



# TOPSTOCKANALYSTS DIGEST

Investing Ideas from America's Leading Financial Advisors

Monday, December 31, 2007

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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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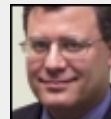
## Today's Top Stock Picks



Western Digital (WDC) is at Multi-Year Highs and Poised to Go Higher

Western Digital has a proven track record in the tough, cyclical disk drive industry. This industry has seen many companies come and go, but WDC has ridden out the low points and is showing signs of strength.

[Read More. . .](#)



Double Your Dividends by Investing in Foreign Companies

Imagine going to a supermarket and shopping in just half of the aisles. This is essentially what investors with no foreign exposure are doing with their portfolios. [Read More. . .](#)

## The Tiny Country Where CDs Yield 12.14%

If you think only banks in "iffy" countries pay double-digit interest rates on their CDs . . . allow me to introduce you to Iceland.

Is Iceland a developed country? You bet. It has the fourth-highest per capita income in the world, at \$54,858.

Is it a safe place to put your money? Certainly. The government here has no net debt and is considered the world's least corrupt administration.

In the U.S., a nation running huge budget and trade deficits, T-bills don't even pay you 4%. In fiscally sound Iceland, you can get more than 12% right now in an ultra-safe

short-term CD.

[Visit this link](#) and I'll show you how to capture these 12.14% interest rates in ultra-safe CDs. It will change the way you think about investing forever.

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## Market Outlook

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As expected, trading volume was characteristically light during this past holiday week. And in that environment, any news (good or bad) can trigger exaggerated price swings in the market. Unfortunately, the bad news far outweighed the good.

With many traders taking an early vacation, those that came to work on Monday were greeted with news that brokerage giant Merrill Lynch (NYSE: MER) was set to receive a \$6.2 billion influx of cash after selling off large stakes of the company to the Singaporean government and U.S.-based Davis Selected Advisors. Those proceeds will go a long way toward restoring Merrill's weakened balance sheet, which has been burnt by money-losing bets on soured mortgage-backed securities.

Unfortunately, any optimism the market had on Monday quickly unraveled later in the week. Part of the blame rested with the housing market, which showed further signs of crumbling. According to one popular index, average home prices retreated another -7% -- with 11 of the 20 largest U.S. markets showing record monthly declines.

Meanwhile, the Commerce Department announced that new home sales tumbled -9% last month to the lowest annualized rate in more than a decade. Economists were looking for a modest drop of just -1.8%.

Adding to the angst, unemployment filings showed a surprise uptick last month, and orders for big-ticket durable goods inched up just +0.1% -- well below expectations. Furthermore, early results indicate that holiday sales may fall short of the National Retail Federation's forecasts for revenue growth of +3.6%. Discounter Target (NYSE: TGT) reinforced those fears by warning that December sales are trending lower-than-expected.

But it was the assassination of former Pakistani Prime Minister and opposition leader Benazir Bhutto that really unsettled the markets. The political unrest in the Middle East pushed oil prices back up to nearly \$100 per barrel and sparked a wave of selling throughout many Asian markets. For the week, the major averages ended moderately lower.

However, there is rarely any conviction this time of year, so it's difficult to draw conclusions about where the market may be headed as we move into the new year. But if the next year is anything like this one, then investors may want to dial up their exposure to foreign stocks.

And below, Nick Lanyi, editor of our premium new [High-Yield International](#) service, explains why overseas markets can be particularly fertile ground for income-oriented investors. While our own S&P 500 pays out a meager 2% yield on average, yields on

many quality foreign stocks can reach 8%, 10%, or even higher.

But first, *Cabot Wealth Advisory* editor Timothy Lutts explains why the market pendulum is swinging back in the favor of hard disk drive maker Western Digital (NYSE: WDC, \$29.95). Thanks in part to the explosive growth in mobile devices, digital video recorders (DVRs) and other consumer electronics, demand for hard drives is on the rise. Yet, industry consolidation has concentrated nearly all of the industry's wealth in the hands of just four players -- and none are positioned to cash in like Western Digital.

Good Investing!



-- Nathan Slaughter  
Co-Editor  
*TopStockAnalysts Digest*

## Why You're Not Hearing About 93% of the World's Highest-Yielding Stocks . . . and How We're Fixing that Right Now

The score of profitable companies yielding more than 12% is:

<u>Home (U.S.)</u> 17 "High-Yielders"	<u>Away (Foreign)</u> 214 High-Yielders"
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17 here versus 214 abroad -- where do *you* think the best hunting ground is for yield-hungry investors?

Fact is, any income investor who doesn't look overseas might as well be playing golf with one club. You're giving up on 93% of your juiciest yields before you even tee off.

In the introductory issue of *High-Yield International*, I'll show you how easy it is to capture safe double-digit income abroad . . . and I'll introduce you to the highest-yielding stocks on the planet -- paying up to 35.6%. [Get the full story here.](#)



### Western Digital (WDC) is at Multi-Year Highs and Poised to Go Higher

by Timothy Lutts, Editor -- *Cabot Wealth Advisory*

Western Digital Corp. (NYSE: WDC, \$29.95) is a leading maker of hard disk drives. Western Digital's drives can be found in corporate servers, desktop computers, portable computers, backup applications and consumer electronics, like DVRs, gaming systems, karaoke systems and video surveillance systems. In short, they're everywhere.

You can buy a Western Digital drive directly, but half the company's output goes to

original equipment manufacturers (OEMs), who put them in their own products.

As such, Western Digital is caught in a never-ending race to make its products better and cheaper, and to do it before the competition.

It's a cutthroat business, and because of that, hard drive makers have never been great long-term investments.

No longer in business are old names like Integral, Tandem, Control Data, MiniScribe and Connor Peripherals. Little Iomega, a thrilling and very profitable investment back in 1995 after the Zip drive came out, has lost money in five of the last six years and was just "bought" (in a complex transaction) by Great Wall Technology, which is majority-owned by the Chinese government. Last year, Seagate (NYSE: STX) bought Maxtor for \$1.9 billion. And early this year, Western Digital acquired Komag for \$1 billion.

That leaves only four companies -- Western Digital, Seagate, Samsung, and Hitachi (NYSE: HIT) -- manufacturing over 98% of the world's hard drives. Samsung and Hitachi, of course, are electronic behemoths; hard drives are just a fraction of their business.

But why would you want to invest in a hard disk maker anyway? Because historically, these companies have provided many opportunities to make big money quickly, and it looks like we're entering one of those periods today.

What typically happens in the industry is that as business improves and profits increase, companies expand so they can increase revenues. But the increased production, typically the result of expansion by several firms, means capacity begins to exceed demand, so manufacturers cut prices to move product. Trouble is, that reduces profitability, and as earnings fall, investors desert the stocks. And it's not until demand for product increases and allows product prices to stabilize that earnings can creep up and the good times return.

All the while, of course, all companies are involved in the never-ending race to increase storage capacities and reduce prices.

So why is WDC attractive today? Because it's strong... stronger than Seagate and stronger than the broad market.

Right now, the industry's fundamentals are outstanding -- lower production from a couple of Asian competitors has kept inventory levels low, while demand remains very strong thanks to an explosion in mobile device sales (the firm's mobile-related drive sales were up +55% in the third quarter) and healthy growth in computer and digital video recorder shipments. The result: third-quarter earnings crushed estimates by +39%, and the firm upped its fourth-quarter outlook. All told, we expect the positive news flow to continue for the intermediate-term.

WDC peaked at \$25 per share in February of 2006, fell to \$16 by March of this year, and has been in a strong uptrend since. The best aspects of the chart, however, occurred just in the past few weeks -- the surge at the start of November was caused by a great earnings report, the stock held up well during the market's November slide, and it's push to new multi-year peaks came on a higher fourth-quarter forecast. WDC is extended to the upside, but we don't believe a big pullback will come. You can buy a little here, and look to add on strength.

But if you buy, I caution you not to fall in love with the stock. If you do, I guarantee it'll break your heart.

Which country listed below offers AVERAGE dividend yields of 7.3%?

(Hint . . . the answer will shock you)

- (A.) [United States](#)
- (B.) [United Kingdom](#)
- (C.) [Brazil](#)
- (D.) [New Zealand](#)

[Click here to learn the answer...it's free!](#)



## Double Your Dividends by Investing in Foreign Companies

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

Imagine going to a supermarket and shopping in just half of the aisles, or opening a restaurant menu and limiting your dinner choices to the entrees listed on just one of the pages.

This is essentially what investors with no foreign exposure are doing with their portfolios.

In years past, most of the world's stock market capitalization was locked up in the United States. However, trillions of dollars in market wealth has been created overseas in the past decade, and there are now actually more opportunities outside our borders than within.

Take banks, for example. In terms of assets, seven of the top ten banks in the world are foreign-based companies. And the story is similar across most other industries, from retailers to steel makers to electronics manufacturers -- many future industry bellwethers are located outside the U.S.

And aside from a greatly expanded pool of investment ideas, there are several other reasons to consider foreign investments. Most importantly, stock prices are heavily influenced by economic expansion and overall corporate profitability. And as the world's largest economy (with a gross domestic product (GDP) in excess of \$13 trillion), it is virtually impossible for the U.S. to deliver the robust growth rates that it has posted in decades past.

Fortunately, many other countries around the world are at far earlier stages on the economic development path and should see much higher growth rates than the United States for years to come. As you can see from our chart, while the U.S. economy is still dominant, it simply can't match the growth that is taking place in markets like China and Russia.

Considering the link between economic expansion and equity prices, it's not surprising that U.S. stocks have struggled to keep pace with the rest of the world.

From September 2002 to September 2007, the S&P 500 delivered average gains of about +12% per year. While that return is certainly respectable, it lagged most foreign benchmarks -- stocks jumped nearly +20% per year in Europe, +25% in Pacific Asia, and +40% in Latin America over the same time frame.

Clearly, there is something to be said for casting a wider net, and investors who have done so have been well-rewarded. Over the past 15 years, the benchmark S&P 500 has not once been the top-performing stock market worldwide in any given calendar year. In 2006, for example, it failed to even break the top ten -- the +14% return of the S&P 500 wasn't even within shouting distance of, say, Venezuela's impressive +156% surge.

#### Dividends Play a Leading Role

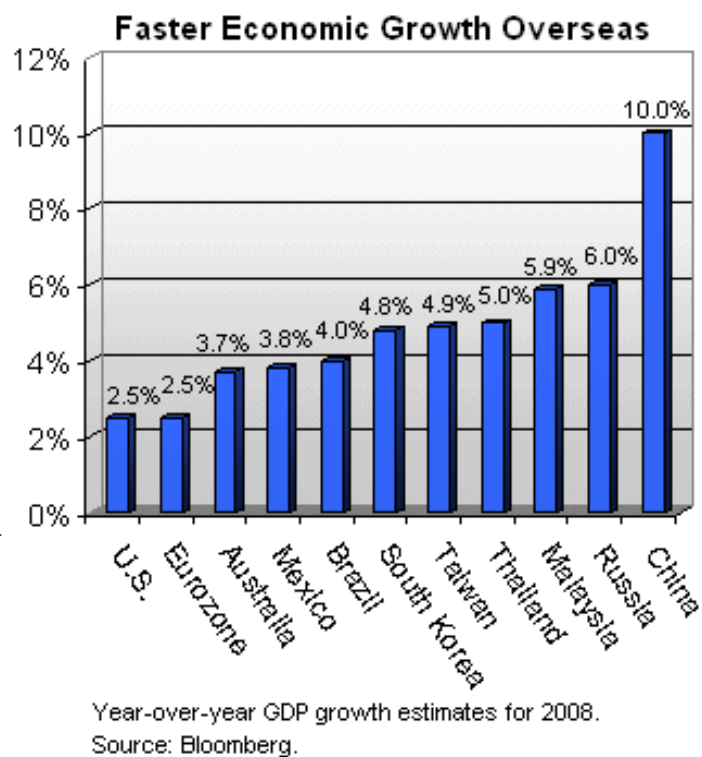
Of course, it goes without saying that in many developed markets overseas -- just like in the United States -- a large percentage of those total returns are comprised of dividends. In fact, those who invest in foreign stocks will find that yields throughout Europe and in many other regions are actually far superior to those typically seen here.

According to Jill Evans, manager of the Alpine Dynamic Dividend Fund (ADVDX), average yields on foreign exchanges are currently running about double the meager average payout of roughly 2% among S&P 500 firms -- and fatter quarterly paychecks are just the beginning.

Whether it's Brazil, Hong Kong, or Turkey, dividends send the same message in any language. Specifically, recurring dividends represent millions (or even billions) in annual payments to shareholders. And companies that can meet that obligation in both good times and bad can usually be counted on to deliver consistent cash flows.

Furthermore, dividends can also act as a built-in safety net in a falling market. As the price of a stock drops, its yield rises -- thereby attracting investors. This tends to prop up dividend payers in a down market and can even set a floor on the share price.

Simply put: dividend-paying stocks can usually be trusted to deliver above-average long-term returns with less volatility than the broader market. According to renowned



professor and market researcher Jeremy Siegel, the top 100 highest-yielding stocks in the S&P 500 have returned +3% more per year on average than the index as a whole.

And if dividends can make that much of a difference in our low-yield domestic environment, imagine what the generous 6%, 10% . . . even 15% yields commonly found overseas can do for your portfolio. These are exactly the types of stable, high-yielding foreign companies we'll introduce our readers to every month in *High-Yield International*.

It will be the only publication of its kind dedicated exclusively to finding high-yielding securities in foreign markets. Our mission will be to show our subscribers how they can earn steady yields of 8% . . . 10% . . . even 15% or more by investing in these foreign millionaire makers.

To learn more about *High-Yield International*, [visit this link](#).

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## Additional Investing Ideas

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### [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.



### [How a Falling Dollar can Make Americans Rich](#)

Many Americans fear the weakening dollar, but investors should know there is opportunity in the decline.



### [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.

[Visit this link](#) to read additional articles from today's leading market experts!

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## Investor Trivia -- The Shipping Industry

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Surging demand for raw materials in Asia is one of many reasons that shipping firms and shipping expeditors have earned eye-popping gains in recent years. Which shipping company's shares rose more than +1000% from 1997 to 2007?

- A.) [Teekay \(TK\)](#)
- B.) [Diana Shipping \(DSX\)](#)
- C.) [OceanFreight Inc. \(OCNF\)](#)

[D.\) YRC Worldwide Inc. \(YRCW\)](#)

[E.\) Expeditors International of Washington \(EXPD\)](#)

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

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## Featured Topic -- Utilities Offer Stability No Matter What the Market Conditions

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Thanks in part to their often government-mandated monopoly status, utilities are generally considered a staid and buttoned-down class of investments. But this is a positive from an income perspective. Utilities tend to be some of the most solid and predictable companies on the market. With stable revenues and a track record of returning the bulk of their income back to shareholders, utility companies have been one of the greatest distributors of dividends for many years.

Of course, as in most industries, there are exceptions to the rule. For example, the debacle surrounding Enron not only temporarily tarnished the reputation of utilities, but of the markets in general. However, excluding this rare and unfortunate example of poor corporate governance, utility stocks have anchored the portfolios of many retirees and conservative investors for decades.

### Government Regulation

Without a doubt, our nation could not function without the backbone services provided by the utility industry. Few appreciate these unsung businesses until they are forced to go without running water, natural gas, or electricity for a few days. With few exceptions, every consumer and business in the country relies on these basic necessities, and without them our economy would grind to a halt.

Because it is often far more efficient to have a single provider for these basic necessities, most utilities are set up as monopolies in their respective markets. To keep these local monopolies from abusing their power, regulation is usually imposed at both the state and federal levels. In most cases, the government sets the maximum rates that utility companies can charge their customers. These rates are designed to enable the utilities to earn a fair rate of return on their assets without allowing them to take advantage of their monopoly status.

So, what is the end result of a government-sanctioned monopoly coupled with guaranteed demand? In most cases, this advantageous position results in a cash-generating machine protected by extremely high barriers to entry. Such companies are often highly defensive in nature, with slow, steady growth rates and generous dividend payouts. For example, the average utility stock in the Philadelphia Utility Index offers a yield of around 3-4%, or about double what is found on the S&P 500.

But not all utilities are slow-growing behemoths. In fact, those that operate in countries like China and India are benefiting from electricity consumption that is growing at more than twice the rate of that in the U.S. With this in mind, utilities in such markets can offer the best of both worlds: steady income and capital gains potential. Not surprisingly, these securities are often prized by investors, as they offer downside

protection as well as market-beating total returns.

#### Shelter During a Market Storm

It is impossible to predict exactly how the global markets will perform over the coming years. However, after several consecutive years of gains, it is likely that we could be headed for a rocky period of flat, or even negative overall returns. This cyclical pattern has played out time and time again over the years.

Although most investors choose utilities for their stability and their rich dividend yields, the industry can also provide some impressive upside potential, particularly when the broader markets are falling. . .

**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.

## Free Investing Resources

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Get your FREE copy of "The Micro Cap Report" -- This is a comprehensive report on what we feel to be the undiscovered gems in the micro cap market. As an investor relations firm we know the secrets behind finding the winners in the micro cap sector.

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Good investing in the coming weeks!



*Nathan Slaughter*

Nathan Slaughter  
Co-Editor  
*TopStockAnalysts Digest*



*Paul Tracy*

Paul Tracy  
Co-Editor  
*TopStockAnalysts Digest*

<http://www.TopStockAnalysts.com>

839-K Quince Orchard Blvd.

Gaithersburg, MD 20878-1614

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