



Richard E. Band's  
**Profitable Investing**<sup>®</sup>



YOUR FINANCIAL GUIDE FOR ALL SEASONS • VOL.19, No. 1

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**TWO KEY WEEKS**

This investment business is always interesting, but sometimes it gets downright fascinating. During the fourth quarter of 2007, the stock market limped, far weaker than the norm at year-end.

Were investors simply on a rampage of tax-loss selling? Or is the market telling us to watch out for more economic bombshells in 2008?

The first two weeks of January will give us a clearer picture. I'm hoping for a powerful rally that will chase away some of the hobgoblins spooking investors. But I'm keeping an open mind, and I encourage you to do the same.

Be ready to act. There's drama ahead!

Dear Friend,

January 2008

**W**elcome to an Election Year battle of the titans! No, I'm not inviting you to witness yet another (yawn) TV face-off between the presidential candidates. This battle is over the outlook for the U.S. economy in 2008, and it pits the powerful forces of expansion against the almost equally formidable downward pressures that lead to recession.

The stakes are high for your portfolio. Many more investors, I suspect, will **lose** fortunes in the New Year than make them. Now more than ever, you need a strategy that will keep your money safe and growing, regardless of which side wins the economic tug-of-war.

In this month's visit, I'll show you how I believe the contest will turn out. (*Hint:* I'm not expecting a recession, but we'll come perilously close.) I'll also name the two major types of investments you **must** own if you're to be fully prepared for the volatile weeks and months I see ahead.

As you know from my December letter, we've been looking to trim our exposure to international stock markets, particularly the red-hot emerging markets. On p. 3, I'll update you on our global strategy (none of last month's price targets has been touched yet). I'll also point you to one foreign stock that is still remarkably cheap—and cruising for a potential return of 20% or more in the year ahead.

**Enough Sizzle, Here's the Steak**

Later, for the retirees and other income seekers among us, we'll sort through your best options among the high-yielding real estate investment trusts. Believe it or not, I've found one conservatively managed REIT paying a lush 7% dividend, as well as a real estate fund (admittedly a bit more aggressive) yielding over 11%. In a low-yield world, vehicles like these can put steak on your table and a smile on your face!

First, though, let's find out how the titanic struggle wracking the U.S. economy is likely to be resolved in Election Year 2008—and what you can do now to make sure you're safely invested on the profit side of these historic events.

**THE ROAD AHEAD**

**Disaster or Glory, What Will It Be?**

Shakespeare's Macbeth may not have been a stock trader, but he would have understood perfectly how most investors feel right about now. "So foul and fair a day I have not seen," quoth he.

I'll drink to that. Seldom in recent decades have investors stood on the threshold of a new year with such stiff crosswinds in their faces.

The negatives are obvious. Clearly, the downturn in the U.S. housing market has dealt a body blow to the banking system. Bad mortgage loans, in turn, have prompted bankers to pull in the reins on other types of lending. *Result:* Credit is becoming harder to get, even for respectable borrowers, and the wheels of commerce are slowing.

One school of thought goes so far as to suggest that the overall U.S. economy may shrink in 2008, bringing on a sharp drop in corporate profits. Not a friendly scenario for the stock market.

I respect the bearish arguments. As far back as 2006, I was concerned that the Federal Reserve might have pushed interest rates too high (and kept them there too long). To ignore the “macro” risks in your investment planning is always unwise, but especially now.

## The Untold Story

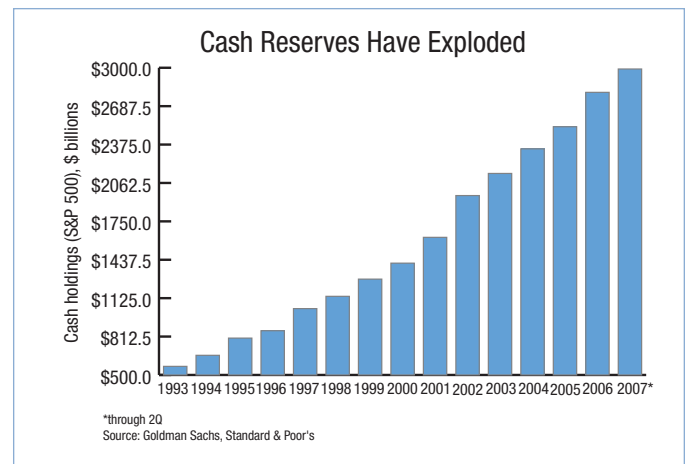
At the same time, I’m convinced that today’s grim news headlines don’t tell the whole story. Here are three factors pointing toward a stronger economy, at least in the back half of 2008, and perhaps a surprisingly buoyant stock market:

- *The Fed, under Ben Bernanke, has acted much more quickly than it did under Alan Greenspan to relieve distress in the financial system.* In 2001, Greenspan waited until the Dow Jones Industrial Average had tumbled almost a year before he instituted the first rate cut. Bernanke responded in four weeks. While some grumblers lately have accused Bernanke of “falling behind the curve,” the fact is that Dr. B has shown far more nimbleness and flexibility than his vaunted predecessor.

- *Corporate America is awash in cash.* Take a peek at the chart on this page. It shows that large U.S. corporations these days are sitting on a record \$3 trillion of cash equivalents. Corporate cash holdings have roughly **tripled** from a decade ago.

Not only do these cash reserves provide a cushion against hard times, they also give companies the firepower to buy back stock. For the past couple of months, U.S. corporations have been retiring stock (buying back more than they’re issuing) at the fastest pace on record—an extremely bullish omen.

- *The depressed dollar is sparking an export boom.* To foreigners, goods priced in greenbacks appear to be a spectacular bargain. Companies like *Boeing* (see below) are stealing market share from overseas rivals. As exports ramp up, U.S. manufacturers will hire more workers, offsetting some of the economic drag from the housing slump.



## No Time for Complacency

In short, I still think there’s a good chance the Dow will eventually reach our longstanding target of 16000 by Election Day. However, the market won’t follow a straight line—far from it. With the kind of volatility we’ve seen in recent months, it’s entirely possible that the major stock indexes will suffer one or more interim declines in the range of 10%–15%. This is no time to be complacent.

To survive the roller-coaster ride with your wits intact, you’ll need ample padding in the form of cash equivalents (T-bills, money market funds, CDs and short-term bonds). See p. 9 of the supplement for some specific money market recommendations. For my “typical” subscriber, aged 50–60 and still working, I suggest, as a broad guideline, about a 30% stake in these ultra-safe investments.

Once you’ve built a solid foundation of low-risk investments that will let you sleep easy, you can add stocks and equity mutual funds for higher potential. I’ve highlighted a bunch of mutual funds and exchange-traded funds in this month’s supplement. Among our model portfolio stocks, I particularly favor companies with prospects for healthy earnings growth in 2008, such as *Accenture* (NYSE: ACN) at \$40 or less; *General Electric* (NYSE: GE) at \$39 or less; *News Corp.* (NYSE: NWS.A) at \$22 or less; and *Walgreen* (NYSE: WAG) at \$41 or less.

## Flying High with Boeing

Of course, you should also be on the lookout for ways to upgrade your portfolio as you go along. This

Richard E. Band’s Profitable Investing® (ISSN 1048-3667) is published monthly by InvestorPlace Media, LLC, 9420 Key West Ave., 4th Floor, Rockville, MD 20850-3334. Please write or call if you have any questions. Phone: 800/211-8566 or 301/424-3700. E-mail: [service@rband.com](mailto:service@rband.com). Web site: [www.rband.com](http://www.rband.com) Telephone Hotline: 301/738-6952.

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month, we're swapping out of *Southwest Airlines* (NYSE: LUV), a great business that is experiencing unusually keen competition at the moment from former bankrupts Delta, Northwest and US Airways. LUV will likely post higher earnings in 2008, but from a lower 2007 base than I had hoped for.

Let's switch to *Boeing* (NYSE: BA). In recent months, the plunging dollar has opened up a sizable pricing advantage for America's premier aircraft manufacturer, driving Airbus, Boeing's European arch-rival, to the wall. While I expect the dollar to recover somewhat against the euro in 2008, BA should enjoy a currency tailwind for most of the year, and possibly into 2009.

The main risk with Boeing right now is that delivery of the company's next blockbuster product—the light, energy-efficient 787 Dreamliner—might be delayed (again). Currently, BA plans to begin shipments in December 2008.

Still, I'm willing to accept that risk because (1) Boeing has the financial muscle to push the Dreamliner through to the finish line and (2) the stock is a bargain. By 2011 or 2012, when Boeing's new-product cycle hits full stride, the company could be earning upwards of \$10 per share. Given a modest P/E ratio of 15X, the shares would lift off to \$150 (from a recent price below \$90). Buckle up, we're rolling down the runway!

▶ **What to do now:** Buy BA at \$92 or less. We'll carry the stock in our model portfolio under World-Class Franchises. Boeing pays a small dividend (current yield: 1.8%), but is also in the midst of an energetic program, announced in October, to buy back \$7 billion of its shares. BA has already repurchased \$8 billion worth of stock since 2004.

## GOING GLOBAL

### Tuck Some of Those Profits Away

I've been a cheerleader for international investing since the very first edition of this newsletter 18 years ago. (Our maiden issue contained write-ups on *BP* and *Shell*, plus a currency fund and an international bond fund!) And we're still at it today, as you can quickly tell by glancing at our model portfolio.

But I've got to level with you. I think 2008 will present some real challenges for global investors. As I noted last month, the economic slowdown under way in the United States may soon begin to spread

overseas as Americans gobble up fewer imported goods.

Furthermore, the dollar—after falling precipitously for the past six years—looks ready for a respite. In late November, two major European magazines simultaneously ran cover stories depicting the dollar going down in flames. This is the kind of one-sided sentiment that typically signals an important market bottom.

While a jump of 5%–10% in the dollar's value against, say, the euro wouldn't dent the competitive position of a *Boeing* (see p. 2), it would probably wipe out any advantage in holding most European stocks during the New Year. A dollar snapback is less of a concern for Asian or Latin American stocks because currencies in those parts of the world haven't appreciated drastically against the greenback. However, the Australian and Canadian currencies are at least as overvalued, in commercial terms, as the euro, so they're vulnerable, too.

*Bottom line:* I continue to watch for opportunities to take some of our international money off the table. I'm still buying selectively in foreign markets, but on balance, I'm a seller.

### Stocks and Funds for Sale

Here's an updated list of international stocks and funds we plan to exit, assuming the price is right. (My guess is that we'll have another four to six weeks to sell at optimal levels.) To make the list a bit more intelligible, I've organized it by country. For a rundown on China, as well as the international segment of our various mutual fund portfolios, see this month's supplement.

- **Japan.** The country that taught the world the meaning of deflation in the 1990s appears to be faltering again. Business confidence sank to a two-year low in December, and I'm not pleased that the Tokyo Nikkei index undercut its August lows by a decisive margin in November. (Most western bourses held the August lows.) If the *iShares MSCI Japan Index Fund* (NYSE: EWJ) creeps back to \$14.40, we'll switch our holding to cash.

- **Korea.** The Seoul stock market acted like a tiger in 2007, chasing our *iShares MSCI Korea Index Fund* (NYSE: EWY) ahead 34% through November 30. This superb performance has largely erased the "Korea discount" that existed for many years as a result of the armed standoff between North and South Korea. Going forward, I expect the Korean market to track the developed world's bourses much more closely. Sell EWY at \$73 (a new, slightly lower

(continued)

price than I gave you last month). When the order gets executed, we'll move 1% of the model portfolio to cash.

- **Taiwan.** The Taipei market has fared better than Japan in the past year, but I'm bothered that the local index slipped below its August low in December. This is a technical warning that the heavily export-dependent Taiwanese economy is softening. Sell *Taiwan Semiconductor* (NYSE: TSM) on a rebound to \$10.40 or higher. Simultaneously, we'll shift 1% of the model portfolio to cash. If you own *iShares MSCI Taiwan Index Fund* (NYSE: EWT), bow out at \$16.

I'm shelving one sell order from last month. Brazil's *Unibanco* (NYSE: UBB) keeps astounding the investment community with its ability to grow profitably. Even after a steep 49% jump in the share price year to date (through mid-December), the bank is trading at only 12X estimated 2008 earnings. And analysts' 2008 estimates continue to rise!

Let's stay with Unibanco. I'm raising our buy limit to \$130.

## Cheers to the British Bulldog

I don't want to leave you with the impression that I'm bearish on all foreign stocks. One name in our model portfolio sticks out as a marvelous value, especially for folks who need dividends: *BT Group* (NYSE: BT), parent of British Telecom.

Since July 2004, when we first purchased the stock, BT has rung up a handsome 84% total return (price gain plus reinvested dividends). Yet, thanks to management's success at migrating BT into faster-growing "new wave" businesses like high-speed Internet and advanced networking services, earnings have also exploded. *Result:* The stock is still trading a mere 12X estimated profits for the fiscal year ending in March 2008.

Better yet, BT is sharing this bounty with the company's owners. Over the past 12 months, BT has paid a dividend of \$2.95 per American Depositary Share. At the current stock price, that works out to a yield of just over 5%—considerably more than America's largest telcos, AT&T and Verizon, are doling out.

Remember, too, that the United Kingdom doesn't impose any withholding tax on your dividends. Every penny flows straight into your pocket. While there's a chance that the British pound could drop somewhat against the dollar in the coming year (nicking the dividend in dollar terms), sterling isn't nearly so overvalued against the buck as, for example, the euro is.

My guess is that a rise in BT's London share price will more than offset any depreciation in the pound

over the next 12 months. In fact, I'm projecting a total return of 20% or perhaps even a smidgen more for the stock in 2008.

♦ **What to do now:** Buy BT at \$61.50 or less. Dividends are paid twice a year, generally in February and September. December 24 was the deadline for capturing the "interim" (February 2008) dividend, normally the smaller of the two.

## UP WITH INCOME

### Real Money with Real Estate

Real estate is in the headlines a lot these days—and most of the coverage isn't very flattering. Even apart from the housing debacle, commercial property has faced its share of problems lately, with prices slipping and lenders demanding tougher terms on deals that would have sailed through without raising an eyebrow six months or a year ago.

Real estate investment trusts (REITs), which represent the commercial side of the business (apartments, office buildings, shopping centers, warehouses, etc.), have felt the heat. From the peak in January 2007 through the end of November, the average property-owning REIT dropped nearly 21%. Many individual REITs plunged a good deal more.

For income seekers, falling share prices—while never exactly welcome—can carry a silver lining. Assuming a company's dividend holds, the yield to a new buyer increases as the share price declines.

In recent years, because of rocketing share prices, REIT yields had shriveled almost to the vanishing point. Now, with the process in reverse, yields are finally moving into an attractive range again.

Among the publicly traded REITs, I would single out *Developers Diversified Realty* (NYSE: DDR) for purchase now. DDR, a leading shopping-center operator, maintains a healthy balance sheet and pays out only about 70% of its cash flow in the form of dividends—a good margin of safety. Although vacancies may well edge up in 2008 if the economy weakens, DDR is starting from a position of strength with an enviable 95.9% occupancy rate.

♦ **What to do now:** Buy DDR at \$43 or less. Current yield: 6.6%. We'll monitor the stock as a Niche Investment for income, outside the model portfolio.

## Trading Up for Yield

If you're willing to make some trade-offs, it's possible to earn even higher yields. Many income investors don't need the instant liquidity (the ability to buy or sell at the drop of a hat) afforded by an exchange-listed common stock.

So-called "non-traded" REITs often throw off a higher yield than their listed brethren. For instance, *KBS Real Estate Investment Trust*, launched in 2006, pays monthly dividends amounting to 7% on an annualized basis. KBS owns a diversified portfolio consisting of both commercial properties and specialized real estate financing deals.

In today's world, a skillful manager can sometimes nail down double-digit rates of return by lending money to developers and real estate purchasers. The key, of course, is to know your borrower, the property and the market. Given the KBS team's deep experience, I'm confident they can add value through the REIT's finance operations as well as through traditional direct property ownership.

KBS REIT expects to seek a public listing (or liquidate) by November 2012, so you should plan on at least a five-year holding period. Limited redemptions may be available in the meantime, but you'll have to pay a penalty, at least initially, to bail out.

♦ **What to do now:** For a prospectus on KBS REIT, call Bob Condon or Jerry Kohn at Foundation Investment Group in Berkeley, Calif. (800/899-8779). Minimum purchase: \$5,000. KBS offers a dividend reinvestment plan that enables stockholders to build their stake at a 5% discount to the normal \$10 share price.

## Closed-End Blockbuster

Finally, for the more aggressive income seekers in the audience, I recommend a closed-end fund, *Cohen & Steers Quality Realty Income Fund* (NYSE: RQI). As the name implies, RQI invests in better-grade real estate trusts—the kind with strong prospects for sustaining and growing their dividends over time.

Because closed-end funds (unlike standard mutual funds) don't offer to redeem their shares on a continuous basis, the funds often trade at a discount to the value of the securities in their portfolios. To combat the discount tendency, RQI pays a fixed monthly dividend—at present, 15 cents per share. Do the arithmetic. At today's share price, RQI yields an eye-popping 11%.

What's the catch? Part of RQI's dividend comes from profits realized on the sale of portfolio securities (capital gains). If the gains were to disappear in a down market, the fund would probably have to shave its monthly payout.

To be honest with you, I expect RQI to reduce its monthly distribution sometime in the next year. Most likely, though, the fund will be able to keep paying at about a 7%–8% rate even if the REIT sector doesn't immediately bounce back. That's still well above Treasury bonds, utility stocks and most other income vehicles. I'll take it!

♦ **What to do now:** Buy RQI at \$15 or less. We'll track the fund as a Niche Investment for income. For more background on RQI and other funds in the Cohen & Steers family, visit [www.cohenandsteers.com](http://www.cohenandsteers.com).

## TOTAL RETURN PORTFOLIO

### The Year That (Almost) Was

It will be a few more days before we know our model portfolio's final results for 2007. Barring a miracle, though, we can say that it certainly wasn't a typical third year in the presidential cycle.

Since 1945, the year before a presidential election has generally been a barnburner for the stock market, with the blue chip Standard & Poor's 500 index gaining an average of 18%. From January to May, it looked as if history might repeat. The market (and our portfolio with it) performed strongly.

But then, the subprime mortgage mess spilled over into the wider credit markets, swamping banks and other financial stocks, along with the shares of almost any company thought to be sensitive to consumer spending (think *Home Depot* or *Target*). What could have been a great year turned into a mixed bag instead.

The bright side: We enjoyed magnificent returns from foreign markets. Who can forget the cumulative 337% profit we made on India's *ICICI Bank* over three trades dating back to 2004? Our oils also put on a fine showing, led by *Occidental Petroleum* (up 50% year to date through mid-December). Selected techs (*Hewlett-Packard*, *Microsoft*) and utilities (*Alliant Energy*, *Public Service Enterprise*) produced solid double-digit returns as well.

Looking ahead, I remain hopeful for 2008 as a whole. Many sectors of the U.S. economy are thriving, most notably export-oriented industries like

(continued)

agriculture and high-tech equipment. Once investors get some sense that the housing slump has hit bottom, the stock market could stage an explosive advance.

Meanwhile, however, we must be prepared for a lot of volatility. The vicious sell-offs we saw in July/August and October/November were probably not the last. Fortunately, we've got the strategy—and the tools—to make it through safely. Stay alert and flexible. There's a happy ending to the story.

## Outlook and Strategy

Here, in a brief outline, is my outlook and strategy for the model portfolio:

- **Stocks** (71% of the total, down from 72% last month) struggled for much of the fourth quarter, failing to display the usual seasonal strength. While the odds favor a January rally, the market's shaky technical health suggests that another pullback may follow in late winter or early spring. I'm still targeting Dow 16000 by Election Day, but I'm also expecting a couple of violent swings from here to there.

*Strategy:* As indicated on p. 3, we'll be looking to trim our exposure to foreign stocks in the weeks ahead. This step will further insulate our portfolio against a potential "correction." I also encourage you to stay in touch with the weekly Hotline (301/738-6952, updated Fridays) and the Richard's Journal page of our Web site. If it becomes advisable to make any changes to our domestic stock allocation, I'll let you know in those two forums.

On December 12, *Sallie Mae* (NYSE: SLM) announced that its merger pact with a consortium of private-equity funds had fallen through. I'm disappointed; it looks as if the student lender's negotiating team held out too long for top dollar, even filing a lawsuit to enforce the original terms after a shift in market conditions had reduced the value of the deal.

Understandably, a mob of investors who were counting on the transaction dumped their SLM shares when the deal collapsed. However, the selling wave has left us with a seriously undervalued stock. According to Sallie's own revised (lower) projections, the company should post "core" earnings, before one-time items, between \$2.60 and \$2.80 per share in 2008.

That means the stock is currently quoted at about 8X the midpoint of SLM's forecast. As recently as 2002, in the midst of a ferocious bear market, SLM sold for as much as 19X earnings. In my judgment, the shares are way too cheap. Buy SLM at \$27 or

less. From today's level, I'm looking for a 50%–70% pop in the next year.

Where's the safest spot in the stock market for new money right now? Besides the giant blue chips like *Boeing*, *General Electric* and *Novartis*, I'm intrigued with the master limited partnerships. The pipeline MLPs operate a utility-like business, and many are yielding close to, or even slightly above, 7%.

My top pick at the moment is *NuStar Energy* (NYSE: NS), featured in past editions of our Incredible Dividend Machine. In November, NS acquired Citgo's asphalt-processing business, which should enhance the partnership's long-term growth prospects. Current yield: 7.3%. Pay up to \$58. *Remember:* Because of a quirk in the tax code, you should **not** own MLPs inside your IRA or other tax-sheltered retirement account.

- **Fixed income** (29%, up from 28% last month). The credit crunch has won a "stay of execution" for Treasury bonds, interrupting the rise in yields that had started last spring. Most likely, we won't experience a real bear market in bonds until the Fed has completed its series of rate cuts. Speculators in the futures markets aren't looking for rates on short-term money market instruments to bottom until the end of 2008, an outlook I find too gloomy. But the Fed may continue easing credit in small steps through midyear.

*Strategy:* I'm not interested in buying Treasury bonds at today's skimpy yields. You'll be far better off, in the long run, with the CDs and money market funds spotlighted on p.9.

For traders, though, I see an opportunity to scalp some profits over the next few months in tax-free municipal bonds. In the recent panic rush for liquidity, thoughtless investors have sold even the safest munis to buy Treasury paper. As a result, many tax-free bonds are yielding more than taxable Treasuries—an illogical, unsustainable situation.

To profit from a return to normalcy, I suggest buying closed-end muni funds. Some are trading at deep discounts to net asset value. Thus, you'll potentially benefit from a narrowing of the discount as well as an increase in the value of the underlying bonds.

My favorite: *Nuveen Quality Income Municipal Fund* (NYSE: NQU). Currently, the fund yields 5.6%, equivalent to a juicy 8.6% taxable bond yield for investors in the top federal income bracket.

At last glance, NQU was languishing at a 12% discount to NAV, so you're buying \$1 worth of bonds for only 88 cents. As recently as last April, the fund

(continued on p. 8)

# TOTAL RETURN PORTFOLIO

★★★★ = best buy at 12/20 closing prices

## Stocks (71%, down from 72% last month)

### World-Class Franchises (36%)

		Buy Below	Comments
★★★★	Accenture	NYSE: ACN 40	Fresh \$3 bn buyback program shows mgmt determined to support stock
	American International Group	NYSE: AIG 65	Crackerjack managers at Dodge & Cox have taken a \$1 billion stake
★★★★	Boeing	NYSE: BA 92	Replaces Southwest Airlines for faster earnings growth in New Year
★★★★	Carnival Corp.	NYSE: CCL 48	October dividend increase, sixth in three years, boosts yield past 3%
	ConocoPhillips	NYSE: COP 78	We got a nice buying opportunity in November; stock now rates a hold
	FedEx Corp.	NYSE: FDX 111	Prime buyout candidate, tantalizingly cheap at only 6X cash flow
	Hewlett-Packard	NYSE: HPQ 48	Astoundingly stable stock during recent market turmoil; a lifesaver!
	Home Depot	NYSE: HD 32	Now yielding over 3%, a stock for income as well as long-term growth
	IBM	NYSE: IBM 104	Strong earnings momentum, low P/E suggest Dow-beating gains in 2008
	Johnson & Johnson	NYSE: JNJ 66	Triple-A credit rating makes stock a safe haven amid market turmoil
	Lincoln National	NYSE: LNC 67	Partial sale of broadcasting stations fetched a generous \$583 million
	Microsoft	NASDAQ: MSFT 31	Despite gripes about Vista, profits soared 30% in September quarter
★★★★	News Corp.	NYSE: NWS.A 23	Murdoch hinting at radical makeover for Dow Jones—it's about time!
★★★★	Novartis	NYSE: NVS 56	Well-diversified drug portfolio, with dividends paid in a hard currency
	Occidental Petroleum	NYSE: OXY 60	Stock gained almost 50% in 2007 (through mid-Dec.); hang on for more
★★★★	SLM Corp.	NYSE: SLM 27	At 8X depressed 2008 earnings forecast, stock is too cheap to pass up
★★★★	Target	NYSE: TGT 62	Despite soft consumer spending, expect solid earnings growth in 2008
★★★★	Texas Instruments	NYSE: TXN 36	Massive buybacks shrink share base 17% in past three years alone
★★★★	Time Warner	NYSE: TWX 20	New CEO Jeffrey Bewkes may engineer breakup or other restructuring
	Toll Brothers	NYSE: TOL 23	Well-financed luxury homebuilder weathering the slump better than most
	UnitedHealth Group	NYSE: UNH 55	Rapid run-up since October limits '08 gain prospects; buy on dip only
★★★★	Walgreen	NYSE: WAG 41	Classic formula: slower pace of store openings to lift profit margins
★★★★	Zimmer Holdings	NYSE: ZMH 73	Settlement of Justice Dept. probe lifts cloud over orthopedic industry

### Mutual Fund Alternatives

★★★★	Selected American Shares	MF: SLASX 51.10	"Quality" value fund's low \$1,000 minimum ideal for gifts to minors
★★★★	Vanguard Growth Index	MF: VIGRX 34.65	Tilt toward growth should remain profitable through most of 2008

### Growth & Income Plays (13%)

	Citigroup	NYSE: C 38	New CEO Vikram Pandit seems willing to cut costs aggressively—good!
	Fifth Third Bancorp	NASDAQ: FITB 33	Trading at 10X estimated 2008 earnings, lowest P/E since early 1990s
★★★★	General Electric	NYSE: GE 39	CEO Jeff Immelt says 10% earnings growth is "in the bag" for 2008
★★★★	Eli Lilly	NYSE: LLY 57	Just raised '08 EPS growth target to 14%; pays safe, liberal dividend
	Unilever	NYSE: UL 31	Successful turnaround, but shares are getting pricey; traders can trim
★★★★	Wells Fargo	NYSE: WFC 34	Better control over credit quality than almost any other major bank

### Mutual Fund Alternative

	Vanguard Value Index	MF: VIVAX 28.80	Low expense ratio (0.21%) gives fund a head start on active managers
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### Emerging Markets (3%)

	iShares South Korea Index	NYSE: EWY 61	Korean market nearing a plateau; plan to take your profit at 73
	Taiwan Semiconductor	NYSE: TSM 9	Taiwan market nearing a plateau; plan to take your profit at 10.40
	Unibanco	NYSE: UBB 130	Earnings are growing at breakneck clip, pulling down P/E ratio

### Japan (5%)

	iShares MSCI Japan Index	NYSE: EWJ 13.50	Tokyo market looks increasingly tired; plan to take profits at 14.40
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### Master Limited Partnerships (5%)

★★★★	Buckeye Partners	NYSE: BPL 53	Boosts cash distribution like clockwork, now 14 quarters in a row
	Enterprise Products Partners	NYSE: EPD 32	Great pick for investors entering retirement (above-average growth)
	Teppco Partners	NYSE: TPP 43	Among highest yielders in pipeline group, but growth slower than peers'

### Utilities (9%, down from 10% last month)

#### Electric and gas (4%, down from 5%)

★★★★	Duke Energy	NYSE: DUK 20	Healthy electric utility with good growth prospects and fat 4.3% yield
★★★★	Integrus Energy	NYSE: TEG 53	What a record: 49 straight years of dividend hikes (and room for more)
★★★★	NICOR	NYSE: GAS 44	Back on the mend after scandal flattened the stock earlier this decade
	Spectra Energy	NYSE: SE 26	Runs interstate gas pipeline network, a lucrative "toll taker" business

#### Telecoms (5%)

	BT Group	NYSE: BT 61.50	Now priced to deliver a 20%+ return in 2008 (generous for a telco)
	Deutsche Telekom	NYSE: DT 19.50	26% run-up in stock since July limits 2008 return; buy dip only

### Fixed Income (29%, up from 28% last month)

#### Three-Year Bank CDs (10%)

★★★★	Capital One Bank, VA	866/369-2737	–	Still paying 4.85% (after compounding) on deposits of \$5,000 and up
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#### Two-Year Bank CDs (10%)

★★★★	Fireside Bank, CA	800/933-2323	–	Still paying 4.8% (after compounding) on deposits of \$2,500 and up
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#### Cash (9%, up from 8% last month)

Money market fund of your choice

## SUMMARY

### Actions to Take This Month

1. **SELL Public Service Enterprise** (PEG) if you haven't done so already.
2. **SELL Southwest Airlines** (LUV) and buy **Boeing** (BA) at \$92 or less.
3. **BUY Accenture** (ACN) at \$40 or less; **General Electric** (GE) at \$39 or less; **News Corp.** (NWS.A) at \$22 or less; and **Walgreen** (WAG) at \$41 or less.
4. **SELL iShares MSCI Japan Index Fund** (EWJ) at \$14.40 or higher; **iShares MSCI Korea Index Fund** (EWY) at \$73 or higher; and **Taiwan Semiconductor** (TSM) at \$10.40 or higher. **SELL iShares MSCI Taiwan Index Fund** (EWT) at \$16. **BUY BT Group** (BT) at \$61.50 or less.
5. For income, outside the model portfolio, **BUY Developers Diversified Realty** (DDR) at \$43 or less; **KBS Real Estate Investment Trust** at \$10; and **Cohen & Steers Quality Realty Income Fund** (NRQI) at \$15 or less.



#### RICHARD E. BAND

is the newsletter world's #1 authority on investing for low-risk growth. His Total Return Portfolio has quadrupled investors' money since inception in 1990, while taking far less risk than the popular stock indexes. He is the author of *Contrary Investing* (named "Best Investment Book" of 1985, subsequently updated), and a popular speaker at investment conferences. Band's straightforward style and safety-first "value" approach have won numerous awards, including seven in the "Best Financial Advisory" category by The Newsletter & Electronic Publishers Foundation. Band has been quoted in *BusinessWeek*, *Barron's*, *Forbes*, *The Wall Street Journal* and other leading publications.

(continued from p. 6)

traded at a **premium**. In other words, you could earn a double-digit capital gain if the discount simply narrowed to zero.

NQU lives up to the "quality" in its name, too: 85% of the fund's portfolio consists of bonds graded triple-A or double-A by nationally recognized rating agencies. Buy at \$13.25 or less. We'll keep tabs on the fund as a specialized income play outside our model portfolio, under Niche Investments.

## ONE FINAL THOUGHT

### Global Warming, Local Freezing

Yeah, I believe in global warming—sort of. I've seen the long-term temperature charts, and yes, I haven't forgotten it was 68 degrees here in New Hampshire last January 6. (I nearly convinced Enid to set up our tent and go camping to celebrate!)

But December 2007 has brought back a deep, old-fashioned New England winter. This morning when I awoke, our friendly threesome of deer were crouched together for warmth in the backyard on two feet of snow. The mercury glared a bone-chilling 8 degrees.

It's a reminder, I guess, that whatever the major trend, there are plenty of not-so-minor swings in the other direction. As investors, we saw that principle startlingly at work in 2007, with many of our high-dividend stocks fumbling and stumbling despite an 80-year record of outstanding performance.

At such times, it's wise to keep your eye on the big picture. We know the deep freeze will end. And, given the looming demographic megatrend (70 million gray-haired Baby Boomers clamoring for income), a sudden thaw could arrive just as most investors are pulling on their fur coats.

I suspect you're about ready to venture outside yourself, so I'll close. This month, take the prudent track, building up your holdings of high-quality stocks **and** cash. Upgrade your portfolio with *Boeing*; and if you don't own them already, add *Accenture*, *GE*, *News Corp.* and *Walgreen*.

Where will the cash come from? Aside from your month-to-month savings, look to raise some of the green stuff by liquidating your *Japan* and *Korea* index funds into strength, along with *Taiwan Semiconductor*. But keep buying *BT Group* for its succulent dividend.

Finally, for income, consider a high-yielding real estate trust like *Developers Diversified* or *KBS*. If you're bold, you can earn a lush 11% with *Cohen & Steers Quality Realty*. In the midst of turmoil and anxiety, we'll always find opportunity!

Yours for Profitable Investing,

A handwritten signature in dark ink that reads "Richard E. Band".

Richard E. Band

P.S. I've set aside a special 45-minute session to answer your questions at the World Money Show in Orlando. Stop by the InvestorPlace booth February 8 at 11:15 am. For free tickets to the show, call 800/970-4355 or click on [www.worldmoneyshow.com](http://www.worldmoneyshow.com).

Richard E. Band's  
**Profitable Investing**  
 YOUR FINANCIAL GUIDE FOR ALL SEASONS • SPECIAL SUPPLEMENT

January 2008

## MORE FOR YOUR MONEY

### Turning Over a New Leaf

The dawn of a new year is a great time to make a fresh start with your finances. Whatever gains or losses you recorded in 2007—the moments of triumph or defeat—now belong to history. Chances are, during all of 2008, you'll never be more focused on the future (or more eager to improve your lot by breaking new ground) than you are at this very moment.

Below is my “top seven” list of things you can do to set yourself on a more prosperous track for the New Year. But please, pretty please, don't just stuff these items into a drawer with the ghosts of New Year's resolutions past!

Instead, be realistic. Pick a couple of actions from the list (I suggest no more than three). Then go to work immediately, this week if possible. You'll notice that each item on my list requires only one step. No follow-up necessary. If you act now, you can sit back and watch the benefits accrue throughout the year.

Ready to rock? Here we go.

### Seven Steps to Greater Wealth (and Safety) in 2008

- **Boost the yield on your “lazy” cash.** Banks and brokers adore customers who leave money idling in accounts that pay next to no interest. Don't stand for it. Even with the recent rate cuts by the Federal Reserve, an Internet-based bank like *EmigrantDirect* is still paying 4.65% on money market accounts, with no minimum balance (800/836-1997 or [www.emigrantdirect.com](http://www.emigrantdirect.com)). Discount broker *e\*Trade* (800/387-2331 or [www.etrade.com](http://www.etrade.com)) is even offering a luscious 5.05% on FDIC-insured deposits through its e\*Trade Bank unit.

Like Emigrant, e\*Trade has no minimum to open an account. Because of the brokerage's well-publicized financial difficulties, though, I advise you to remain strictly within the FDIC insurance limits (\$100,000 per depositor).

- **Make the biggest contribution you can to a tax-deductible savings plan.** For most people, the

most basic tax-favored savings tool is an employer's 401(k) plan. If your employer offers any kind of matching grant to supplement your own contributions, treat it as free money. Grab as much as you can!

Furthermore, I generally advise folks to take their 401(k) contributions to the limit allowed by the plan before branching out into other kinds of investments. Quite aside from the tax shelter, the discipline of having a fixed sum taken out of every paycheck can work wonders. You'll build wealth much faster than if you invest only when you've got “spare cash” on hand.

For 2008, the legal limit on employee contributions to a 401(k) is \$15,500. (Over age 50, you can kick in an extra \$5,000.) A similar limit applies to plans sponsored by nonprofits and government agencies. Depending on their income, self-employed people can contribute up to \$46,000 to an individual or “solo” 401(k), with an extra \$5,000 allowed if you're over 50. Virtually all brokerages and mutual fund families welcome individual 401(k) plans.

- **Close at least one mutual fund or annuity account that no longer meets your needs.** I'm a strong believer in long-term investing and low turnover. Don't shuffle investments for the sake of shuffling. In my experience, though, people tend to hang on to **some** investments too long. If, for example, you bought a so-called “emerging growth” fund in the late 1990s and it's still under water, 2008 is the year to move on. (We should get a reasonably good selling opportunity during the first few weeks of the New Year, and possibly another around the election.) Upgrade to a more stable large-cap growth fund such as those recommended on p. 12 of this supplement.

Fixed annuities paying renewal rates of 3% or less are also excellent candidates for the heave-ho. Often, you can swap these for a more competitive annuity in a tax-free 1035 exchange. For up-to-the-minute annuity quotes, get in touch with broker Charles Cox, Jr. at UBS in Boston (800/225-2385, ext. 8307).

- **Build your holdings of high-dividend stocks.**

(continued)

As we all know by now, 2007 was an off year for the high-dividend strategy, largely because of troubles in the financial sector. However, many companies whose stocks made little headway last year are still churning out superb operating results. At today's higher yields, these champions are a better buy than ever.

In addition to the real estate plays spotlighted on pp. 4-5 of the main issue, you'll hardly go wrong with two of the blue chips in the Growth & Income segment of our model portfolio: *General Electric* (NYSE: GE) and drug maker *Eli Lilly* (NYSE: LLY). Both companies have announced that they expect double-digit earnings growth in 2008, and both have already backed up the forecast by sweetening their dividends 11%.

You're entering at a good level, too, with both stocks yielding comfortably over 3%. Buy GE at \$39 or less and LLY at \$57 or less.

• **Upgrade to a safer stockbroker.** Customers of *e\*Trade*, one of the Big Four discount brokers, got a scare a few weeks ago when the firm reported massive losses on its holdings of mortgage securities. Fortunately, a white knight came along with a \$2.5 billion cash infusion to keep *e\*Trade* afloat.

But the incident only underlines the importance of checking out your broker's financial health, especially if you've got an account worth more than \$500,000 (the limit on insurance provided by the quasi-governmental Securities Investor Protection Corp.).

Of the biggest discount brokers, *Fidelity* boasts the strongest balance sheet by my calculations. *Schwab* and *TD Ameritrade* are in robust health as well. I continue to have reservations about *e\*Trade* and advise you to stay below the SIPC limit if you do business with the firm.

Among the second-tier brokers, my favorites in terms of financial strength are *Ameriprise* and *Scottrade*.

• **Donate appreciated stock to charity.** For tax purposes, if you've held a stock for more than a year, you can deduct the fair market value of the gift, rather than your cost basis—a nice incentive to give away stock that has gone up dramatically since you bought it. The fair-market-value rule comes in especially handy for donating units of a master limited partnership, because your cost basis in an MLP declines over time (increasing your tax liability should you decide to sell, rather than give the units away).

Not sure where you want the money to go? Set up an account with *Fidelity Charitable Gift Fund*

(800/262-6039 or [www.charitablegift.org](http://www.charitablegift.org)). You can deposit cash or securities; if securities, Fido will sell them and invest the proceeds in your choice of 13 mutual fund pools. Then, at your leisure, you can make grants to your favorite charities in amounts of \$100 or more. Minimum to open an account: \$5,000.

• **Take a knife to your insurance costs.** I recently spent an evening counseling a couple with young children. These folks had an ample income, but couldn't seem to make ends meet. As we peeled back the onion, it soon became apparent they were laying out far too much for life insurance. Instead of costly whole life, I recommended a 10-year level term policy with *AIG Life* (800/586-3072 or [www.aigterm.life.com](http://www.aigterm.life.com)). For \$250,000 of coverage, a 40-year-old male pays only \$14.44 a month. Females are even less!

You may be overpaying for auto or homeowner's insurance, too. *GEICO* (800/861-8380 or [www.geico.com](http://www.geico.com)) is well known as the low-cost provider for auto insurance in many jurisdictions. *GEICO* is also trying to horn in on the homeowner's market, so you may find it worthwhile to request a quote on both types of coverage.

Even if you prefer to stay with your local agent, ask about the cost of combining your auto and homeowner's in one policy. Often, you can save as much as 15% by purchasing an omnibus policy from a single company. That's what I did—and even *GEICO* couldn't match the rates I got from a smaller regional insurer.

Have I given you enough to chew on? I hope so. But don't chew so long that you wear your teeth down! January is the month to be up and doing—to set a new course for yourself that will bring rewards all through the year. If you can put just a couple of these ideas into practice, I'm confident your *Profitable Investing* subscription will pay for itself, not only in 2008 but also for years to come.

## Short Bits and Follow-Ups

• Shares of Warren Buffett's *Berkshire Hathaway* (NYSE: BRK.B) have zoomed more than 25% since last summer. What's behind the buying? Rumor has it that the Sage of Omaha, flush with \$40 billion in cash, is trolling for a "whale" acquisition, probably in the troubled financial sector, where prices have sunk to fire-sale lows.

If Buffett can pull off a stupendous bargain or two, the reasoning goes, Berkshire's earnings will accelerate well into the next decade. I happen to agree with this logic. However, I would caution

that, in the absence of a big, earnings-accretive deal, BRK shares are now fully valued. Don't add to your stake at these levels. In fact, I'm not averse to taking partial profits on the Class B shares if they climb back above \$5,000.

- *Canadian oil-and-gas royalty trusts* are back on our radar screen, after a sharp year-end pullback. In 2006, a proposal by Canada's federal government to hoist trust taxes in 2011 caused a panicky sell-off in the sector; this year, the trigger was a scheme by Alberta politicians to increase royalties paid by the trusts to the provincial government. Even in resource-friendly Canada, it's hard to keep politicians from cooking the goose that lays the golden eggs!

On the positive side, the Canadian central government is mulling the possibility of a sizable cut in the corporate income tax rate (from 22.1% to 15%). If enacted, the new tax regime could make it economical for some trusts to convert to corporations, lessening the damage from the legislation introduced in 2006.

As in the past, I advise you to focus on trusts with low payout ratios (i.e., sustainable dividends) and moderate debt loads. I don't foresee a big drop in energy prices anytime soon, but if one should occur, the higher-quality trusts will ride through the turbulence in much better shape than their financially stretched rivals.

Top buy at the moment: *Enerplus Resources Fund* (NYSE: ERF), yielding just under 13%. Monthly dividends, eligible for the 15% preferential (U.S.) tax rate. Pay up to \$42.50. Because Canada imposes a 15% withholding tax on dividends, you should hold ERF and other royalty trusts **outside** your tax-sheltered retirement

account. If you own the shares in a taxable account, you can take a credit for the Canadian tax on your U.S. Form 1040.

- In November and again last month, I mentioned the growing risks in the *Chinese stock market*. Valuation is no longer the only concern. Over the past year, China's central bank—in an effort to slow the nation's runaway economic boom—has repeatedly tightened credit by raising banks' reserve requirements (the amount of cash banks must keep on hand to back their deposits). The latest hike, December 20 took the reserve ratio to 14.5%, its highest level of the past 15 years.

Since peaking in October, the Shanghai bourse has cooled off somewhat. However, I envision a much bigger decline if a global market "correction" sets in later this winter. Let's trim our target sell price for *iShares FTSE Xinhua China 25 Index Fund* (NYSE: FXI) to \$205 and *Matthews China Fund* (MCHFX) to \$44.

- *Kinder Morgan Energy Partners* (NYSE: KMP), a pipeline partnership in our Incredible Dividend Machine, is budgeting a sizable distribution increase in 2008. While the exact amount will depend on the partnership's operating results, management is shooting for a payout of \$4.02 per unit, up 17% from the 2007 budget.

Before the announcement, most Wall Street analysts were projecting a boost in the mid-single digits, so KMP's budget forecast comes as a very pleasant surprise. It suggests that Kinder Morgan's ambitious construction program, which has slowed distribution growth in the past few years, is now (literally) paying dividends. I'm raising my buy limit to \$55.80.

## MODEL MUTUAL FUND PORTFOLIOS

Take the easy road! With our model mutual fund portfolios, it's simple as ABC to follow our *Profitable Investing* strategy. I've designed these fund portfolios to mimic, as closely as possible, the performance of the stocks and bonds in our main Total Return Portfolio.

Our *Fund Supermarket Portfolio* makes the nearest match. It's composed of funds you can purchase through leading discount brokers (Schwab, Fidelity, TD Ameritrade, e\*Trade, etc.). As a rule, I favor funds available with no transaction fee, although I occasionally make exceptions when I find a fund with a unique strategy or performance record.

For loyalists who prefer to deal with a single fund group, I provide *All in the Family Portfolios* with funds drawn from Fidelity, T. Rowe Price or Vanguard. Our *Hassle-Free ETF Portfolio* caters to fans of low-cost exchange-traded index funds. (See boxes below.)

This month, we're fattening the "growth" allocation in our Fund Supermarket Portfolio. Let's shift

(continued on p. 12)

5% from *Selected American Shares* to *Marsico Growth*. Classic growth stocks, especially in the technology space, have made an impressive comeback in recent months thanks to strong earnings momentum. I expect this trend to carry well into 2008 and perhaps beyond.

Thus, for new money, if your budget allows you to buy only one stock fund, I would make it MGRIX. Through the first 11 months of 2007, the fund gained a cool 15%. Pay up to \$23.30.

On the fixed-income side, I continue to favor *Loomis Sayles Bond*. Despite a roller-coaster bond market, LSBRX posted a total return of 8.2% last year through November 30. Current yield:

6.4%. Buy at \$14.80 or less.

Current portfolio weightings break down as follows:

### **Fund Supermarket Portfolio**

25% *Selected American Shares (SLASX)*†

20% *Marsico Growth (MGRIX)*

15% *Gabelli Equity Income (GABEX)*

10% *Loomis Sayles Bond (LSBRX)*

10% *Polaris Global Value (PGVFX)*

10% *Weitz Short-Intermediate Income Fund (WEFIX)*

10% *Cash*

†Charles Schwab customers may substitute *Schwab Core Equity (SWANX)*. Fidelity customers may substitute *Fidelity Value (FDVLX)*.

## **“ALL IN THE FAMILY” FUND PORTFOLIOS**

Like the Fund Supermarket Portfolio, our All in the Family portfolios are bumping up their growth-stock allocations by 5% (value stocks down by 5%). If you want to cherry-pick our highest-rated equity funds, steer toward growth-oriented names like *Fidelity Large-Cap Stock*, *T. Rowe Price Growth Stock* and *Vanguard Growth Index*.

Note that, in the T. Rowe Price portfolio, *Growth Stock* replaces *Capital Appreciation*. In the Vanguard portfolio, *Growth Index* replaces *PRIMECAP Core*. I still have a great deal of respect for the managers we’re leaving behind, but their inability to keep up with their benchmark index in a bull market for growth stocks makes it prudent to switch.

For safety, be sure to balance your buying with the short-term bond fund in each family.

Portfolio weightings sort out as follows:

### **Fidelity (800/544-8888)**

20% Large-Cap Stock

20% Large-Cap Value

20% Value

10% Short-Term Bond

10% Strategic Income

10% Worldwide

10% Money Market

### **T. Rowe Price (800/638-5660)**

25% Value

20% Growth Stocks

15% Equity Income

10% Short-Term Bond

10% Spectrum Income

10% Global Stock

10% Money Market

### **Vanguard (800/662-2739)**

30% Value Index

20% Growth Index

20% Short-Term Inv. Grade

10% Equity Income

10% Global Equity

10% Money Market

## **HASSLE-FREE ETF PORTFOLIO**

In our ETF Portfolio, too, we’re lifting the growth-stock weighting by 5%. It stands to reason, then, that my #1 selection for new money is the *Russell 1000 Growth Index Fund* (NYSE: IWF). Pay up to \$64.25. For an anchor to windward, I suggest balancing your growth holdings with a stake in the *Lehman short-term Treasury fund* (SHY). Current yield: 4.3%.

Weightings for the ETF portfolio shape up as follows:

25% *iShares Russell 1000 Value Index Fund* (NYSE: IWD)

20% *iShares Russell 1000 Growth Index Fund* (NYSE: IWF)

15% *iShares Dow Jones Select Dividend Index Fund* (NYSE: DVY)

10% *iShares Lehman Aggregate Fund* (ASE: AGG)

10% *iShares Lehman 1–3 Year Treasury Bond Fund* (ASE: SHY)

10% *iShares Morgan Stanley Capital International EAFE Index Fund* (ASE: EFA)

10% Cash (*Vanguard Prime Money Market Fund* or other money fund of your choice)