



TOPSTOCKANALYSTS DIGEST

Investing Ideas from America's Leading Financial Advisors

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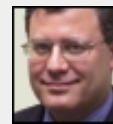
Published every other Monday, the *TopStockAnalysts Digest* is loaded with stock picks, trading ideas, market commentary, and educational guidance designed to help you become a better investor. To ensure uninterrupted delivery of this newsletter, please follow [these simple instructions](#).



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Today's Top Stock Picks



How a Falling Dollar can Make Americans Rich
Many Americans fear the weakening dollar, but investors should know there is opportunity in the decline. [Read More. . .](#)



Housing Bust: There's a Way to Profit in Any Situation
The real estate market is on track to have its worst showing in 40 years in 2008, but there's a way to hedge yourself against this correction. [Read More. . .](#)

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Market Outlook

The market had been on a roll lately, but that winning streak came to an abrupt end this past week as all the major averages lost ground.

Shortly after Thanksgiving, the Dow Jones Industrials slipped to a low near 12,700 amid further signs of trouble in the financial sector. However, as chatter for a rate cut began to reach a crescendo, the Dow recouped 1,000 points over nine trading days -- closing above 13,700 this past Monday. But that's when the wheels fell off.

As most expected, the Fed trimmed interest rates by a quarter-point and left the possibility of future rate cuts on the table. However, as troubles in the housing and credit markets have spilled over and threatened to derail the entire economy, many investors were hoping for a more aggressive half-point cut to stimulate growth. Wall Street voiced its frustration loud and clear, sending the Dow tumbling nearly 300 points, or about -2%, while the S&P 500 and Nasdaq Composite both suffered even steeper percentage declines.

While a half-point cut would certainly have provided a shot of adrenaline for weary consumers, the Fed must carefully balance economic growth with inflationary concerns. It takes time for rate cuts to take hold, and cutting too far too fast could spark inflationary fears. And judging by data released later in the week, their prudence may have been justified.

On Thursday, the Department of Labor announced that wholesale prices (as measured by the Producer Price Index) shot up +3.2% in November -- the sharpest increase in 34 years. While most of that increase was attributable to a spike in gas prices, core inflation excluding food and energy still rose +0.4%, about double what economists were expecting. Meanwhile, core prices at the consumer level rose at the fastest pace in nearly a year.

The twin threats of slowing economic growth and mounting inflation -- or the dreaded "stagflation" -- offset positive news elsewhere, including stronger-than-expected retail sales figures and a collaborative effort from central banks throughout the U.S. and Europe to inject cash into the credit markets. Against an uncertain economic backdrop, the mixed signals left all the major averages with heavy losses of more than -2.0% for the week.

Looking ahead, many are expecting yet another rate cut early next year, which will exert downward pressure on an already beleaguered U.S. dollar. Fortunately, Nick Lanyi, editor of StreetAuthority's new [High-Yield International](#) newsletter, explains why a falling dollar can be great news to investors holding foreign securities.

In the meantime, there looks to be more misery ahead for the homebuilding sector. However, [High-Yield Investing](#) editor Carla Pasternak shares her thoughts on a unique security that moves in the opposite direction of an index of 20 large domestic housing stocks. If you're looking for a way to profit from this severe downturn, then Carla just might have the answer.

Good Investing!

Nathan Slaughter

-- Nathan Slaughter
Co-Editor
TopStockAnalysts Digest

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How a Falling Dollar can Make Americans Rich

by Nick Lanyi, Editor -- *High-Yield International*

Compared to the S&P's +3.5% gain this year, one of the most popular foreign benchmarks -- the Morgan Stanley MSCI Europe, Australasia Far-East Index, or EAFE -- is ahead +10% in U.S. dollar terms.

What's driving these international stocks to new heights? Economic growth is the main force -- the International Monetary Fund (IMF) forecasts the world economy will grow more than +5% this year, slowing to a still healthy +4.8% next year. However, the U.S. economy is expected deliver economic growth of around +2.0% this year, and that figure should fall in 2008. That's a marked decline from the +4.2% growth it posted in 2004.

Then there is the falling dollar. As the U.S. economy cools and the Fed continually cuts interest rates, investors are moving capital out of Treasury bonds and into foreign assets -- helping to push them higher. And as a result, foreign currencies are continuing to strengthen against the U.S. dollar. The U.S. Dollar Index, which measures the value of the greenback against six major world currencies (the euro, Japanese yen, British pound, Canadian dollar, Swedish krona, and Swiss franc), is down nearly -10% this year.

The good news for U.S. income investors is that a weaker dollar translates into stronger returns from overseas investments. For example, [ADR](#) shares of Italian utility Enel (NYSE: EN, \$59.01) are trading at around \$59 per share and provide an annual dividend of about \$3.40. The share prices and dividends of Italian stocks are based on the euro.

Right now, the euro is worth \$1.44. That means EN's share price is equivalent to about 41 euros and its dividend equates to about 2.36 euros.

Going forward, suppose the dollar weakens, and one euro is now worth \$1.60. Since Enel's share price is based on euros, its value would increase about +10% in U.S. dollars. EN would now be worth about \$66, and its annual dividend would jump to \$3.70. And keep in mind this takes into account no dividend increases or share price appreciation -- it is just the effect of currency exchange. Considering that shares of Enel have risen about +15% in the last year, your returns would likely be even more.

As you can see, investing in international high-yield securities can add an extra zip to your income stream. That's why we focus only on foreign securities paying the best dividends in our new newsletter, [High-Yield International](#).

Whether they be in China, Italy, Brazil, or some other far-away destination, we make it our duty at [High-Yield International](#) to seek out the companies and securities paying the richest dividends. So while your friends may be stuck with the diminutive yields offered in the U.S. (the S&P 500 offers an average yield of only 1.7%!), you'll be earning a rich income stream and outsized returns by looking abroad.

And we've prepared a complimentary special report to give you a taste of our new international income-investing service -- [High-Yield International](#). Read it today and we'll reserve your spot on our "V.I.P. List," giving you the opportunity to save an additional \$100 off the already discounted charter rate. Only V.I.P. members will be entitled to this discount, so make sure you're on this list! [Visit this link to join the High-Yield International V.I.P. List and get your complimentary report.](#)

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Housing Bust: There's a Way to Profit in Any Situation

by Carla Pasternak, Editor -- [High-Yield Investing](#)

The Morgan Stanley Capital Protected Bear Notes (AMEX: HPB, \$13.53) are a bet that the U.S. housing sector will continue to deteriorate. Inversely tied to the Philadelphia Housing Index (HGX), HPB goes up when the index goes down and vice

versa. The HGX itself is based on 20 large U.S. housing companies -- residential builders, mortgage lenders, and firms that supply construction materials -- in other words, a cross-section of the building industry.

The notes are capital protected -- that is, they are guaranteed to return \$10 per note when they mature on August 30, 2010. There is no provision for early redemption, but they can be traded at any time. The notes do not pay regular interest, but rather give a one-time dividend at maturity.

Since the notes were issued in May 2005, the HGX has fallen from 264.33 down to 140.56, providing a nice return for current holders of HPB. However, the question now is: "Has the subprime basement been reached?" We believe the answer is: "Not yet."

Here are some reasons. The National Association of Homebuilders Housing Market Index assesses builders' beliefs about home sales. In November, it declined to 19 -- the lowest level since 1985.

Further, new home sales are expected to decline next year. In 2006, 1.05 million new homes were sold. That figure is expected to decline -24% to just 796,000 homes in 2007, and another -13% to 693,000 homes in 2008.

Moreover, mortgage originator Fiserv Lending forecasts that median home prices nationwide will fall -5.7% in 2008. That decline would make it the worst year for real estate in at least 40 years. The industry is expected to be hampered by tighter lending standards, rising defaults on mortgages and falling existing home prices.

Comments from the industry reflect the doom and gloom. Robert Toll, Chairman and CEO of luxury homebuilder Toll Brothers (NYSE: TOL), says U.S. conditions vary from "miserable to outright purgatory." Daniel Mudd, President and CEO of Fannie Mae (NYSE: FNM), predicts that there won't be "a bottom until the end of 2008, and then we have some period of time to work our way back up again."

Even late 2008 might be optimistic. Continued high oil prices and a possible recession would further dampen already battered consumer confidence and put off a recovery even further.

Homebuilding stocks typically anticipate a recovery in the industry between six and nine months before the recovery happens. Owners of HPB should therefore monitor first-quarter 2008 earnings reports of homebuilders to see if the outlook has become more upbeat.

Action To Take ---> Existing holders of the notes should hold their position. For new money, clearly the risks are higher. Still, the housing index may fall even further, making HPB suitable for somewhat more aggressive investors at this point.

Additional Investing Ideas



[A High-End Home Furnishing Store Retailing at a 33% Discount](#)

With recent forecasts calling for soft store traffic and flat comps for the fourth quarter, Williams-Sonoma (WSM) has taken a beating. But these pressures will moderate in time, and this company is well-positioned for future growth.



[This Biotech Company has the Potential to Hit the \\$100 Per Share Mark](#)

Genentech (DNA) is currently trading with a PEG ratio of 0.9 compared to 1.2 for other large biotech companies. Should it reach the valuation of its peers, DNA has the potential to hit the \$100 per share mark.



[Lock in an 11.7% Yield with This Unique Hybrid Security](#)

This stock/bond combo linked to steel maker Nucor (NUE) carries an appealing double-digit yield.

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Investor Trivia -- Infrastructure Spending

According to a study by the Urban Land Institute, firms that build and maintain roads, bridges, and other infrastructure will likely see increased profits in the near future, thanks to the United States' need to spend how much on infrastructure by 2010?

- A.) [\\$589 million](#)
- B.) [\\$1 billion](#)
- C.) [\\$1.3 billion](#)
- D.) [\\$2.2 billion](#)
- E.) [\\$1.6 trillion](#)

(Please click on one the links above. After you make your choice, we'll show you the correct answer on our web site.)

Featured Topic -- Investing in Today's Russian Economic Boom

Russia is back, and today's investors have a rare chance to invest in a country that may very well become one of the world's greatest economic turnaround stories. The country has gone from default and disaster to economic powerhouse in just one short decade, and investors who know what to look for can find a multitude of outstanding investment opportunities. . .

A Bit of Russian Economic History

Ten years ago, Russia was "on the radar" of international investors. Its stock market was surging over +200% per year, inflation was falling sharply, and the economy was

growing at a fast clip. Russia was finally emerging from its post-Soviet economic malaise, and so foreign investment money began pouring in.

But on August 17, 1998, the Russian government defaulted on its debts, and the ruble collapsed in value just a few short weeks later. The government also declared a moratorium on paying foreign banks and creditors. Investors lost billions as the value of bonds fell, and the stock market collapsed by -90%.

What happened? Well, there's no easy answer, but the Russian government's dependence on tax receipts from ever-cheapening commodities, a massive debt burden, the Asian currency and debt crises of 1997, and difficulties in tax collection and economic regulation (thanks to a large black market economy and widespread corruption) all contributed. Russia slipped into an economic coma, and investors moved on to greener pastures.

The New Boom

Now, a decade later, Russia is once again enjoying a financial boom -- the most obvious reflection is its stock market's meteoric rise since 2000 (growth of more than +1,000%). Inflation has steadily fallen, and GDP growth has averaged +6.9% for the past three years. But is this rally for real, or will it just end in disaster again?

To us, the evidence indicates that today's Russian rally is for real. For example, President Vladimir Putin may be a controversial figure in the West, but he has undertaken some necessary reforms for the Russian economy. His dramatic overhaul of the tax system, for instance, has lowered incentives to evade taxes and has boosted collections -- in turn lowering the country's debt burden to nearly nothing. Furthermore, the Russian government has adopted a budget framework that will force Putin's successor to maintain fiscal discipline -- helping to sustain growth for the long run.

Of course, Putin has also received some help, mainly in the form of higher commodity prices and increased crude oil production over the past decade. This in turn has sent tax revenues soaring. As a result, the Russian government now has \$356 billion in foreign exchange reserves and more than \$100 billion in an oil stabilization fund, which should help soften the blow should another economic disaster hit. In fact, Russia's currency reserves are the third-highest in the world -- a far cry from when the nation was desperately seeking cash from the International Monetary Fund and other foreign lenders a decade ago.

Here's how to take advantage of this foreign boom...

Important Note: Because this article is fairly extensive, we could not include it in its entirety in today's newsletter. You can find the remainder of this article on our web site. Please [visit this link](#) to continue reading this article.

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Good investing in the coming weeks!



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