide a steady and real return of cash. Dividends are important because:

- **Lower risk.** Companies that pay out dividends have historically held up better during bear markets. In fact, dividend-paying stocks are a magnet for investors seeking security.
- **Dividends don’t lie.** Financial magicians can make a company’s paper profits look better than they really are. Corporate magicians can cook their books, but cold, hard cash can’t be faked.
- **They earn much better yields with lower taxes.** Dividends are currently taxed at a 15% rate. That is an after-tax bargain when compared to interest from savings, CDs, bonds, or money markets, which are taxed as ordinary income – up to 35%!
- **Dividend stocks trump non-dividend payers, even in down markets.** According to Standard & Poor’s, during 2008’s market meltdown, dividend-paying stocks came out over 6% ahead of non-dividend payers.

The yields on the holdings in this portfolio should range from 4% to 8%, making it an excellent strategy for investors who want to get paid while they wait for capital appreciation. The best of both worlds!

**Mix and match!**

We recommend that you use a blend of all three portfolios, allocating a portion of your portfolio to each one. Everyone has unique needs, but we suggest you allocate a minimum of 10% to each and a maximum of 70% to any single portfolio.
Here are some guidelines to consider:

**Retired and Living Off Investment income:**
60% Aggressive High-Income
30% International Income
10% Best of Both Worlds

**Employed and Saving for Retirement**
20% Aggressive High-Income
30% International Income
50% Best of Both Worlds

*Most people are somewhere in the middle between those two situations, so you may need to adjust the allocations to reflect your personal needs. But a little diversification goes a long way, so make sure you don’t over-concentrate into any one strategy.*

Lastly, we will recommend a specific number of shares or a dollar amount for every recommendation we make, based upon a hypothetical portfolio valued at $50,000 and approximately $2,500 per position. You should adjust the share or dollar amounts to reflect the size of your portfolio.
Legal Use of this content, the Mauldin Economics website, and related sites and applications is provided under the Mauldin Economics Terms & Conditions of Use.

Unauthorized Disclosure Prohibited

The information provided in this publication is private, privileged, and confidential information, licensed for your sole individual use as a subscriber. Mauldin Economics reserves all rights to the content of this publication and related materials. Forwarding, copying, disseminating, or distributing this report in whole or in part, including substantial quotation of any portion the publication or any release of specific investment recommendations, is strictly prohibited. Participation in such activity is grounds for immediate termination of all subscriptions of registered subscribers deemed to be involved at Mauldin Economics’ sole discretion, may violate the copyright laws of the United States, and may subject the violator to legal prosecution. Mauldin Economics reserves the right to monitor the use of this publication without disclosure by any electronic means it deems necessary and may change those means without notice at any time. If you have received this publication and are not the intended subscriber, please contact service@mauldineconomics.com.

Disclaimers

The Mauldin Economics web site, Yield Shark, Thoughts From the Front Line, Outside the Box, Over My Shoulder and Conversations are published by Mauldin Economics, LLC. Information contained in such publications is obtained from sources believed to be reliable, but its accuracy cannot be guaranteed. The information contained in such publications is not intended to constitute individual investment advice and is not designed to meet your personal financial situation. The opinions expressed in such publications are those of the publisher and are subject to change without notice. The information in such publications may become outdated and there is no obligation to update any such information.

John Mauldin, Mauldin Economics, LLC and other entities in which he has an interest, employees, officers, family, and associates may from time to time have positions in the securities or commodities covered in these publications or web site. Corporate policies are in effect that attempt to avoid potential conflicts of interest and resolve conflicts of interest that do arise in a timely fashion. Mauldin Economics, LLC reserves the right to cancel any subscription at any time, and if it does so it will promptly refund to the subscriber the amount of the subscription payment previously received relating to the remaining subscription period. Cancellation of a subscription may result from any unauthorized use or reproduction or rebroadcast of any Casey publication or website, any infringement or misappropriation of Mauldin Economics, LLC’s proprietary rights, or any other reason determined in the sole discretion of Mauldin Economics, LLC.

Affiliate Notice

Mauldin Economics has affiliate agreements in place that may include fee sharing. If you have a website or newsletter and would like to be considered for inclusion in the Mauldin Economics affiliate program, please email us at affiliate@mauldineconomics.com Likewise, from time to time Mauldin Economics may engage in affiliate programs offered by other companies, though corporate policy firmly dictates that such agreements will have no influence on any product or service recommendations, nor alter the pricing that would otherwise be available in absence of such an agreement. As always, it is important that you do your own due diligence before transacting any business with any firm, for any product or service.

© Copyright 2012 by Mauldin Economics, LLC.