



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](#).



Table of Contents

1. [Market Outlook](#)
2. [Annaly Capital \(NLY\)](#)
3. [SPDR International Small Cap \(GWX\)](#)
4. [Additional Investing Ideas](#)
5. [Investor Trivia -- Buffett's Performance](#)
6. [Featured Topic -- Bear Markets Offer the Best Opportunities](#)
7. [Free Investing Resources](#)

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Today's Top Stock Picks



The Little-Known Mortgage REIT up +12.8% in 2008

Despite the mortgage meltdown and massive write-offs by some of the top investment banks, Annaly Capital Management (NLY) continues to prosper.

[Read More . . .](#)



SPDR International Small Cap (GWX) Offers True Diversification Against U.S. Volatility

In today's global economy, if the U.S. sneezes, international markets are usually quick to catch a cold. One fund offers protection. [Read More . . .](#)

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

(Hint . . . the answer may surprise you)

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

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

Market Outlook

In the two weeks since our last issue, investors have been treated to a topsy-turvy market. Week before last, we reveled in what was one of the market's strongest weeks in years -- the S&P 500 tacked on healthy gains of nearly +5%. Unfortunately, those gains unraveled just as quickly as they appeared, as stocks have again reversed course over the past several days.

Given the sharp advance the week before, Monday's mild profit-taking was to be expected. However, the walloping that followed was unusually harsh, even for a market

that has grown accustomed to heightened volatility.

The problems began with a troubling read on the service sector, a critical cog in the overall economy. According to the Institute of Supply Management (ISM), a key index gauging the health of service-related industries like entertainment and lodging cratered to 44.6 in January. This alarming drop was the first reading below 50 (which indicates a contraction) in five years, and came as just 3 service groups showed growth for the month -- versus 14 on the decline.

Stocks immediately retreated on the news, and the selling pressure intensified due to cautious comments from the Fed regarding inflation. Equally troubling is that it has become increasingly clear that U.S. consumers are battering down the hatches. Last week, a survey of prominent retailers showed the weakest January same-store sales in nearly 40 years, highlighted by anemic growth of just +0.5% at bellwether Wal-Mart (NYSE: WMT).

Like last month's surprising loss of 17,000 jobs, all signs point to a stagnant U.S. economy that is experiencing a quarter of negative GDP growth, or possibly in a recession. And traders have responded accordingly, erasing 560 points (-4.4%) from the Dow Jones Industrials for the week -- its worst since March 2003.

Fortunately, the Fed has acted aggressively (although some would argue belatedly) to counter the growing threat of a deep economic slump. Of course, such measures take time to work their way through the system. In the meantime, though, there are always places that investors can turn to in times of uncertainty.

For example, international small-cap stocks aren't closely correlated with U.S. equities and have a tendency to zig when our markets zag -- which makes now a good time to explore an exchange-traded fund like SPDR International Small-Cap (AMEX: GWX, \$30.25). As I explain below, the fund not only offers diversification, but stellar long-term potential returns as well.

But first, *High-Yield Investing* editor Carla Pasternak takes readers on a tour of Annaly Capital Management (NYSE: NLY, \$20.49). The REIT has boosted its dividends for eight straight quarters and now offers a generous yield of 6.6% -- along with a solid return thus far in 2008. And with a more favorable interest rate environment expected to help push earnings ahead +60% this year, shareholders can expect more of the same going forward.

Good Investing!



-- Nathan Slaughter
Co-Editor
TopStockAnalysts Digest

Do you know about "California Overnight Dividends"?

It's the only investment we know of that is certain to pay you as much as \$5,500 or more in the next 24 hours.

BusinessWeek says: "Those of us on a quest for extra income may find it in an unexpected place..."

Brian Workman, a Sr. Vice President at Citigroup says: "This was a definite eye-opener... it makes you wonder what else Wall Street has been keeping from us."

[Click here for a full report...](#)



The Little-Known Mortgage REIT up +12.8% in 2008

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

Formed in 1997, Annaly Capital Management (NYSE: NLY, \$20.49) owns a \$39 billion portfolio of residential mortgage-backed securities and has over a decade of experience in weathering different interest rate environments. All of these securities are issued by an agency of the United States government, such as Ginnie Mae, Fannie Mae (NYSE: FNM), or Freddie Mac (NYSE: FRE). As such, they carry an actual or implied "AAA" rating, which means virtually no risk of default. The firm makes its money from the spread between the interest income on mortgage-backed securities and the costs of borrowing to finance their purchase.

Annaly also owns FIDAC, an asset management firm that manages a \$14 billion fixed-income portfolio. FIDAC receives advisory fees based on a percentage of assets. This fee-based income provides Annaly with stable revenues that don't rely on interest rate spreads.

Dividend: Management has recently announced its eighth consecutive quarterly dividend increase. The latest quarterly dividend of \$0.34 a share represents a dramatic +31% increase from the prior quarter and gives the stock a projected annual payout of \$1.36 per share. That equates to a yield of 6.6%.

As a real estate investment trust, Annaly must pay out at least 90% of earnings to shareholders to avoid paying corporate taxes. Over the past 12 months, NLY has distributed \$1.04 per share on earnings of \$1.16 per share, in line with this requirement. With the firm projected to earn \$2.63 per share in 2008, it would have to pay out a total of \$2.37 per share to reach the 90% threshold.

As a real estate investment trust, Annaly's distributions are taxed at the full income tax rate of up to 35%, depending on your tax bracket. As such, the shares are best held in a tax-deferred account. Dividends may be reinvested through Annaly's dividend reinvestment plan. You can get more information on the plan by phoning Mellon Investor Services at 1-800-301-5234.

Performance Drivers: After repositioning its portfolio in high-quality securities over the past two years, Annaly has seen several straight quarters of solid earnings growth. The latest third-quarter results reflect the benefit of recent share issues. The company made good use of the fresh equity capital, moving into higher-yielding assets that increased the average yield on its portfolio holdings to 5.84%, up from 5.44% a year ago. As a result, the interest rate spread more than doubled from the year-ago quarter to 0.67%.

Outlook/Valuation: The company is well-positioned to benefit from a more favorable interest rate environment. As short-term interest rates trend down, the company's borrowing costs will also fall and profit margins should continue rising. For the full year, 2007 earnings are expected to have almost tripled to \$1.27 per share. 2008 earnings are forecasted to more than double to \$2.63 per share. Trading at just seven times 2008 earnings, the shares still represent a good value despite returning about +58% over the past year -- and +12.8% since the start of 2008.

Action To Take ---> The near-term outlook is favorable for this mortgage REIT, but investors should be prepared to monitor the environment for any changes to this prognosis. For more conservative investors, Annaly's preferred shares (NYSE: NLY-PA) may be the ticket.

Now you can have *both*...

If you're looking for both high yields and enormous capital gains, then you need to learn more about our "Income Security of the Month" for February 2008.

This stable, diversified fund has a long track record of paying some of the biggest dividends in Wall Street history. In fact, the fund has paid an average dividend of 22.1% per year over the past five years -- nearly 12X greater than the yield delivered by the S&P!

[Learn the name of this security!](#)



SPDR International Small Cap (GWX) Offers True Diversification Against U.S. Volatility

by Nathan Slaughter, Editor -- [The ETF Authority](#)

As the U.S. market has suffered a sharp correction in recent months, many financial pundits have been recommending that investors protect their assets by stashing them overseas. Unfortunately, while this strategy sounds great in theory, it usually doesn't work out too well when put into practice.

In today's global economy, if the U.S. sneezes, international markets are usually quick to catch a cold. For example, after the Dow Jones Industrials tumbled nearly 700 points from January 14-18, foreign exchanges quickly followed suit -- plunging the following Monday.

Tokyo's Nikkei 225 Index retreated -4% on the day, major benchmarks in London and Paris registered declines of around -6%, Germany's blue-chip DAX 30 shed -7%, and India's SENSEX was down as much as -11% at one point. That frenzied sell-off dashed hopes that stocks in faster-growing nations in Europe and Asia might become decoupled from those in the U.S.

However, there is one group that doesn't always march to the beat of the U.S. drum -- foreign small-caps. SPDR S&P International Small Cap (AMEX: GWX, \$30.25) offers exposure to a broad basket of 500 small and mid-size stocks culled from markets all over the world. Japan soaks up most of the portfolio's assets (30%), followed by the U.K. (12%), Canada (11%), Australia (9%), and Korea (5%). However, this is a far-reaching international fund, with a stake in countries ranging from Italy to Luxembourg.

Those looking for a fund that truly offers some diversification against U.S. volatility will find it here -- with a low beta of just 0.32. But diversification isn't all you'll get. As of last September, the fund's index had posted impressive 5-year annualized gains of +30.0%, trouncing both the S&P 500 and the Russell 2000.

Of course, I don't mean to imply that the fund will emerge from a global economic slowdown unscathed, or that shareholders should grow accustomed to the sizzling gains of recent years. However, long-term shareholders looking to cash in on the growth of up-and-coming companies from around the world should be pleased.

Additional Investing Ideas



[Vermilion Energy Trust \(VETMF\) Combines Safety and a 6.5% Yield](#)

Vermilion is the only Canadian-based oil and gas energy trust with international production. Approximately 40% of its cash flow comes from Canada, 46% from France and the Netherlands, and the balance of 14% from Australia.



[IGT: One of Our Favorite Stocks for the New Year](#)

With a dominant market share and strong growth drivers, we like slot machine maker IGT in 2008.



[The Secret to Investing Like a Professional](#)

Maintaining a clear head while others are panicking is key to investing like a professional and profiting in the long-term.

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

Investor Trivia -- The Oracle

In 1965, a young Warren Buffett took control of a struggling textile manufacturer named Berkshire Hathaway (NYSE: BRK-B) and used its excess cash flows to make shrewd investments. His success has been legendary -- of the last 43 years Buffett has spent with Berkshire, how many times has the company's stock outperformed the S&P 500 on a yearly basis?

- A.) [22 Times](#)
- B.) [30 Times](#)
- C.) [35 Times](#)
- D.) [37 Times](#)
- E.) [43 Times](#)

(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 -- Bear Markets Offer the Best Opportunities

Wouldn't it be nice to have the ability to time the market, always buying just ahead of sharp rallies and cashing out just before stocks began to retreat?

Over the years, technical analysts have devised a number of complex charting tools to aid in this very purpose. But most long-term investors (myself included) base their investment decisions on fundamental factors like revenues and profit margins -- not stochastic oscillators and Bollinger bands.

For those of us that aren't in the market-timing business, venturing out on the market's seas in the middle of a raging storm often takes a leap of faith. Fortunately, as any treasure hunter will tell you, it is precisely that churning action that turns up some of the greatest finds.

Embrace Your Inner Bear

As we all know, the market can be quite irrational at times, pushing stocks far above or below what they're really worth. Yet, while these swings can be frustrating, think how different (and boring) the market would be without them. In a perfectly efficient market, we could never buy a stock at a discount, or sell one at a premium -- every security would be perfectly priced, all the time.

It is only through irrational selling that value investors occasionally get the opportunity

to pick up a \$50 stock for just \$25 per share.

During normal market conditions, though, these incredible opportunities generally arise because of company-specific problems: rising expenses, decelerating earnings, product recalls, etc. Such setbacks can certainly be overcome, but rarely overnight.

However, there are narrow windows of time when we can find dozens of problem-free companies trading at sharp discounts. You know these periods better by their more common name: bear markets. In times of indiscriminate bearish pessimism, thousands of companies are falling in unison -- and many of those are doing just fine.

When panic selling invades the market, it's not uncommon for three-fourths of all publicly traded stocks to trend downward. But, after the steam is let out, it becomes much easier to find deeply discounted stocks. Better still, many stocks will have been pulled lower by nothing more than general market weakness, which always subsides sooner or later.

Obviously, this can set the stage for a powerful recovery once the big picture begins to improve. In the recession from 2000 to 2002, the market sold off -47.6%, but rebounded +28.6% the following year. Individual companies performed even better over the long-term. Apple (Nasdaq: AAPL) sold off -63% in that same recession and now trades +1,009% higher. . .

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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[Take advantage of this free offer.](#)



Here's How the Pros Make Money -- *The Smart Profits Report* is a valuable resource whether you're a beginner or a seasoned pro. We will guide you from the investment basics to the more advanced (yet easily understandable) "out-of-the-box" trading strategies that immediately show you how to enjoy consistently bigger, faster gains.

[Get *The Smart Profits Report*.](#)

Good investing in the coming weeks!



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